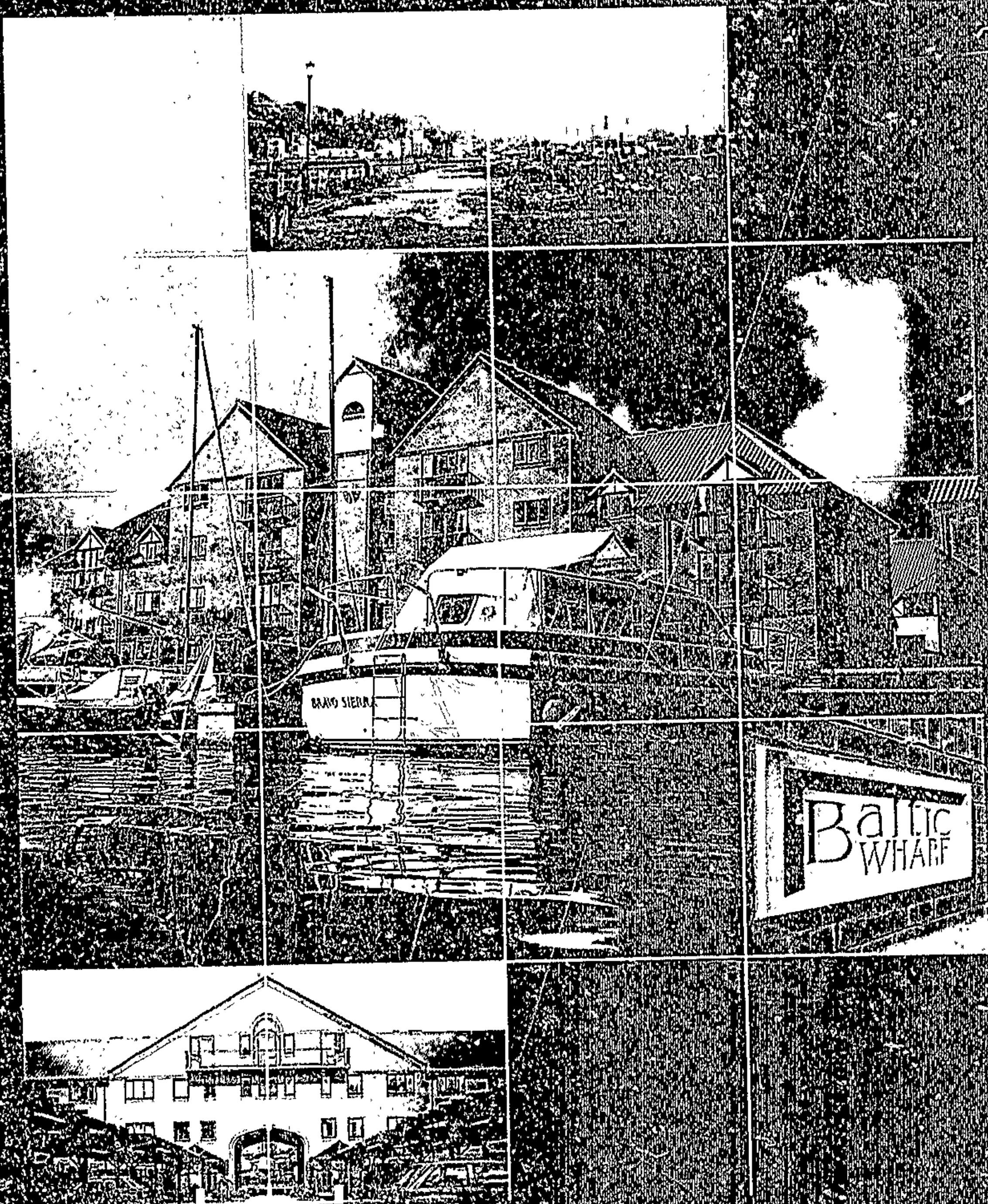
Lovell

ANNUAL REPORT & ACCOUNTS 1986



Leadership in partnership...

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LEADERSHIP IN PARTNERSHIP

From the decay of Bristol's dockland came a resurgence, the creation of the award-winning Baltic Wharf project.
The project was the result of a partnership between Lovell and other institutions, and set the pattern for a new way of funding and developing urban renewal schemes. Our latest activities in this field are reported on pages 48 to 51.

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NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the twenty-seventh Annual General Meeting of the Company will be held at Ironmongers' Hall, Aldersgate Street, Barbican, London EC2 on Thursday 12th February 1987 at 11.30 a.m. for the following purposes:

1. To approve and adopt the accounts for the year ended 30th September 1986, together with the reports of the Directors and Auditors.

2. To declare a final dividend of 6.3p per share on the Ordinary shares payable on 1st April 1987.

3. To re-appoint the following Directors who retire in accordance with the Company's Articles of Association:

Paul D. Butcher	(resolution 3a)
Edward G. Wakeham	(resolution 3b)
James G. Laing	(resolution 3c)
Peter L. Davis	(resolution 3d)

4. To appoint Ernst & Whinney and F.L. Rouse & Co. joint auditors of the Company and to authorise the directors to fix their remuneration.

As special business to consider and, if thought fit, to pass the following resolutions, of which numbers 5, 6 and 7 will be proposed as ordinary resolutions and number 8 as a special resolution:

5. That the authorised share capital of the Company be increased from £9,650,000 to £19,900,000 by the creation of 41,000,000 Ordinary shares of 25p each.

6. That a sum not exceeding £7,326,883 standing to the credit of the capital reserves be capitalised and applied in paying up in full at par not exceeding 29,307,531 unissued Ordinary shares of 25p each in the capital of the Company and that such shares so paid up be allotted credited as fully paid to those persons who shall be registered at the close of business on 10th February 1987 as holders of the issued Ordinary shares of the Company rateably according to their respective holdings in the proportion of one new Ordinary share of 25p for each Ordinary share then held by them respectively and that the Directors be authorised and directed to apply the said sum of £7,326,883 and to issue and allot the said 29,307,531 Ordinary shares accordingly upon the terms that such new Ordinary shares will rank pari passu with the existing issued Ordinary shares for all purposes including for any dividends hereafter declared or paid, except that they will not rank for the recommended final dividend of 6.3p per share payable on 1st April 1987 to Ordinary shareholders on the register on 27th February 1987 (resolution 2).

7. That the Board be and is hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of The Companies Act 1985) up to an aggregate nominal amount of £4,971,235 provided that this authority shall expire on the date of the next Annual General Meeting after the passing of this Resolution save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

8. That subject to the passing of Resolution No. 7 the Board be and is hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of that Act) wholly for cash pursuant to the authority conferred by the previous Resolution as if Section 89(1) of that Act did not apply to any such allotment provided that this power shall be limited:
(a) to the allotment of equity securities in connection with an offer by way of rights to holders of Ordinary shares on the Company's Register on a fixed record date in proportion to their then holdings of such shares, but subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any overseas territory or the requirements of any regulatory body or Stock Exchange, and
(b) to the allotment (otherwise than pursuant to sub-paragraph (a) of this Resolution) of equity securities up to an aggregate nominal amount of £995,000:
and shall expire on the conclusion of the next Annual General Meeting of the Company after the date on which this Resolution is passed save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By Order of the Board
H.W. Hicks
Secretary
5th January 1987

Notes

1. Only holders of Ordinary shares are entitled to attend and vote at this meeting. A member entitled to attend may appoint a proxy, who need not be a member of the Company, to attend (and on a poll to vote) instead of him or her.

2. Proxy forms need to be deposited at the Registered office of the Company not later than 48 hours before the time of the meeting. Completion of a form of proxy will not preclude attendance and voting at the meeting.

3. In accordance with the Companies Act 1985 and with the requirements of the Stock Exchange, a register of Directors' interests in the share capital and debentures of the Company together with copies of service agreements under which Directors of the Company are employed are available for inspection at the Company's registered office during normal business hours.

SUMMARY OF THE YEAR

	1986 £000	1985 £000
Turnover	266,993	238,540
Profit before Tax	12,255	9,036
Shareholders' funds	66,696	47,270
Dividends per Ordinary share	8.0p	6.8p
Earnings per Ordinary share	29.8p	27.4p
Net asset value per Ordinary share (1985 adjusted for rights issue)	239.1p	205.9p

HIGHLIGHTS OF THE YEAR

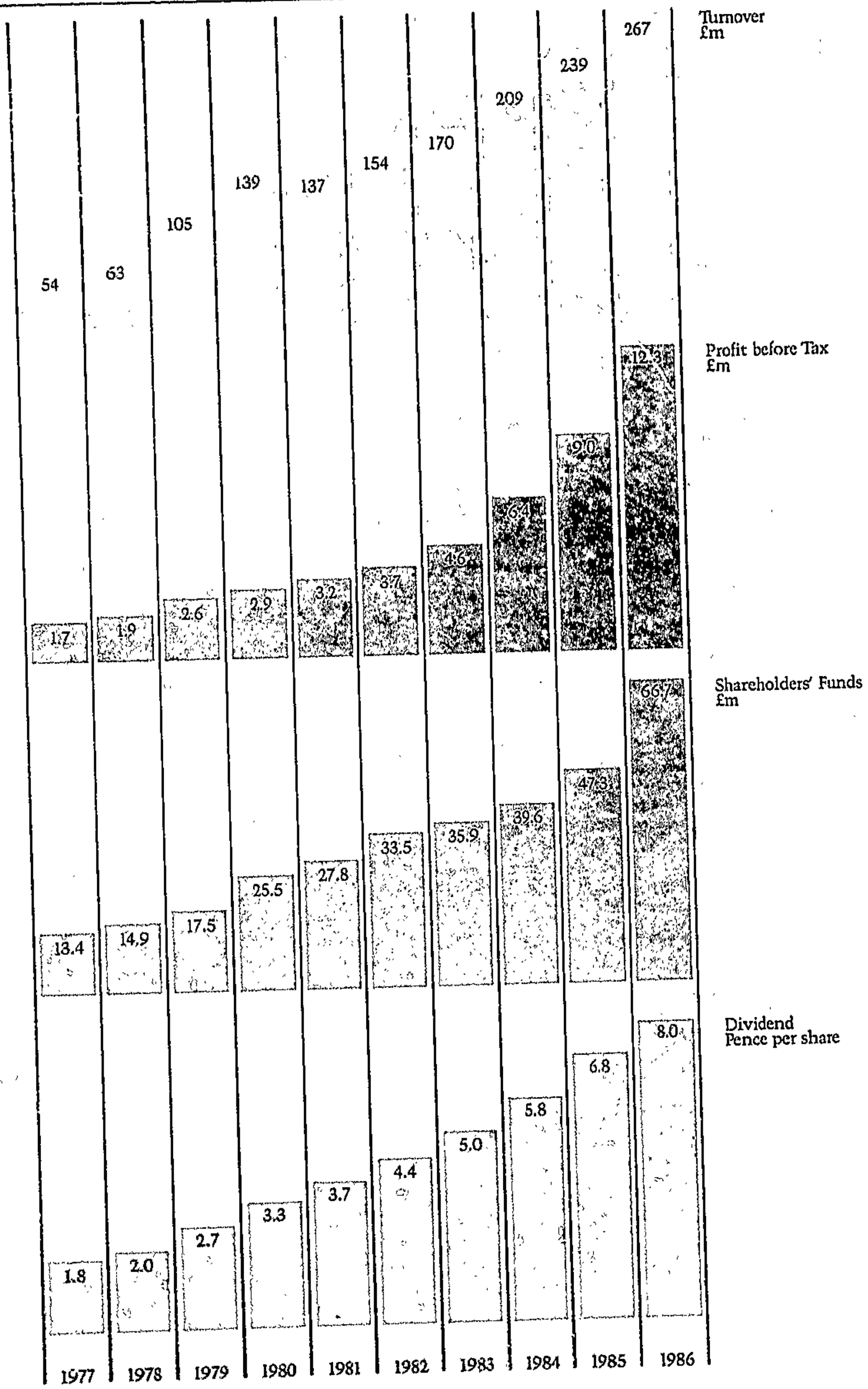
Profit before tax increases for twelfth successive year – up 36% to £12.3m

Rights issue raises £14m

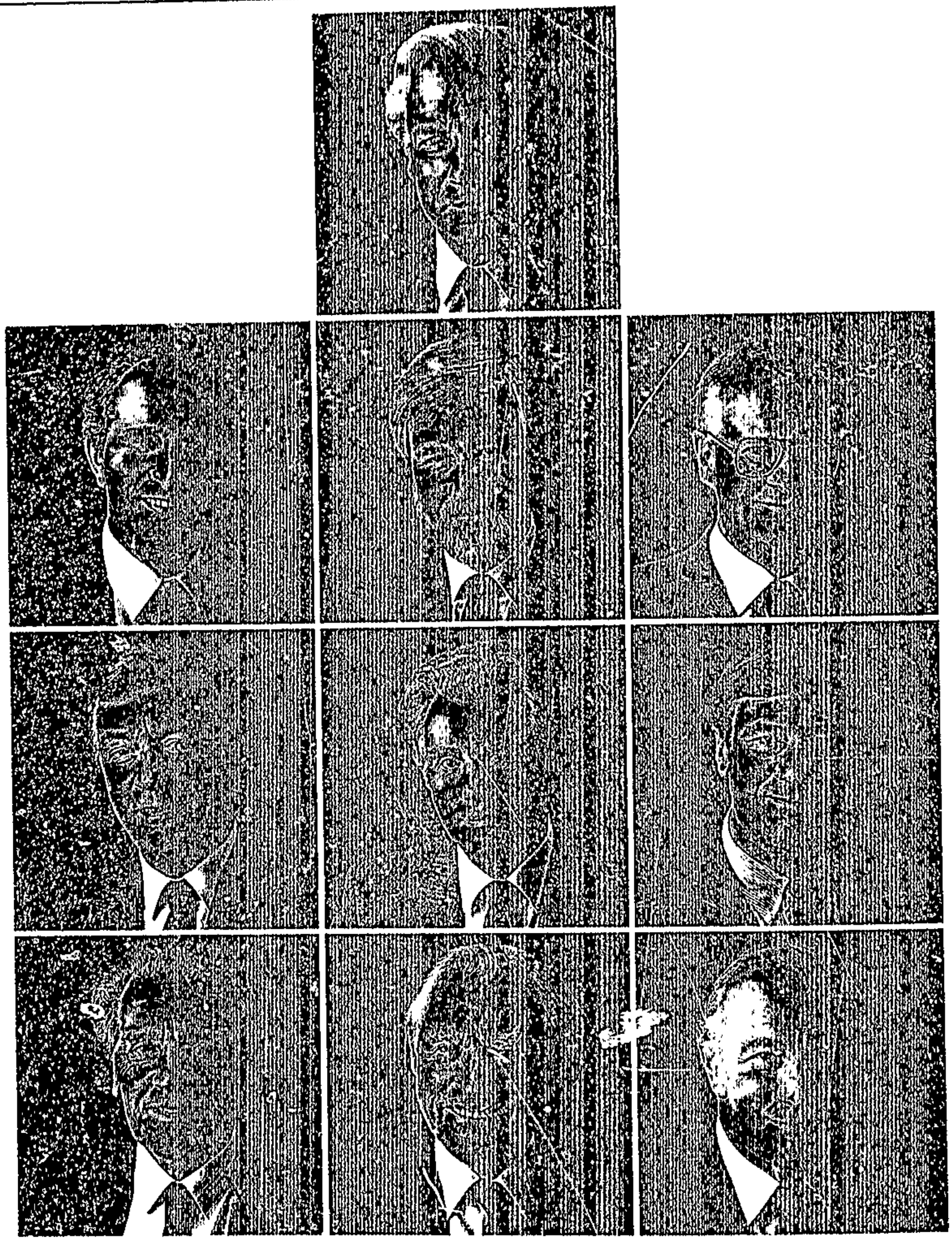
Home sales – private and partnership – exceed 3000 units

Early success of PROBE, the urban renewal initiative

Encouraging progress in America



Turnover £m
54
63
105
139
137
154
170
209
239
267
Profit before Tax £m
1.7
1.9
2.6
2.9
3.2
3.7
4.6
6.4
9.0
12.3
Shareholders' Funds £m
13.4
14.9
17.5
25.5
27.8
33.5
35.9
39.6
47.3
66.7
Dividend Pence per share
1.8
2.0
2.7
3.3
3.7
4.4
5.0
5.8
6.8
8.0
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986



Norman Wakefield

James Laing
David Hinton
Bryan Whymant-Morris

Paul Butcher
Edward Wakeham
Sir Peter Trench

Peter Davis
Andrew Wassell
Leonard Williams

DIRECTORS AND OFFICERS

Directors	*Executive* Norman Wakefield PPCIOB, CBIM *Chairman & Chief Executive* James Laing FCIS, AIB(Scot) *Deputy Chairman* Paul Butcher ARICS Peter Davis FCIOB David Hinton FCIOB Edward Wakeham OBE, FCIOB Andrew Wassell MCIOB Bryan Whymant-Morris MIPM
	Non-Executive Leonard Williams CBE, DFC
Secretary	H.W. Hicks FCIOB
Joint Auditors	Ernst & Whinney F.L. Rouse & Co.
Bankers	Barclays Bank PLC Hill Samuel & Co. Limited Lloyds Bank Plc National Westminster Bank PLC
Solicitors	Freshfields
Stockbrokers	Kleinwort Grieveson Securities Ltd.
Merchant Bankers	S.G. Warburg & Co. Ltd.
Registered Office and Transfer Office	Marsham House, Gerrards Cross, Bucks. SL9 8ER

CHAIRMAN'S STATEMENT

Whatever the merits of the claims for greater public sector investment in construction, the unbending stance of the Government in this respect should come as no surprise to anyone involved in the Industry's affairs.

To be fair, the recent announcements of further Urban Development Corporations and the new Urban Regeneration Grants are signs, perhaps the first real ones, that increasing awareness of the problems, combined with changing attitudes, could be just around the corner.

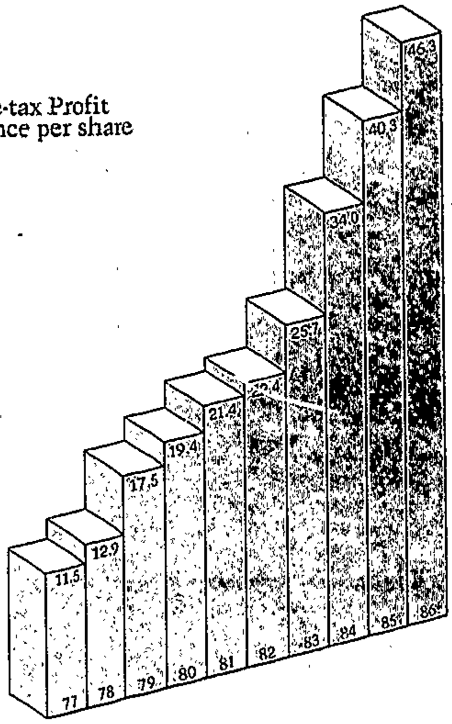
The resurgence of private sector-led activity, confined as it may be to the South of the country and with strong focus upon housing, enabled modest growth of just under 3% in the Industry's workload to be recorded overall in 1986.

The level of public sector capital investment has, however, remained static and has halved as a proportion of total public expenditure over the past ten years.

Whilst it is more likely than not that some improvement will be seen next year, it is my view that spending significantly greater sums through the public sector machinery is not an answer, although there are one or two areas – such as housing – which are in desperate need of increased investment. Such an approach, unless finely tuned, would overwhelm the reduced resources of the Construction Industry, breed further bureaucracy and feed inflation. Last year in my report, I set great store on the future of public/private sector relationships, modelled on the American urban partnerships. Whilst our own initiatives have made good progress, the need is so great nationally, the surface of the problem has hardly been scratched.

It is against this complex and changing backcloth that the present performance and the future plans of the Lovell Group should be judged. We have made considerable progress in turning last year's "gleams in the eye" into reality – particularly in the field of urban renewal. We are more than ever convinced that successful growth now and in the future must be geared to innovative, positive and comprehensive approaches to building markets, rather than through the blinkered and divisive ways of procuring work that have been the traditional pattern of our Industry.

Nor have we let our planning and investment for the future divert us from the need to maintain consistent profit growth. This we have done in 1986 by expanding those parts of the business where we were already strong and by strengthening those parts where we were less so. Much of the real benefit of this groundwork will come in the longer term but reduction in overhead costs has enabled us to realise immediate advantages. Thus, I am pleased to be able to report an increase in turnover of 12% to £267 million and, more importantly, a 35.6% increase in pre-tax profits to £12.3 million for the year ended 30th September 1986. This figure not only represents a significant improvement in our margins but also another record, the twelfth in succession for the Group.



The year saw further investment in commercial development, particularly around the southern section of the M25, and also in residential land, although we have contented ourselves with replacement of our already strong land bank as prices, particularly in the South East, became, in our judgement, unrealistically high. In addition, we have backed the growth and considerable success of our team in the USA over the past two years with further investment – a vote of confidence in our longer term future there.

Notwithstanding these considerable commitments, the strong cash flow from our operations, coupled with the proceeds of our Rights Issue in January 1986, enabled us to reduce our borrowings to a lower level than we had anticipated. I should add, however, that we have plans for further trading investments which will cause our borrowings to rise again next year although still remaining within acceptable gearing levels given the nature of our business.

After adjusting for the Rights Issue, pre-tax profits per share rose by 14.9% to 46.3p and the earnings per share increased by 8.8% to 29.8p. Mainstream corporation tax liability was a net 35% and the profit attributable to Shareholders has increased to £7.6 million. The Board believes that Shareholders should benefit from this improved performance and a higher distribution of profits by way of increased final dividend is, therefore, proposed. Subject to Members' approval, a final dividend of 6.3p per share will be paid which, added to the interim payment of 1.7p per share, will give a total for the year of 8.0p per share, an effective increase over last year of 17.6%.

Our results demonstrate, I believe, the wisdom of our continuing policy of diversification and innovation. On the other side of the coin, the disposal of the roof truss business during the year was not achieved without considerable cost. This sale completes, however, our withdrawal from all timber-based activities other than high quality joinery.

The fortunes of Lovell Construction recovered to some extent from a poor start in the first half. A number of factors have contributed to this improving trend, not least the overhead streamlining which was effected after senior management changes early in the year. Margins still remain slim, however, despite the high level of activity in the South East. The pursuit of turnover at the expense of reasonable returns still seems to dominate the thinking of some of our competitors and the unbusinesslike way in which these firms take on risks which cannot be sensibly assessed, does little for performance or relationships in the Industry and is seldom, if ever, to the benefit of the client. We continue to set our face against work procurement of this kind. Preferred relationships, a willingness to invest in the right kind of developments and working with enlightened clients, continued to provide a substantial part of our workload. Since the Interim statement losses have persisted in our specialist activities, notably Renelec, our mechanical and electrical sub-contracting company. The remedial action taken should ensure a return to profit next year.

LPH Equipment, now our Plant Hire Division, has fully earned that status, achieving record results. Further acquisitions have expanded and strengthened our plant service network across the country and we are confident that this progress can continue.

The development, construction and sale of new homes across a wide range of location, feature and price, has continued to grow as a major activity within the Lovell Group. The two Divisions engaged in this task are Lovell Homes, operating in the private sector, and Lovell Partnerships, which undertakes partnership housing in its various forms together with our rapidly expanding Urban Renewal activities. Growth in volume in the private sector has not been amongst our priorities this year. Rather, we have concentrated upon improvements in our product ranges, quality control and profit per house, with good effect. Our Partnership activities put up a strong performance – the market lead we have enjoyed for several years in this field has, if anything, increased. The opening at Baltic Wharf, Bristol in August of our 5,000th Partnership house was a significant event which will soon be overtaken by other milestones as we continue to grow. Our expansion into the North has, despite tough market conditions there, also met with considerable initial success and is capable of profitable growth. I must pay tribute to the Building Societies whose enterprising support has enabled us to increase materially our involvement in this commercially satisfactory and socially worthwhile field of activity. In aggregate, house sales by the Group exceeded 3,000, with more than commensurate growth in profit contribution.

An important event since the year end was the announcement of our joint venture in Scotland with John Lawrence (Glasgow) Ltd. The new company has acquired a substantial part of the Lawrence land bank in excellent locations in the west of Scotland. Whilst this move represents a logical expansion of Lovell Homes activities, it is also anticipated that in due course our expertise in partnership housing and urban renewal will be introduced into the Scottish market from this base.

Our Industrial and Commercial Development Division has made good progress in the year. Our success on the Barnet Town Centre scheme as well as our Appeals on the Denham and Wokingham sites, amongst others, will be measured in profit contribution in 1987. The letting of New City Court, where we have a 25% investment with Chesterfield Properties, together with rental growth of our investment properties, all add to the view that there should be better times ahead.

Last year, for the first time, I was able to report a useful profit from our operations in the USA. 1986 has seen the continuation of that progress in both growth and profit terms. The organisation has been expanded with the appointment of Bob Woodward, until recently Managing Director of Rendell Homes, as Senior Vice President, and Jack Kochen, our first American Director, as Financial Director. These moves, together with the recruitment of a number of younger people, some from the UK, significantly increase our ability to process the opportunities that are now crossing our path in the US.

I referred in my report last year to our growing involvement in Urban Regeneration. I anticipated the launching of a new initiative designed to harness both private and public resources in undertaking this massive task which cannot be tackled effectively by either sector working alone. It soon became clear that no process existed for pulling these diverse interests together. PROBE (Partnership Renewal Of the Built Environment) was, therefore, launched just before Christmas 1985 as a private sector focus on this difficult and intricate task. The function of PROBE is to orchestrate all the inputs necessary to make things happen on the urban scene. The Group has invested considerable time and effort in this venture with substantial financial support from two Building Societies – Nationwide and Halifax. PROBE, in the short space of nine months, has been set up and is marketing its services nationally. Currently, several major commitments are under way, with many other potential opportunities ahead – such is the scale of the need.

Last year, for the first time, we sent to our employees the Annual Report and Accounts, in place of a separate Employee Report. I am glad to say that we have had positive response to this move which we are repeating this year. Now that so many of our employees are Shareholders or Share Option holders, there seems to be no sustainable argument for differentiating between the interests of either. Indeed, a sense of common cause provides the most profitable future for those who invest either their working lives or their money in the company. This, I believe, is what industrial partnership is really all about.

Special mention must be made of the appointments to the Board of Paul Butcher and Edward Wakeham. It is always pleasing to see younger men rising through the ranks – in Paul's case, to become Managing Director of Lovell Developments, an important Division of the Group and Edward, who pioneered the Group's Partnership Housing programme, to become Managing Director of the Partnerships Division.

Their appointments are well deserved and I am sure they will both contribute sound business judgment to the affairs of the Board.

Sadly, the time has come for Sir Peter Trench to retire from the Holdings Board. Sir Peter has been a Director of the company since 1964 and was Chairman from 1972 to 1983.

It is unnecessary for me to dwell upon his achievements or the unique contribution he has made to our Industry, they are so well known and were recognised by his Knighthood in 1979. He received recently the Honorary Degree of Doctor of Science from the University of Reading, a further indication of the respect and esteem in which he is held. From a Lovell Group – and indeed a personal – point of view, I find it difficult to imagine where we would be today without the wise guidance and support he has given to us all over the years – we owe him much.

I know my colleagues at all levels and in every walk of life within the company will join me in wishing him and his wife, Mary, a long, healthy and happy retirement.

I want to give special thanks this year to all those people who serve in every field of our work. It is easy, or relatively so, to refer in the Chairman's Statement to "restructuring" or "rationalisation" or "responding to market changes". It is another thing to ask capable and committed people, often in mid-career, to change direction into roles which may well put to different use their knowledge and experience. We have placed new responsibilities upon a number of people as the Group's organisation changes, bringing our resources fully to bear on what we see as tomorrow's market targets in the process. We hold firmly to the view that our organisation must respond to evolving market conditions and it is to the great credit of all those involved that I can report many more successes than failures. My thanks go to everyone for the enthusiasm and co-operation they have given – these are the great strengths of the Group and its people.

The Industry's current unwillingness to provide adequate training resources and facilities to meet future needs has come under heavy attack. Whilst there are many well-founded reasons for the present state of affairs, it now is an undisputed fact that unless there is a substantial increase in trainee recruitment, we shall face a major shortfall in the resources available in the future, particularly if greater demands are put upon us. I am glad to say that we have not succumbed to this short-sighted way of cutting costs and the commitment to our young people in the various training and management development schemes has continued at a high level.

I am proud to report that we have over 280 trainees and apprentices within the Group and are confident that they will provide a pool of talent from which will be drawn the well-trained people necessary to manage our affairs in the years to come.

Our Bicentenary Year, which now nears its end, has been one of celebration throughout the Group. Every employee – and pensioner too – has received a memento worthy of the event and our Bicentenary flags and decorations have been seen and noted by our clients and the public alike up and down the country. We marked, by ceremony, the Granting of our Arms at a Guildhall Banquet. Whilst we have looked to the past with pride and respect, it is on the future that we firmly focus our minds. I have no doubt that we embark upon 1987 stronger of purpose as a consequence.

Next year will undoubtedly put us to the test. Prospects of a General Election and its outcome, bringing to realisation our plans in the Urban Renewal field and in the United States, together with further extension of our interests through growth or acquisition, will all provide us, I am convinced, with opportunities to enhance our reputation, to improve the services we provide and to increase our profitability.

Our direction and fortunes cannot, of course, be separated from prevailing Government policies or from the economic health of the nation. Nevertheless, there is increasing realisation and common ground between most sections of society that we cannot continue to pursue a policy which sacrifices capital investment through inability to control current expenditure. The price for this neglect, if we do, will be paid many times over in the years to come, measured in terms of human happiness, in quality of life, in productive capacity and international competitiveness.

Our task is to take the Group forward and in that respect our hopes are high. Our people are well motivated and flexible and the company is geared to whatever demands may be put upon it.

The year is off to a good start, 1987 could be an election year, an event which will bring uncertainties until the outcome is known. Our policy will be to maintain the careful growth of recent years and at the time of writing we see every reason for anticipating continuing progress in the year ahead.

REVIEW OF GROUP ACTIVITIES

Construction Division

Turnover: £139.7M (£132.3M)

The Bicentenary year produced another record turnover for this Division with projects ranging from £½m to £25m carried out across the land from Brighton to Carlisle and Colchester to Cardiff. Rewards for this effort, however, remained slender with little improvement in margins apparent in any region of the country despite earlier expectations. Nevertheless, because of our responsive organisational structure, our ability to adapt to market conditions encourages us to believe that we are capable of improving profitability and thus the prospects for the Division in 1987.

The completion of a number of major schemes in the year included the £20m New City Court, the £4m Camberley Civic Offices, and the £6m London Independent Hospital. These represent achievements of which any company can be proud. The present orderbook remains at a record level, with the current year seeing the completion of many notable contracts including the £13.5m office scheme at Basingstoke in which we have an equity interest, the £9.5m shopping centre development for MEPC at Leamington Spa, the prestigious £6m Guildhall House for the Corporation of the City of London as well as the £10m offices and shops contract at Kingston-upon-Thames for St. Martins Property Corporation.

Recent contracts secured include offices in New Buckingham Gate for Chesterfield Properties – a project of £30m – in which we are also negotiating an equity stake, a £5m refurbishment of the Bath Club for Wheatsheaf Investments and the £9m "high-tech" project for Bride Hall at Bracknell.

Some of our clients' preparations for the "Big-Bang" put heavy demands upon our specialist refurbishing companies, who have achieved a series of "fast track" refit completions in record time. Our skills in this sector are recognised as amongst the best and have resulted in an increasing number of contract awards where completion on time, to exacting standards of quality and performance, are the order of the day.

Plant Hire

Turnover: £16.1M (£13.9M)

Plant of quality and reliability, matched by service of an equally high standard are the characteristics of this Division which has continued to thrive in 1986 despite competitive market conditions.

Our policy of expansion by acquisition has continued. The network of depots has been further strengthened by the addition of two more facilities at Stevenage and Chesterfield bringing the total to 25 serving the South, the Midlands and increasingly the Northern parts of the country. Extension of LPH Equipment's activities into new fields such as industrial fork lift hire also provides prospects for growth.

Demand for its products and services, particularly the smaller non-operator types of plant, continues at a high level and LPH Equipment shows every sign of continuing last year's progress.

Some of our partnership sites around the country.

Developments – Residential

Turnover: £125.5M (£97.9M)

Lovell Homes: This company, which now carries out all private housing development in the Group, had an excellent year both in terms of sales and profit, attributable not only to the advantages of lower interest rates and generally buoyant market conditions but also to improved performance.

From five Regional companies – Midland, Southern, Eastern, Western and London – Lovell Homes covers the strongest market areas of the country and has gained an enviable reputation for both the design and quality of its houses and the value they represent. Over 1800 homes were sold in 1986 at an average price of nearly £46,000.

Inevitably, the increase in house prices has an unfavourable impact upon the ratio of personal earnings to house prices and it has to be recognised that rising prices cannot continue at the same rate; already there are some signs of these levelling off, except in the most affluent areas of the country in and around London.

Rising land prices are the inevitable corollary of a strong housing market and nowhere has this been in greater evidence than the South East, where land prices have become considerably overheated in the last year. The substantial land bank already owned by Lovell Homes has enabled it to be highly selective in purchasing land for current use and it has thus been able to concentrate attention and resources on the acquisition of strategic land which could produce significant rewards in the years ahead, given a satisfactory outcome to some of the planning appeals.

Strong management, good products and this sound land bank enable Lovell Homes to face 1987 with confidence.

Lovell Partnerships: The formation of this company last year brought together as a separate division our established resources in Lovell Urban Renewal and Rendell Partnership Developments together with PROBE (Partnership Renewal Of the Built Environment), a new company designed to tackle, with Local Authorities and others, the major problems of urban decay.

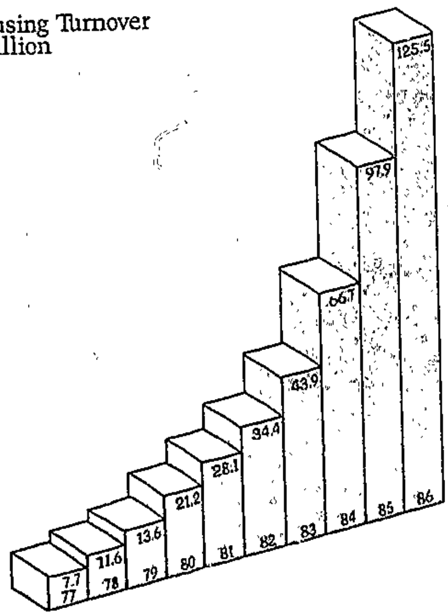
This powerful force operates from regional offices in London, Cardiff, Uckfield, Birmingham, Manchester and Devizes, with the divisional headquarters at Swindon.

Our market leadership was underlined by the opening at Baltic Wharf, Bristol of the 5000th home built and sold in partnership with Local Authorities. The number of Authorities with whom we have undertaken such schemes passed the 50 mark in the year and includes new clients, at Chester, Crewe and Nantwich, Hereford, Monmouth and Rugby as well as many other developments for existing customers.

Lovell Urban Renewal started several major projects during the year notably Buchanan's Wharf at Bristol Docks, Finland Quay at Surrey Docks, Cherry Garden Pier at Rotherhithe, and several schemes for the London Docklands Development Corporation. In partnership with Salford City and Halifax Building Society, a major urban housing scheme of 280 homes will shortly be commenced at Salford Docks and a further scheme for Bristol City at Bristol Docks.

Total unit sales for the division exceeded 1200 in 1986 and the secured workload coupled with a strong and expanding market should ensure continuing growth in 1987 and beyond.

Housing Turnover
£million



Developments – Industrial and Commercial
Turnover: £3.3M (£3.3M)

A major achievement in the year, in the face of intense competition, was the award of the 70,000 sq ft town centre retail development in Barnet, the forerunner, we hope, of other schemes in the retail sector which are being actively pursued.

Current developments include Churchill Plaza, Basingstoke, a 133,000 sq ft office scheme in which we have an equity stake with London & Edinburgh Trust and City Merchant Developers, 13,200 sq ft of offices at Belmont Road, Uxbridge and several "high-tech" developments, principally in Slough. Winning our planning appeals at Denham for a 22,000 sq ft business centre and at Wokingham for 8,000 sq ft of offices provides useful commercial development opportunities in the M25 corridor where office accommodation will be much in demand.

On completed schemes, successes include the letting of New City Court, London Bridge, a development with Chesterfield Properties, in which we have a 25% interest and the final leasing up of the industrial schemes at Dagenham and Nuneaton. Our 7,000 sq ft office development at Gerrards Cross has attracted considerable interest and letting negotiations are currently in hand. Regrettably, our joint development with Benson Kayley at Bedford Park, Croydon does not yet have a tenant although there are more encouraging signs from the market place.

In the year we have taken the opportunity to add to our investment properties a number of completed buildings, notably Coombe Cross, Croydon which is fully let and 45/47 Station Road, Gerrards Cross at an aggregate cost of £5.1M net of minor additions and disposals. These increase our investment in properties at 30th September 1986 and will add significantly to our rental income in 1987. The market value of our property portfolio is in excess of the book value at 30th September 1986.

America
Turnover: £2.3M (£2.6M)

Growth in both volume and range of our activities has been steady, if not exciting, during the year. Building upon our reputation in the Baltimore-Washington area, working with high quality partners and with the increasing experience of our own team, ensured that all the activities undertaken by Lovell (America) showed worthwhile progress and improved profitability. The volume of business in which we have an interest increased to $26 million, covering both land improvement and commercial development with Brantly Development Corporation and housing for sale with Diversified Housing Corporation. Overall, more than 200 fully serviced building lots were sold and, additionally, a similar number of houses.

Currently we are developing, with Brantly Development Corporation, a 115 acre commercial land site at Montpelier adjacent to the John Hopkins Applied Physics Laboratory near Washington. This project, together with other significant joint venture opportunities, establishes a firm foundation for the growth of our business in America and enables us to view our future investment and operations there with increasing confidence.

DIRECTORS' REPORT

The directors submit the Balance Sheet of the Company and the Consolidated Balance Sheet at 30th September 1986 and the Consolidated Profit and Loss Account for the year ended on that date, together with supporting notes and schedules.

Activities of the Group and Business Review
The principal activities of the Group are construction, plant hire, the development of and investment in commercial and industrial property, and the development and sale of houses. More details of the activities and a full review of the year are contained in the Chairman's Statement (page 8) and the Review of Group Activities (page 12).

Profits and Dividends
The consolidated profit for the year before taxation was £12,255,000 (1985 £9,036,000). The consolidated profit for the year after taxation and extraordinary items was £7,569,000 (1985 £5,264,000). Preference dividends for the year have been paid. An interim dividend of 1.7p per Ordinary share (1985 1.55p) was paid on 30th September 1986 and the directors recommend a final dividend of 6.3p per share (1985 5.45p). The amount of the total dividends on Ordinary shares is £2,231,000 (1985 £1,558,000). Subject to necessary approval of the members being given at the Annual General Meeting to be held on 12th February 1987, the final dividend on Ordinary shares will be paid on 1st April 1987 to members on the register on 27th February 1987.

Share Capital
On 11th March 1986, the authorised share capital of the Company was increased from £7,775,000 to £9,650,000 by the creation of an additional 7,500,000 Ordinary shares of 25p each.

Shareholders will be asked to approve an increase in the authorised share capital of the Company of an additional 41m Ordinary shares of 25p each. This would increase the present authorised share capital by £10.25m from £9.65m to £19.9m. The recommended one for one scrip issue will require an allocation of £6.97m nominal value of unissued capital in respect of the present issued Ordinary shares. In addition, an allocation of unissued capital is also required to cover options granted, but not exercised, in the company's share option schemes amounting in aggregate to £0.36m nominal value.

The effect of these allocations would be for the Company to have wholly uncommitted unissued Ordinary share capital amounting to £4.97m nominal value, which is equivalent to 25.3 per cent of the authorised Ordinary share capital.

Capitalisation Issue
In order that the issued share capital of your company should more closely reflect the value of the assets employed in the business and to increase the marketability of its shares, your Board is proposing a capitalisation of reserves. This will be applied in paying up in full Ordinary shares of 25p each which will be allotted to shareholders on the Register of Members on 10th February 1987 in the proportion of one new Ordinary share for each existing Ordinary share then held.

£6,970,694 is required for capitalisation in respect of the 27,882,774 Ordinary shares issued at present. Additionally, account must also be taken of options on shares which could be exercised, between 30th September 1986 and 10th February 1987 which, if exercised would increase the scrip issue by a maximum of £356,189 nominal value (1,424,757 Ordinary shares).

Accordingly up to 29,307,531 fully paid shares will be allotted ranking pari passu with the existing issued fully paid Ordinary shares except that they will not rank for the 1986 final ordinary dividend. Application will be made to the Council of The Stock Exchange for all such Ordinary shares to be admitted to the Official List.

Renounceable certificates will be posted on 20th February 1987 and dealings are expected to commence in the new shares on 23rd February 1987. The last day for splitting will be 25th March 1987 and the last day for registration and renunciation will be 27th March 1987. Certificates will be posted on 24th April 1987.

Explanation of Resolutions Nos. 7 and 8
Under the Companies Act 1985, the board cannot allot shares without the authority of the shareholders. In order to preserve the board's powers in respect of the unissued Ordinary shares so that advantage may be taken of any opportunity that occurs to effect acquisitions on favourable terms without delay, it is proposed that the board's general authority to allot the unissued Ordinary shares of the Company which was agreed at the 1986 Annual General Meeting, be extended by a similar authority valid until the next Annual General Meeting. The board undertakes that no issue of shares will be made that would effectively alter control of the Company or the nature of its business without the prior approval of the shareholders.

The Companies Act 1985 also requires that where shares are issued wholly for cash, then they must first be offered to existing Ordinary shareholders. Resolution No. 8 renews the board's powers to allot Ordinary shares for cash both in respect of shares allotted by way of rights issues and in respect of an additional 5% of the authorised share capital of the Company without first offering them to existing Ordinary shareholders. It also allows the board to overcome certain practical difficulties such as to give shareholders resident in certain overseas countries the money's worth of the rights instead of the shares. This power extends to the next Annual General Meeting.

Shareholders will be asked to renew annually the powers given in resolutions 7 and 8.

Directors
The names of the directors of the Company are set out on page 7. In addition, Mr. J.C. Watts served as a director until his resignation on 30th November 1985. Sir Peter E. Trench retires on 31st December 1986 and will not be seeking re-election. Mr. P.D.L. Butcher was appointed on 1st October 1986, Mr E.G. Wakeham will be appointed on 1st January 1987. They retire under the provisions of Article 69 and, being eligible, offer themselves for re-appointment. Mr. J.G. Laing and Mr. P.L. Davis retire by rotation under the provisions of Article 97 and, being eligible, offer themselves for re-appointment. The directors proposed for re-appointment have service contracts which can be terminated on two years notice.

The interests of the directors, their wives and infant children in the shares of the Company, all of which were beneficial interests, were:

	Ordinary shares of 25p			
	Options	17.12.86	30.9.86	1.10.85
N.E. Wakefield	28,724	140,312	140,312	132,250
J.G. Laing	28,724	51,000	51,000	51,000
P.D.L. Butcher	10,334	—		
P.L. Davis	28,724	50,737	50,737	47,870
D.J. Hinton	28,724	1,250	1,250	1,000
Sir Peter Trench	—	86,910	86,910	86,910
B.D.W. Morris	28,724	15,631	15,631	13,500
L.E.H. Williams	—	1,250	1,250	1,000
A. Wassell	25,825	15,625	15,625	12,500

	1982 Employee Share Option Scheme	1984 Executive Share Option Scheme	Total Options
N.E. Wakefield	2,889	25,835	28,724
J.G. Laing	2,889	25,835	28,724
P.D.L. Butcher	—	10,334	10,334
P.L. Davis	2,889	25,835	28,724
D.J. Hinton	2,889	25,835	28,724
B.D.W. Morris	2,889	25,835	28,724
A. Wassell	—	25,835	25,835

The options in shares granted under the 1982 Employees' Share Option Scheme are exercisable at 134.99p per share on 4th June 1987.

The options on shares granted under the 1984 Executive Share Option Scheme are exercisable at 190.64p per share between 22nd May 1988 and 22nd May 1992.

In certain circumstances both these options may be exercised earlier.

Shareholdings

The Company is not a 'close company' as defined by the Income and Corporation Taxes Act, 1970. So far as the directors are aware, the only interest at 17th December 1986 in excess of 5% of the issued Ordinary shares was 4,203,187 shares in the name of Merchant Navy Officers Pension Fund Trustees Ltd.

Directors' Interest in Contracts

No contracts of significance in relation to the Company's business in which directors had an interest subsisted at any time during the year.

Fixed Assets

Details of the tangible fixed assets are given in note 10 to the accounts.

In the opinion of the directors the open market value of the freehold and long leasehold properties is substantially in excess of that shown in the accounts.

The majority of the properties is held for investment. As the properties are all maintained to a high standard, depreciation is neither material nor necessary, and none is provided.

Donations

Charitable donations amounting to £35,253 were made during the year. No political donations were made.

Employee Involvement

The directors recognise the need for communication with employees at every level and regular briefing meetings are held in all areas of the Group. All employees receive a copy of the annual report and accounts. These, together with the bi-monthly newspaper "Link" and frequent internal notice board statements, form a strong communications network.

Disabled Persons

It is the policy of the Group that, within the limitations of the trading activities, disabled persons are employed on equal terms. If employees become disabled every effort is made to continue employment with re-training for alternative work, if necessary. Opportunities for career development are available to disabled persons.

Auditors

Ernst & Whinney and F.L. Rouse & Co. have expressed their willingness to continue as auditors. A resolution will be proposed appointing them and authorising the Board to fix their remuneration.

By Order of the Board
H.W. Hicks
Secretary
17th December 1986

AUDITORS' REPORT

We have audited the accounts of Y J Lovell (Holdings) plc set out on pages 19 to 33 in accordance with approved auditing standards. The accounts have been prepared under the historical cost convention modified by the revaluation of certain assets.

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group, at 30th September 1986 and of the profit and source and application of funds of the Group for the year then ended and comply with the Companies Act 1985.

Ernst & Whinney, London
F.L. Rouse & Co, Beaconsfield
Chartered Accountants
17th December 1986.

Ernst Whinney

ACCOUNTING POLICIES

i **Basis of accounts:** The accounts have been prepared under the historical cost convention modified by the revaluation of certain assets.

ii **Basis of consolidation:** The consolidated accounts comprise those of the Company, its subsidiaries and the attributable share of the results of the associated companies. All intra-group transactions are eliminated.

iii **Contract work in progress:** Values of uncompleted contracts are included at cost plus attributable profit after providing for known future losses and contingencies. No account is taken of claims which have not been agreed. Progress payments received are deducted from the valuations.

iv **Developments and undeveloped land:** These assets are stated at the lower of cost and net realisable value. Cost, in the case of properties under development, includes related development overheads and finance costs.

v **Stocks:** These are at the lower of delivered cost and net realisable value.

vi **Turnover:** The amount is the sum of the value of work executed during the year in respect of contracting and the invoiced value of sales in respect of trading, excluding sales within the Group.

vii **Depreciation:** No depreciation is provided on the freehold or long leasehold properties. Although this policy does not comply with the statement of standard accounting practice on accounting for depreciation (SSAP12), the effect of non-compliance is not material. Plant, vehicles and equipment are depreciated to estimated residual values on a straight line basis over their anticipated useful lives. These are generally as follows:
Plant and Vehicles – three to five years
Office equipment – five to seven years.

viii **Deferred taxation:** Deferred taxation is calculated on the liability method at 35%. No provision is made where the reduction in tax liability is expected to continue for the foreseeable future.

ix **Foreign currencies:** Assets and liabilities denominated in foreign currencies, and the results of overseas trading operations, are expressed in Sterling at the exchange rate ruling at the balance sheet date.

x **Goodwill:** Goodwill on acquisition of subsidiaries is written off to reserves in the year in which it is incurred.

xi **Leased assets:** Leased assets are not recorded in the accounts as an asset. Net obligations under leases are disclosed in the notes to the accounts.

Y J Lovell (Holdings) plc and Subsidiary Companies

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 30th September 1986

	Notes	1986 £000	1986 £000	1985 £000	1985 £000
Turnover	1		266,993		[illegible]
Cost of sales	2	229,234		203,897	
Distribution costs and administration expenses	3	25,960		23,508	
			255,194		[illegible]
			11,799		[illegible]
Other operating income	4		2,538		[illegible]
Share of profit of associated companies			38		[illegible]
Operating Profit			14,375		[illegible]
Interest payable	5		2,120		[illegible]
Profit on ordinary activities before taxation			12,255		[illegible]
Taxation	7		4,357		[illegible]
Profit on ordinary activities after taxation			7,898		[illegible]
Extraordinary items	8		329		[illegible]
Profit attributable to the shareholders			7,569		[illegible]
Dividends for the year					
On Preference shares		1		1	
On Ordinary shares					
– Interim		474		345	
– Final (proposed)		1,757		1,213	
			2,232		[illegible]
Profit retained			5,337		[illegible]
By: the Company			3,731		[illegible]
subsidiary companies			1,598		[illegible]
associated companies			8		[illegible]
Earnings per Ordinary share (1985 adjusted for rights issue)	9		29.8p		[illegible]

Y J Lovell (Holdings) plc and Subsidiary Companies

CONSOLIDATED BALANCE SHEET

as at 30th September 1986

		Notes	1986 £000	1986 £000	1985 £000	1985 £000
Assets employed	**Fixed assets**					
	Tangible assets	10	28,323		23,151	
	Investments	12	1,314		1,305	
				29,637		24,456
	Current assets					
	Stocks and work in progress	13	90,781		86,972	
	Debtors	14	19,640		16,226	
	Short term investments	15	400		92	
	Cash at bank and in hand		438		205	
			111,259		103,495	
	Creditors: due within one year	16	70,189		73,720	
	Net current assets			41,070		29,775
	Total assets less current liabilities			70,707		54,231
	Creditors: due after more than one year					
	8½% Debenture stock 1987/1992	17	1,533		1,533	
	Variable rate unsecured loan stock 1985/1988	18	97		956	
	Bank loans	19	—		4,357	
	Taxation		2,266		—	
	Other creditors		115		115	
				4,011		6,961
				66,696		47,270
Shareholders' funds	**Capital and reserves**					
	Called up share capital	20		6,996		5,590
	Share premium account	21		21,666		8,983
	Revaluation reserve	22		8,671		8,715
	Other reserves			250		250
	Profit and loss account	23		29,113		23,732
				66,696		47,270

Directors
N.E. Wakefield
J.G. Laing
17th December, 1986

	1986	1985
Net Assets per Ordinary share (1985 adjusted for rights issue)	239.1p	205.9p

Y J Lovell (Holdings) plc

BALANCE SHEET

as at 30th September 1986

		Notes	1986 £000	1986 £000	1985 £000	1985 £000
Assets employed	**Fixed assets**					
	Tangible assets	10	26,601		21,457	
	Investment in subsidiary companies	11	1,923		1,977	
	Investments	12	1,000		1,000	
				29,524		24,434
	Current assets					
	Debtors	14	52,550		49,729	
	Short term investments	15	400		92	
	Cash at bank and in hand		367		—	
			53,317		49,821	
	Creditors: due within one year	16	24,464		28,482	
	Net current assets			28,853		21,339
	Total assets less current liabilities			58,377		45,773
	Creditors: due after more than one year					
	8½% Debenture stock 1987/1992	17	1,533		1,533	
	Variable rate unsecured loan stock 1985/1988	18	97		956	
	Bank loans	19	—		4,357	
				1,630		6,846
				56,747		38,927
Shareholders' funds	**Capital and reserves**					
	Called up share capital	20		6,996		5,590
	Share premium account	21		21,666		8,983
	Revaluation reserve	22		8,671		8,715
	Other reserves			250		250
	Profit and loss account	23		19,164		15,389
				56,747		38,927

Directors
N.E. Wakefield
J.G. Laing
17th December, 1986

Y J Lovell (Holdings) plc and Subsidiary Companies

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended 30th September 1986

		1986 £000	1985 £000
Source of funds from operations	Profit before taxation	12,255	9,036
	Depreciation	752	558
	Profit of associated companies	(38)	—
		12,969	9,594
	Less: Extraordinary items	520	1,553
	Generated from operations	12,449	8,041
Other sources	Proceeds of shares issued	14,089	5,283
	Proceeds of loan stock issued	—	1,794
	Sales of fixed assets	703	1,346
		27,241	16,464
Applications	Fixed asset purchases	6,627	3,016
	Increase in investments	1	—
	Dividends paid	2,033	1,369
	Taxation paid	2,018	1,505
	Goodwill on acquisition	—	1,291
	Repayment of loan stock	1,696	—
		12,375	7,181
	Movement of working capital		
	Work in progress, developments and stock	3,809	22,282
	Debtors including short term investments	3,581	(787)
	Creditors	(3,289)	(4,624)
		4,101	16,871
		16,476	24,052
Increase/(Decrease) in net funds	Loans	4,357	715
	Overdrafts	1,149	(5,430)
	Bills payable	5,026	(2,856)
		10,532	(7,571)
	Cash and bank balances	233	(17)
		10,765	(7,588)

NOTES ON THE ACCOUNTS

1 Turnover and Group Profit

	1986	1985
	£000	£000
Turnover		
Construction and related activities	286,957	261,824
Less: Inter company sales	19,964	23,284
	266,993	238,540
Group profit on ordinary activities		
Construction and related activities	12,217	9,036
Share of profit of associated companies	38	–
	12,255	9,036

Turnover in America amounted to £2,344,000 (1985 £2,643,000)

2 Cost of Sales

	1986	1985
	£000	£000
Hire of plant and machinery	7,306	6,014
Depreciation	458	266
Profit on sale of fixed assets	(87)	—
Other costs	221,557	197,617
	229,234	203,897

3 Distribution costs and administration expenses

	1986	1985
	£000	£000
Distribution costs	—	411
Administration expenses:		
Auditors' remuneration	170	152
Depreciation	385	292
Office machine rentals	332	254
Other expenses	25,073	22,399
	25,960	23,097
	25,960	23,508

4 Other operating income

	1986	1985
	£000	£000
Interest receivable	232	[illegible]
Net rents receivable (external to Group)	943	[illegible]
Share of profits of joint ventures	1,230	[illegible]
Other income	133	
	2,538	[illegible]

5 Interest payable

	1986 £000	1985 £000
On bank loans, overdrafts and bills, wholly repayable:		
within 5 years	1,847	3,439
after 5 years	—	219
Debenture interest payable	130	130
Variable rate loan stock interest payable	68	167
Other loans	75	—
	2,120	3,955

6 Employees

	1986 No.	1985 No.
The average weekly number of employees during the year was:	2,907	3,034

	1986 £000	1985 £000
Staff costs during the year amounted to:		
Wages and salaries	27,775	26,429
Social security costs	2,131	2,015
Other pensions costs	2,835	2,539
	32,741	30,983

	£	£
Directors' remuneration:		
Directors' emoluments, including pension contributions and £5,000 (1985 nil) paid to a former director as compensation for loss of office	475,000	474,000
No fees were paid		
Emoluments of the chairman excluding pension contributions	82,629	86,540
Emoluments of highest paid director excluding pension contributions (1985 the chairman)	91,978	

The emoluments (excluding pension contributions) of the other directors fell within the following ranges:

	1986 No.	1985 No.
£ 5,001 – £10,000	3	[illegible]
£40,001 – £45,000	—	[illegible]
£45,001 – £50,000	1	1
£50,001 – £55,000	2	[illegible]
£55,001 – £60,000	—	
£60,001 – £65,000	1	

The emoluments (excluding pension contributions) of higher paid employees fell within the following ranges:

£30,001 – £35,000	10	
£35,001 – £40,000	8	
£40,001 – £45,000	4	

NOTES ON THE ACCOUNTS

7 Taxation

	1986 £000	1985 £000
The charge for the year is:		
Corporation tax – Group		
– current year	4,542	2,891
– prior years' adjustment	(200)	
Corporation tax – Associated companies	15	
	4,357	2,892

Corporation tax for the current year is calculated at 37.5% of the profit for the year as adjusted for tax purposes. The charge is reduced by £153,000 due to tax losses brought forward, capital allowances and other timing differences.

8 Extraordinary items

	1986 £000	1985 £000
Surplus on sale of investment properties	(547)	(106)
Loss on cessation of certain activities	1,067	1,659
	520	1,553
Less corporation tax	191	673
	329	880

Losses on cessation of activities are recognised from the time the decision is made to cease the activity and include all anticipated future costs.

9 Earnings per Ordinary share

Earnings per Ordinary share are based on the profit of the Group before extraordinary items £7,898,000 less Preference dividends paid of £1,000 divided by 26,460,905 being the weighted average number of Ordinary shares in issue during the year. The 1985 figures have been adjusted for the rights issue. The Earnings per Ordinary share on a fully diluted basis are 28.3p (1985 25.6p)

10 Tangible fixed assets

	Freeholds	Long leaseholds	Short leaseholds	Plant Vehicles Equipment	Total
Group	£000	£000	£000	£000	£000
Cost or valuation 1.10.85	20,239	1,265	20	4,182	25,706
Additions	5,335	250	—	1,042	6,627
Disposals	(357)	(49)	(20)	(999)	(1,425)
Cost or valuation 30.9.86	25,217	1,466	—	4,225	30,908
Depreciation 1.10.85			13	2,542	2,555
Provision for year			—	848	848
Disposals			(13)	(805)	(818)
Depreciation 30.9.86			—	2,585	2,585
Net book value 30.9.86	25,217	1,466	—	1,640	28,323
30.9.85	20,239	1,265	7	1,640	23,151
At cost less depreciation	11,750	271	—	1,640	13,661
At professional valuation in 1980	13,467	1,195	—	—	14,662
	25,217	1,466	—	1,640	28,323
Cost of revalued properties	5,200	791			5,991
Properties held for investment	15,546	830			16,376
Properties occupied by the Group	9,671	636			10,307
	25,217	1,466			26,683
Company					
Cost or valuation 1.10.85	20,183	1,265	20	88	21,556
Additions	5,335	175	—	—	5,510
Disposals	(357)	—	(20)	(88)	(465)
Cost or valuation 30.9.86	25,161	1,440	—	—	26,601
Cost of revalued properties	5,200	791			5,991
Depreciation 1.10.85			13	86	99
Provision for year			—	2	2
Disposals			(13)	(88)	(101)
Depreciation 30.9.86			—	—	—
Net book value 30.9.86	25,161	1,440	—	—	26,601
[illegible]	[illegible]	[illegible]		[illegible]	[illegible]

11 Investments in subsidiary companies

Details of principal subsidiary companies are noted on page 33.

	1986 £000	1985 £000
Shares at cost 1st October 1985	1,977	13,715
Subsidiaries acquired during the year	2	7,408
Transfers to subsidiaries	(56)	(19,148)
	1,923	1,977

The accounts of the UK subsidiary companies are audited by F.L. Rouse & Co.
The accounts of the US subsidiary companies are audited by Ernst & Whinney.

12 Investments in associated companies

The principal associated companies are noted on page 33.

	Group		Company	
	1986 £000	1985 £000	1986 £000	1985 £000
Shares at cost	1,350	1,350	1,000	1,000
Additional investment in shares	1	—	—	—
Accumulated loss	(37)	(45)	—	—
	1,314	1,305	1,000	1,000

In the opinion of the directors the value of the Group's investment in associated companies approximates to the amount stated above.

13 Stocks and work in progress

	Group	
	1986 £000	1985 £000
Contract work in progress and debtors	105,357	116,306
Less: Cash received on account of work in progress	87,741	98,194
	17,616	18,112
Residential developments and undeveloped land	70,145	63,764
Commercial and industrial developments	1,804	2,099
Stocks of raw materials and consumables	1,216	2,307
	90,781	86,282

The inclusion of attributable profit is in accordance with SSAP9. This constitutes a departure from the statutory valuation rules for current assets but is required by S228(3) Companies Act 1985 to enable the accounts to give a true and fair view. As progress payments cannot meaningfully be allocated between cost and profit, it is impracticable to determine the effect of the departure on the balance sheet amount of contract work in progress. Included in the commercial, industrial and residential costs are finance costs of £4,070,000 [illegible]. The replacement cost of the stock of raw materials and consumables was £2,273,000 [illegible].

14 Debtors and prepayments

	Group		Company	
	1986	1985	1986	1985
	£000	£000	£000	£000
Trade debtors				
– within one year	8,300	8,585	—	—
– more than one year	—	364	—	—
Other debtors – General	1,339	1,486	795	945
– Joint ventures	4,095	1,524	—	—
Value Added Tax	1,130	1,178	—	—
Prepayments and accrued income	485	946	—	—
Due from Group companies	—	—	50,577	47,997
Due from Associated companies				
– within one year	3,388	1,356	275	—
Advance corporation tax recoverable, due after more than one year	903	787	903	787
	19,640	16,226	52,550	49,729

15 Short-term investments

	Group		Company	
	1986	1985	1986	1985
	£000	£000	£000	£000
Certificates of Tax deposit	400	92	400	92
	400	92	400	92

16 Creditors

	Group		Company	
	1986	1985	1986	1985
	£000	£000	£000	£000
Amounts falling due within one year:				
Unsecured loan stock	—	838	—	838
Bank loans and overdrafts,				
– secured	—	1,373	—	1,373
– unsecured	6,947	6,723	3,415	4,180
Payments received on account	5,492	3,011	—	—
Trade creditors	43,325	42,351	4,258	5,127
Bills payable	777	5,803	777	5,803
Due to Associated companies	92	257	—	—
Due to Group companies	—	—	13,215	8,411
Current taxation, advance corporation tax, development land tax and corporation tax	5,066	5,073	1,042	1,192
Other taxation and social security	822	1,263	—	—
Other creditors	2,189	2,017	—	345
Accruals and deferred income	3,722	3,798	—	—
Proposed Ordinary dividend	1,757	1,213	1,757	1,213
	70,189	73,720	24,464	28,482

17 Debenture stock

The £1,532,625 8½% First Mortgage Debenture stock is repayable on 30th September 1992 or, at the Company's discretion, within the preceding five years. The debentures are secured by a first charge on certain properties.

18 Loan stock

In connection with the acquisition of Charter Homes Ltd, the Company issued variable rate unsecured loan stock to the value of £1,793,849 redeemable at par between 1st May 1985 and 31st December 1988. During the year £1,696,052 was redeemed leaving £97,797 outstanding.

19 Bank loans

	Group 1986 £000	Group 1985 £000	Company 1986 £000	Company 1985 £000
Bank loans repayable:				
One to two years				
– unsecured	—	857	—	857
– secured	—	2,000	—	2,000
Two to five years				
– unsecured	—	1,500	—	1,500
	—	4,357	—	4,357

Interest is payable at varying rates related to London Inter-Bank Offered Rate. The secured loan was secured on certain Group properties.

20 Share capital

The share capital is as follows:	1986 £	1985 £
Authorised:		
Redeemable Cumulative Preference shares of £1 each	250,000	250,000
4.9% Cumulative Preference shares of £1 each	25,000	25,000
37,500,000 Ordinary shares of 25p each	9,375,000	7,500,000
	£9,650,000	£7,775,000
Allotted, called up and fully paid:		
4.9% Cumulative Preference shares of £1 each	25,000	25,000
27,882,774 Ordinary shares of 25p each	6,970,694	5,564,636
	£6,995,694	£5,589,636

On 19th December 1985, 5,566,238 Ordinary shares were issued for a net consideration of approximately £14m by way of Rights in the proportion of one additional Ordinary share for every four Ordinary shares held at 9th December 1985. This issue was to finance commercial and residential development without increasing the overall level of gearing.

1,785,000 unissued Ordinary shares have been reserved for the Share Option Schemes. At 30th September 1986, options remained as follows:

1982 Employee Scheme: 449,024 shares at 134.99p per share, exercisable on 4th June 1987.
1985 Employee Scheme: 262,687 shares at 173.22p per share, exercisable on 12th June 1990.
1985 Executive Scheme: 713,046 shares at 190.64p per share, exercisable between 22nd May 1988 and 22nd May 1992.

On all schemes, in certain circumstances, options may be exercised earlier than the dates given.

Options were exercised in respect of 57,992 shares during the year.

21 Share Premium account

	Group £000	Company £000
Balance at 1st October 1985	8,983	8,983
Amounts arising from:		
Exercise of share options	64	64
Rights Issue after the deduction of expenses	12,619	12,619
	21,666	21,666

22 Revaluation reserve

	Group £000	Company £000
Balance at 1st October 1985	8,715	8,715
Transfer of amounts realised during the year to distributable profit	44	44
	8,671	8,671

23 Distributable profit

	Group £000	Company £000
Balance at 1st October 1985	23,732	15,389
Profit for the year retained	5,337	3,731
Revaluation surplus realised	44	44
	29,113	19,164

24 Deferred taxation

	1986 £000	1985 £000
Taxation deferred and not provided in the accounts amounts to:		
Capital allowances	285	316
Industrial buildings allowances	901	876
Property revaluation surpluses and gains rolled over	2,804	3,000
	3,990	4,192
Less: unused tax reliefs	597	846
	3,393	3,346

25 Capital commitments and Leasing

	1986 £000	1985 £000
Estimated amount of capital expenditure contracted for but not provided in the accounts	10	76
Expenditure authorised but not contracted for	1,828	1,700

The Group has net obligations under finance leases as follows:

	1986 £000	1985 £000
Amounts payable:		
within one year	2,782	2,707
between two and five years	4,954	4,802
more than five years	1	4
	7,737	7,513

No other commitments to enter into Finance leases existed at 30th September 1986.

The Group has net obligations in the year ending 30th September 1987 under operating leases in respect of plant and machinery totalling £407,930. The leases expire between two and five years.

26 Contingent liabilities

The Company has given guarantees in respect of banking facilities as follows:

	Subsidiaries £000	Other £000
Amount of guarantees	2,537	9,644
Amount outstanding at 30th September 1986	499	9,544

In addition the Company has guaranteed performance bonds in respect of contracts and leasing agreements entered into by subsidiary companies in the normal course of business.

27 Pension commitments

The Group has a Retirement Benefits Scheme for its staff employees, the assets of which are separate from those of the Group. The Scheme is funded by contributions from Group companies and those employees eligible to enter the Scheme. The contributions paid by the Group are charged against profits in the year in which they are payable.

The scheme is subject to periodic actuarial valuation, the latest of which was at 1st October 1985, and showed that the assets of the Scheme were sufficient to cover the accrued benefits at that date.

PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES

SUBSIDIARY COMPANIES

Construction
*Lovell Construction Ltd
Lovell Construction (Northern) Ltd
Lovell Construction (Southern) Ltd
Lovell Construction Services Ltd
Lovell Farrow Construction Ltd
Lovell Taskmasker Ltd
Walter Lilly & Co Ltd

Special products
*Lovell Special Products Ltd
Renelec Ltd
Lovell Special Works Ltd
James Davies (Southern) Ltd

Partnership development
*Lovell Partnerships Ltd
Lovell Urban Renewal Ltd
Rendell Partnership Developments Ltd
P.R.O.B.E. Ltd
Lovell Retirement Homes Ltd

Residential development
*Lovell Homes Ltd
Lovell Homes Midland Ltd
Lovell Homes Southern Ltd
Lovell Homes Eastern Ltd
Lovell Homes Western Ltd
Lovell Homes London Ltd
Prospect Homes Ltd
Charter Homes Ltd
Lovell Estates Ltd
† Lovell Lawrence Ltd

Industrial & commercial property development
*Lovell Developments Ltd
Farrow Property Developments Ltd
Lovell Investments Ltd

Plant hire
*LPH Equipment Ltd

Overseas construction and development
*Y J Lovell (Overseas) Ltd
Y J Lovell (America) Inc (USA)
BritAm Construction Management Ltd (USA)

ASSOCIATED COMPANIES

UK

	Issued Share Capital	Lovell holding
*Corfield Properties Ltd	£400	25%
Gatwick Park Hospital Ltd	£1,000,000	30%
Brailsford Engineering Associates Ltd	£1,000	50%

Except where stated, the companies operate in the UK and are incorporated and registered in England. The subsidiaries are all wholly owned.

†Incorporated in Scotland, issued share capital £100,000, Lovell holding 75%.

The shares of the companies marked * are held by Y J Lovell (Holdings) plc, all others are held by subsidiaries.

Y J Lovell (Holdings) plc and Subsidiary Companies

GROUP FINANCIAL RECORD

	Notes	1977 £000	1978 £000	1979 £000	1980 £000
Assets employed					
Fixed assets	1	8,318	9,044	13,610	19,667
Investment in associated companies		1	1	321	263
Net current assets		6,876	7,497	6,406	12,783
Deferred creditors and loans		(1,755)	(1,691)	(2,863)	(7,189)
Net assets employed		13,440	14,851	17,474	25,524
Financed by					
Ordinary capital		1,719	1,719	1,719	1,719
Reserves	1	11,446	12,857	15,480	23,530
Preference capital		275	275	275	275
Shareholders' funds		13,440	14,851	17,474	25,524
Sales and Profit					
Turnover – (External to the Group)		54,111	62,670	105,008	138,970
Profit before taxation		1,706	1,929	2,615	2,876
Taxation		146	205	50	201
Profit after taxation		1,560	1,724	2,565	2,675
Extraordinary items		—	—	330	—
Attributable to the shareholders		1,560	1,724	2,235	2,675
Dividends		282	313	409	495
Profit retained		1,278	1,411	1,826	2,180
Adjusted earnings per Ordinary share	2	10.5p	11.5p	17.3p	18.0p
Adjusted dividends per Ordinary share	2	1.8p	2.0p	2.7p	3.3p
Adjusted net assets per Ordinary share	1-2	89.1p	98.6p	116.4p	170.8p

Notes

1. The properties were revalued in 1977 and 1980.
2. The comparative figures have been adjusted for the rights issue in 1985 and for the capitalisation and rights issue in 1982.

1981 £000	1982 £000	1983 £000	1984 £000	1985 £000	1986 £000
21,467	22,849	22,791	21,923	23,151	28,323
333	117	1,336	1,306	1,305	1,314
11,499	14,277	19,538	22,949	29,775	41,070
(5,533)	(3,733)	(7,746)	(6,605)	(6,961)	(4,011)
27,766	33,510	35,919	39,573	47,270	66,696
1,719	4,299	4,299	4,925	5,565	6,971
25,772	29,186	31,595	34,623	41,680	59,700
275	25	25	25	25	25
27,766	33,510	35,919	39,573	47,270	66,696
137,109	153,607	169,591	209,133	238,540	266,993
3,192	3,745	4,556	6,420	9,036	12,255
251	538	663	1,707	2,892	4,357
2,941	3,207	3,893	4,713	6,144	7,898
134	32	267	(46)	880	329
2,807	3,175	3,626	4,759	5,264	7,569
565	787	895	1,300	1,559	2,232
2,242	2,388	2,731	3,459	3,705	5,337
19.8p	19.2p	21.9p	25.0p	27.4p	29.8p
3.7p	4.4p	5.0p	5.8p	6.8p	8.0p
186.0p	188.8p	202.4p	194.7p	205.9p	239.1p

Y J Lovell (Holdings) plc and Subsidiary Companies

OFFICES

HEAD OFFICE

Y J Lovell (Holdings) plc
Marsham House
Gerrards Cross
Bucks SL9 8ER
Telex 848932
Facsimile 0753 880411
Telephone 0753 882211
Chairman & Chief Executive N E Wakefield

CONSTRUCTION

Lovell Construction Services Ltd
Lovell House
271 High Street
Uxbridge
Middlesex UB8 1LQ
Telex 911949
Facsimile 0895 34327
Telephone 0895 72011
Managing Director K Hunter

Lovell Farrow Construction Ltd
Lovell House
616 Chiswick High Road
London W4 5RX
Telex 939526
Facsimile 01 994 9558
Telephone 01 747 3311
Managing Director G W L Miller

Lovell Construction (Southern) Ltd
Moorfield Road
Slyfield Industrial Estate
Guildford
Surrey GU1 1AR
Facsimile 0483 571051
Telephone 0483 64612
Managing Director D C R Goodsir

offices at:
Peerland House
High Street
Uckfield
East Sussex TN22 1EH
Telephone 0825 61622
Manager P A Lewis

Midland House
Buckingham Street
Aylesbury
Bucks HP20 2LJ
Facsimile 0296 25607
Telephone 0296 393111
Manager N Topping

Lovell of Buckinghamshire
Baring Road
Beaconsfield
Bucks HP9 2ND
Telephone 04946 5411
Manager K C Weller

Walter Lilly & Co Ltd
210-212 Brigstock Road
Thornton Heath
Surrey CR4 7JD
Telephone 01 689 6011
Managing Director D A Sear

Lovell Construction (Northern) Ltd
Chesshire House
High Street
Knowle
Solihull
West Midlands B93 0LL
Facsimile 05645 79512
Telephone 05645 79491
Managing Director J McQuillan

office at:
Farrow House
Atlantic Street
Altrincham
Cheshire WA14 5TW
Telephone 061 928 6488
Manager M Hudson

Lovell Taskmaster Ltd
Lovell House
271 High Street
Uxbridge
Middlesex UB8 1LQ
Telex 911949
Telephone 0895 72011
Managing Director E G Vassar

INDUSTRIAL & COMMERCIAL PROPERTY DEVELOPMENT

Lovell Developments Ltd
Marsham House
Gerrards Cross
Bucks SL9 8ER
Telex 848932
Facsimile 0753 880411
Telephone 0753 882211
Managing Director P D Butcher

PLANT HIRE

LPH Equipment Ltd
Halifax Road
Cressex
High Wycombe
Bucks HP12 3SQ
Telex 837256
Telephone 0494 21481
Managing Director R E Chatwin

depots at:
Altrincham, Banbury, Bicester, Bishops Waltham, Bristol, Cheltenham, Chesterfield, Devizes, Erith, Exeter, Greenford, Guildford, Heanor, Leicester, New Malden, Potters Bar, Saltash, Southend-on-Sea, Stevenage, Taunton, Tottenham, Uckfield, West Drayton, Wollaston.

CONSTRUCTION SERVICES

Renelec Ltd
(Mechanical & Electrical Contractors & Building Services Sub-contractors)
46 New Park Street
Devizes
Wiltshire SN10 1DT
Telephone 0380 6363
Director J G Yard

offices at:
161 West Wycombe Road
High Wycombe
Bucks HP12 3AD
Telephone 0494 450644
Manager S R Metcalfe

North Heath Industrial Estate
North Heath Lane
Horsham
West Sussex RH12 4WH
Telephone 0403 52382
Manager M J Stacey

Crendon Specialist Joinery
Woodland Industrial Estate
Eden Vale Road
Westbury
Wiltshire BA13 3QS
Telephone 0373 326140
Director R Spurr

RESIDENTIAL DEVELOPMENT

Lovell Homes Ltd
Prospect House
Crendon Street
High Wycombe
Bucks HP13 6LT
Facsimile 0494 40262
Telephone 0494 443751
Managing Director A Wassell

Lovell Homes Eastern Ltd
Lovell House
Castle Road
Rayleigh
Essex SS6 7RR
Telephone 0268 741111
Managing Director K Coxshall

Lovell Homes Southern Ltd
161 West Wycombe Road
High Wycombe
Bucks HP12 3AD
Telephone 0494 23041
Managing Director J A Standen

Lovell Homes Midland Ltd
Charter House
50 Lichfield Road
Tamworth
Staffs B79 7QW
Telephone 0827 50591
Managing Director R Tyler

offices at:
Norwood Road
Cheltenham
Gloucestershire GL50 2DF
Telephone 0242 513056
Manager J Chatterley

104 St. James Road
Northampton NN5 5LF
Telephone 0604 583218
Manager A Bartley

OFFICES
Continued

Lovell Homes Western Ltd
Southgates
Whitefriars
Lewins Mead
Bristol BS1 2NT
Facsimile 0272 299726
Telephone 0272 290421
Managing Director A A Williams

offices at:
5A Market Place
Chippenham
Wiltshire SN15 3HD
Facsimile 0249 658741
Telephone 0249 656666
Director I R Sault

Knowle
Braunton
Devon EX33 2NA
Facsimile 0271 813849
Telephone 0271 812186
Manager A W J Riley

Lovell Homes London Ltd
Lovell House
616 Chiswick High Road
London W4 5RX
Telex 939526
Facsimile 01 994 9558
Telephone 01 995 0445
Managing Director D K Buckley

Lovell Lawrence Limited
1st Floor
33 Turnberry Road
Glasgow G11 5AL
Telephone 041 334 8022
Managing Director W C Ferguson

Lovell Retirement Homes Ltd
Partnership House
Wootton Bassett Road
Swindon
Wiltshire SN5 9NW
Facsimile 0793 642757
Telephone 0793 618824
Managing Director D A White

and at:
Lovell House
616 Chiswick High Road
London W4 5RX
Telex 939526
Facsimile 01 994 7728
Telephone 01 994 9890
Director R Sawyer

PARTNERSHIP DEVELOPMENT

Lovell Partnerships Ltd
Partnership House
Wootton Bassett Road
Swindon
Wiltshire SN5 9NW
Facsimile 0793 642757
Telephone 0793 618824
Managing Director E G Wakeham

Rendell Partnership Developments Ltd
Partnership House
Wootton Bassett Road
Swindon
Wiltshire SN5 9NW
Facsimile 0793 642757
Telephone 0793 618824
Managing Director E G Wakeham

offices at:
Elm Tree Court
Devizes
Wiltshire SN10 1NH
Telephone 0380 2151
Director D A Rees

25 Cardiff Road
Taffs Wells
Cardiff CF4 7RB
Telephone 0222 811888
Director J E Greaves

96/98 High Street
Uckfield
East Sussex TN22 1PU
Telephone 0825 61588
Director R Campbell-Barr

3rd Floor
Roberts House
Manchester Road
Broad Heath
Altrincham
Cheshire WA14 4PL
Facsimile 061 941 6880
Telephone 061 941 2099
Manager A N Miller

6 King Street
Royston
Hertfordshire SG8 9AZ
Telephone 0763 45317
Manager P T Bishop

Hayward House
40 New Road
Stourbridge
Worcestershire DY8 1PA
Telephone 0384 397147
Manager M F Potter

P.R.O.B.E. Ltd
Partnership House
Wootton Bassett Road
Swindon
Wiltshire SN5 9NW
Facsimile 0793 642757
Telephone 0793 617445
Managing Director E G Wakeham

offices at:
Unit B1
Stonehill Green
Westlea
Swindon
Wiltshire SN5 7HB
Telephone 0793 617445
Director D D D Poole

3rd Floor
Roberts House
Manchester Road
Broad Heath
Altrincham
Cheshire WA14 4PL
Facsimile 061 941 6880
Telephone 061 941 2099
Marketing Executive P Quine

Hayward House
40 New Road
Stourbridge
Worcestershire DY8 1PA
Telephone 0384 397147
Marketing Executive M Lamb

Lovell House
616 Chiswick High Road
London W4 5RX
Telex 939526
Facsimile 01 994 7728
Telephone 01 994 9890
Marketing Executive P Swetnam

Lovell Urban Renewal Ltd
Partnership House
Wootton Bassett Road
Swindon
Wiltshire SN5 9NW
Facsimile 0793 642757
Telephone 0793 618824
Managing Director D A White

Offices at:
Lovell House
616 Chiswick High Road
London W4 5RX
Telex 939526
Facsimile 01 994 7728
Telephone 01 994 9890
Director I Aitken

3rd Floor
Roberts House
Manchester Road
Broad Heath
Altrincham
Cheshire WA14 4PL
Facsimile 061 941 6880
Telephone 061 941 2099
Manager C Tyrer

Elm Tree Court
Devizes
Wiltshire SN10 1NH
Telephone 0380 2151
Director G Lee

OVERSEAS – USA

Y.J. Lovell (America) Inc (USA)
9030 Red Branch Road
Suite 200
Columbia
Maryland 21045
United States of America
Telex 710 862 2871
Facsimile (0101) 301 997 6453
Telephone (0101) 301 997 7222
President R S Groves

Y J Lovell (Holdings) plc

SHAREHOLDER INFORMATION

Annual General Meeting	Thursday 12th February 1987
Results	Preliminary announcement – December Announcement of half year results – June
Dividends	*Ordinary shares:* Interim dividend – announced June, paid 30th September Final dividend – announced December, paid 1st April *Preference Shares:* Dividend paid 31st March and 30th September

Ownership of Ordinary shares
at 17th December 1986

	Number of shareholders	%	Number of ordinary shares	%
			000's	
Size of Shareholding				
1-1,000	307	32	150	0.5
1,001-5,000	413	42	1,020	3.7
5,001-10,000	77	8	542	1.9
10,001-50,000	82	9	1,846	6.6
50,001-100,000	31	3	2,252	8.1
100,001-250,000	39	4	6,448	23.1
250,001 and over	21	2	15,629	56.1
	970	100	27,887	100.0
Category of owner				
Insurance companies	22	2	3,793	13.6
Pension funds	42	4	15,672	56.2
Other corporate bodies	94	10	3,040	10.9
Private	812	84	5,382	19.3
	970	100	27,887	100.0

THE YEAR AND ITS EVENTS

Nineteen eighty-six will be remembered as the year of the Lovell Bicentenary. It was a year which touched people in many walks of life.

Fittingly, early in January 1986, the first business to be won represented a return to Lovell roots, with the award of a contract to build a new United Kingdom HQ for Liebert Ltd in Marlow where the Lovell story began. A commemorative plaque was laid by Liebert MD Mike Tucker (1).

In celebrating its 200th Anniversary, Lovell cast the net wide.

Sites were encouraged to display the green and yellow Bicentenary bunting of flags and banners (2). Monthly awards were made to those that had the most impact. London taxis (3) carried the special Bicentenary message 'Two centuries strong and building' in place of their usual Lovell advertising.

Lovell staff had a permanent memento in the form of glassware engraved with their names (4).

It was through staff initiatives that in June an attempt in aid of charity was made to swim the English Channel (5). Although falling a tantalising four miles short of Cap Gris-Nez – even after nearly 30 miles – the Lovell team was rewarded in sponsorship to the extent that the £15,000 target was comfortably beaten. The money will provide pioneering equipment for the National Spinal Injuries Centre at Stoke Mandeville Hospital.

A travelling exhibition, based on the Lovell historical brochure, provided an appropriate background to several toppings-out, seminars and special Bicentenary functions such as the provincial theatre tour of Noel Coward's "Present Laughter", one of many marketing events Lovell sponsored during the year.

Throughout the year, there were presentations of Lovell Bicentenary glassware to every 200th purchaser of a house built by Lovell Homes (6). These gifts comprised a lead crystal decanter and matching glasses on a mahogany gallery tray.

On behalf of the Lovell Group, the Lovell chairman had the honour of being formally presented with the Letters Patent of the Armorial Bearings – the Lovell coat-of-arms – by the York Herald of Arms at the Guildhall on 28 May.

As retiring President of the Chartered Institute of Building Norman Wakefield fully lived up to the Lovell motto 'Accepting All Challenge', for it was a very busy year... In his CIOB capacity, he spoke at several conferences – including chairing 'Refurbishment and Conservation' at the 1986 Building Industry Convention at Brighton in April – and was host to the Prime Minister, The Right Honourable Margaret Thatcher (7), during her visit to the Institute's headquarters at Ascot in the same month.

In February, Group financial director Jim Laing added the position of deputy chairman to his existing responsibilities, an appointment which will enable chairman Norman Wakefield to continue his high-profile position in the industry, something which is of enormous benefit to the Lovell Group as a whole.

Two special Lovell/CIOB Travel Awards, to promote further research into urban renewal, were won by Deborah Bartlett (8), an architect with Jefferson Sheard & Partners, and Philip Quine, a consultant with KMG Thomson McLintock.

Awards for craft and technical excellence are an important part of the Lovell calendar. Of 280 young people under training, 42

Above: two toppings out: at Allington Towers, for Sun Alliance and at Guildhall House for the Corporation of the City of London

Above: The historical exhibition was much in demand, in this case at a Cardiff seminar attended by RPD director Jim Greaves, left, and the Rt Hon Nicholas Edwards, Secretary of State for Wales.

received prizes at the annual presentation ceremony in November.

In August, 12 Lovell trainees completed the 1986 Lovell Apprentice Project to convert a barn at Willsbridge Mill near Bristol into a field study centre for the Avon Wildlife Trust, following the opening of the county's first Wildlife Visitor Centre on the premises earlier in the year (9).

Lovell featured in the NHBC 'Pride in the Job' awards, the honours going to three site managers: Tom Cotter of Lovell Homes Southern ('Greenways', Uxbridge), Stan Graham of Lovell Homes Midland ('Minsters', Bedworth) and Brian Witheridge of Rendell Partnership Developments ('Baltic Wharf', Bristol).

The Lovell Group's impressive safety record – reportable accidents in 1985 were down to an incidence rate of 16.9 per 1,000 employees compared to a national industry average of 40.7 – was acknowledged with a Gold Citation from the British Safety Council. From this assessment, Lovell emerged as being in the top 50 of the world's safest companies! Within the Group, Walter Lilly won the Accident Prevention Shield with an incidence rate of 7.16 representing just one reportable accident (10).

At the end of 1985, a divisional company, Lovell Partnerships, was formed to co-ordinate the fast-developing commitments of the Group to broader aspects of partnership development, both on 'greenfield' sites and in urban renewal.

PROBE, one of the companies within the Division, is itself a partnership, in which two of the country's largest building societies, Halifax and Nationwide, have made funding of up to £150 million available for approved schemes, carried out either by Lovell or by other developers.

Through a PROBE initiative, an agreement has been signed (11) to acquire, develop and exchange four areas of land and buildings in and around Swindon, in partnership with Thamesdown Borough Council.

Rendell Partnership Developments, the pioneer of partnership schemes with local authorities, celebrated the completion of the 5,000th Lovell partnership house with a special ceremony in August at the highly acclaimed Baltic Wharf development in Bristol (12). The Minister of State for the Environment, Countryside and Local Government, the Honourable William Waldegrave, MP, presented a commemorative scroll to the new owners and unveiled a Stephen Cox sculpture on the waterfront.

At the other end of the country in August, at Mickle Trafford near Chester, Rendell Partnership Developments staged another special ceremony, in which the Mayor of the City of Chester, Councillor Mrs Dolores Whitton, presented keys to the owners of one of the first houses to be completed in this 47-home scheme built in conjunction with the Council of the City of Chester and the Birmingham Midshires Building Society (13).

A large, bronze sculpture by Keith McCarter in a basement garden is one of many intriguing features of the major development at New City Court which was completed during the year. Near London Bridge, New City Court comprises 130,000 ft^2 of air-conditioned office space and 276 residences for nursing staff of the adjacent Guy's Hospital.

Churchill Plaza, a 15-storey office tower at Basingstoke, was the scene of a new UK height record for Lovell Construction (Southern) for pumping lightweight concrete. On the occasion of the topping-out in July by John Beckwith, Chairman of London & Edinburgh Trust plc, the Lovell symbol was set side-by-side with the Churchill Plaza logo, in coloured mortar on the roof.

At Queen Victoria Street, near London's Blackfriars Bridge, where Lovell Farrow Construction was building a six-storey office block for London Regional Transport, the topping-out was performed in January by LRT Chairman and Chief Executive Dr Keith Bright (14). The project was also the winner in the Bicentenary site signage competition.

In the centre of Kingston-upon-Thames, where Lovell Construction (Southern) has a multi-million pound offices, shops and flats contract with St Martins Property Company, a ground-floor tenant, Pickfords Travel, was able to take possession of one of the shop units early in the programme, which included demolition of the firm's former premises.

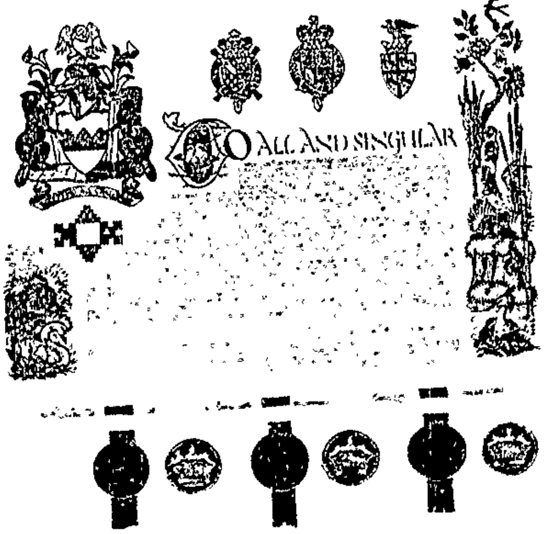
Private medicine is to have a new facility at Chelmsford, following the award of a contract to Lovell Construction (Northern) to build the Springfield Medical Centre for Community Hospitals plc. For nursing, Lovell Construction (Southern) is building a

15. The year began with a cake-cutting.

16. The Minister for Housing, Urban Affairs and Construction, John Patten, MP, at a Kingston completion.

17. School parties are regularly shown around sites.

18. The Lovell armorial bearings.



nursing home at Tadworth for Bondray Construction Ltd.

At Tunbridge Wells in April, the Chairman of Private Patients Plan, Sir Peter Gadsden, unveiled a plaque to open a six-storey building which has doubled the size of his company's head office. Main contractors, Lovell Construction (Southern), earned special praise for producing "an attractive and economical building and for coping with the weather of two appalling winters..."

CONSTRUCTION DIVISION: QUALITY LEADS THE WAY

"Do it right, and you don't have to put it right," sums up the Lovell approach to standards of quality.

Inescapably part of a national building industry which has been responsible for an estimated £60 billion of defective work since 1948 (BRE Survey), Lovell is tackling the problem head-on.

Currently under evaluation is a method of auditable checks devised by Group quality control director John Cooper. Every item of work on a project is put on a Quality Checklist, together with the mandatory specification. When a subcontractor or tradesman finishes an item, it is signed as complete and dated. This work is then checked by a Lovell section foreman who passes it if OK. If it is not, the fault will be corrected before approval is given.

"By preventing faults or, at worst, correcting them straight away, we avoid major defects," said John. "We want to get away from 'appraisal' checking and into a more controlled and disciplined method of ensuring quality."

Among other projects, the method is being put into practice at Churchill Plaza, the prestigious 15-storey office building at Basingstoke built by Lovell Construction (Southern).

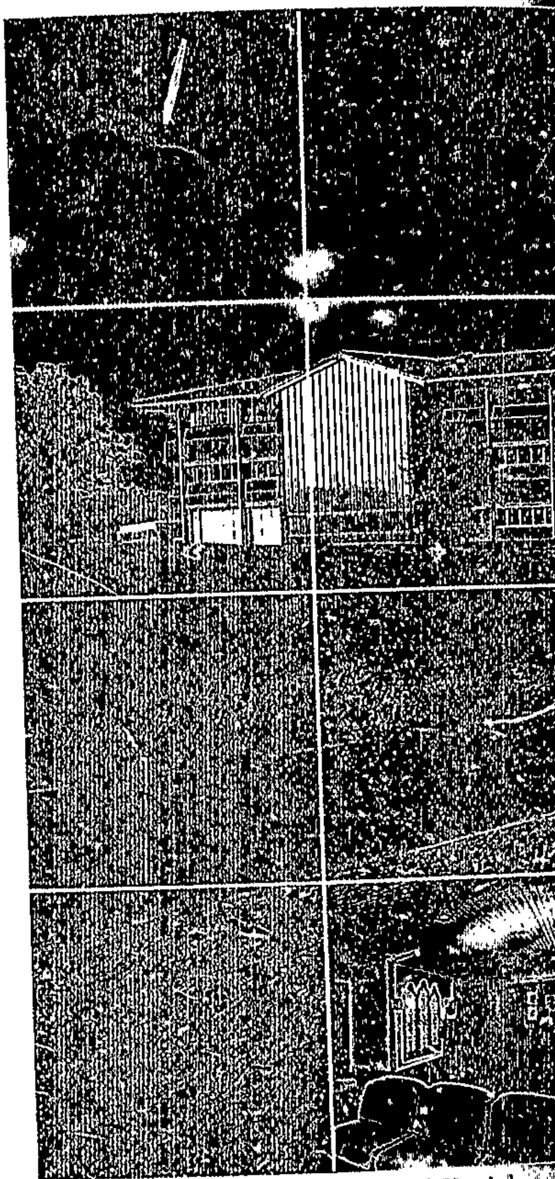
Past halfway in the Churchill Plaza contract, no items of rework had been necessary.

Lovell Construction (Northern) has finished a new 6,800 m^2 research and development facility for Prime Computers (UK) Ltd at Milton Keynes. The three wings of the T-shaped building were provided with extension 'sockets' to allow a quick link for follow-up construction.

In continuation of the work for Warrington and Runcorn Development Corporation, Lovell Construction (Northern) completed 27 industrial units in Birchwood 47, a scheme on Birchwood Boulevard which attracts mainly high-tech industries. Under a management contract, the company refurbished a large engineering workshop and converted it into a modern manufacturing facility for GKN Sankey Ltd at Telford.

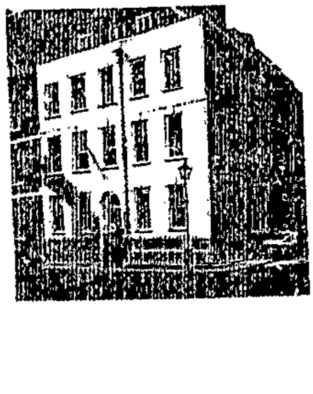
At Camberley, Lovell Construction (Southern) completed a design-and-build contract for new Civic Offices and a Cultural Suite for Surrey Heath Borough Council. The design and engineering were carried out by Lovell Construction Services in conjunction with the professional consultants. The new 5,800 m^2 complex incorporates highly stylised brickwork, intricate ridge-and-valley roof tiling, GRP semi-circular dormers and an atrium entrance.

Office projects have been in progress by all

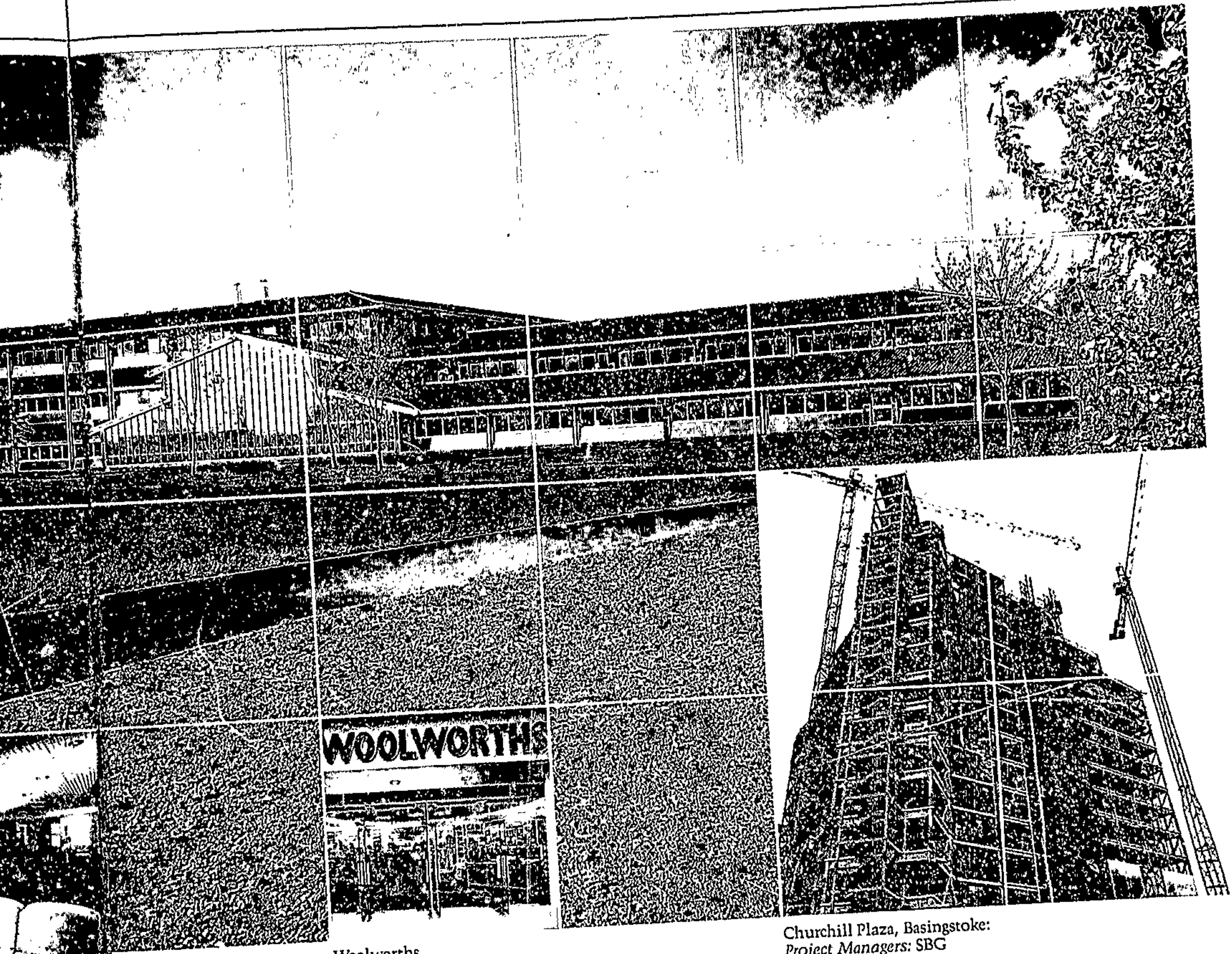


Prime Computers, Milton Keynes: *Architects:* Hobbs Architects Ltd *QS:* Henry Cooper & Sons *Struct Engs:* Ove Arup & Partners *Mech/Elec Engs:* Environmental Partnership

South Bank Hospital, Worcester: *Design & Engineering:* Lovell Construction Services in association with Integrated Design Group (Architects) *Project Managers & QS:* Frankland International Ltd



Queen Anne's Gate, London: *Architects:* Golding Ruddell Partnership *Struct Engs:* Baxter & Glaysher *QS:* Campbell & Matthes



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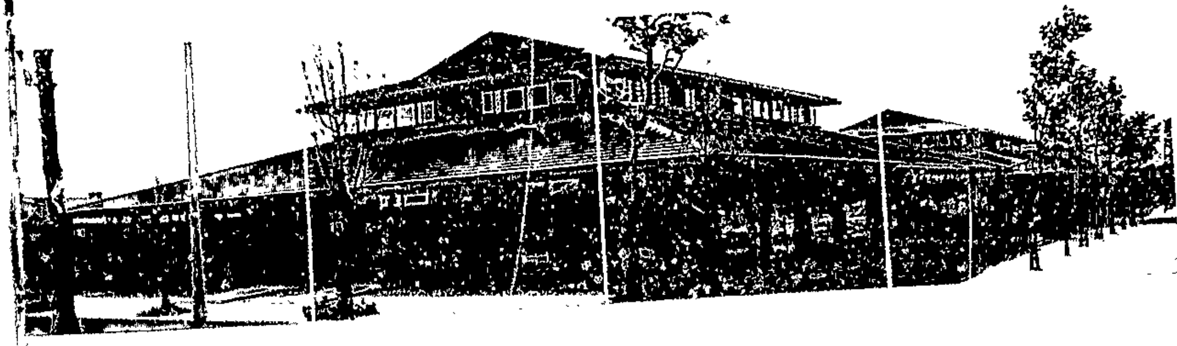
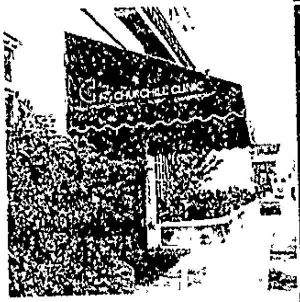
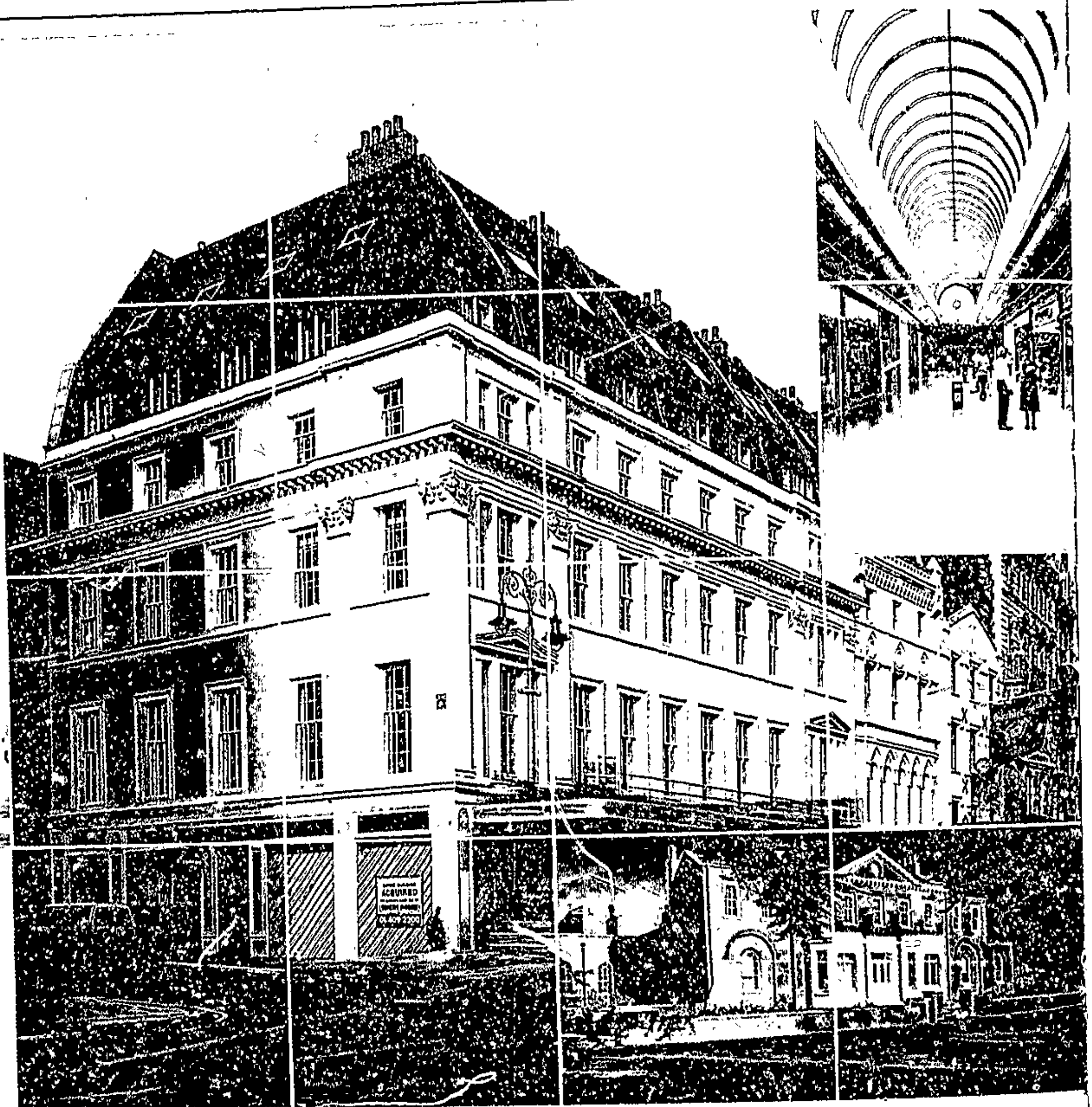
Woolworths,
Winchester:
Project Manager: Cyril Sweett and Partners
Architects/Engineers/ QS: Cyril Sweett and Partners

Churchill Plaza, Basingstoke:
Project Managers: SBG Management Services
Architects: Hamilton Associates
Struct Engs: Mott, Hay & Anderson
QS: Bucknall, Austin & Partners
Service Engs: FC Foreman & Partners



Birchwood 47,
Warrington:
Architects: Warrington & Runcorn Development Corp
QS: WRDC
Struct/Civil Engineers: W G Curtin & Partners
Services Engs: R W Gregory & Partners





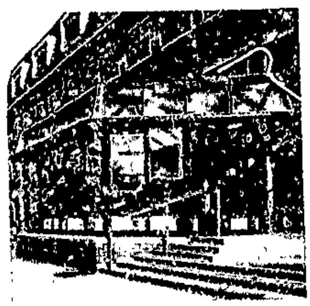
Churchill Clinic, London:
Architects: Devereux & Partners
QS: Langdon & Every
Engineers: K A Marshall & Partners

Burleigh House, Strand, London:
Architects: Lyons Sleeman Hoare
QS: P A Fisher & Partners
Engineers: L V Ingram & Partners

Harrow Weald Lodge, Harrow:
Architects: B E Architects Ltd
Engineers: Andrews Kent & Stone
QS: Gardiner & Theobald

Central Development, Buxton:
Architects: Shingler Risdon Associates
QS: H G S Groves & Partners
Engineers: L G Mouchel & Partners

Leys House, Guildford:
Architects: The Miller Partnership
Engineers: Dinardo & Partners
QS: Hugh M McLaren and Carson



Ashdown House, Crawley:
Architects: Douglas Mariott, Worby & Robinson
Struct Engs: R H Thomason & Partners
QS: Pritchard Williams & Hunt

Lovell construction companies during the year. In London, Lovell Farrow Construction is converting the Bath Club in Mayfair for Wheatsheaf Investments and is building new seven-storey offices for the Corporation of the City of London at Gresham Street, EC2. In the Strand, Burleigh House, a six-storey building with a retained facade, was completed for NFC Properties Ltd, and Allington Towers is approaching completion near Victoria Station for Sun Alliance. In nearby Queen Anne's Gate, Walter Lilly has refurbished property for Wyndham Investments Ltd. At Leatherhead for the same client, Lilly completed a luxury headquarters building in a pagoda style, with overhanging eaves and cedar-boarded soffits among the enhancing features.

New offices in Georgian style, convincing enough to be taken as a refurbishment, are the result of some skilful work by Lovell Construction (Southern) for Arundell House Securities Ltd in Kings Road, Reading. Attractive brick-clad offices in a modern style were completed by the Southern company at Crawley for Prudential Assurance Society and at Guildford for Scottish Mutual Assurance Society.

London Regional Transport appointed Lovell Farrow Construction to build a six-storey office block in Queen Victoria Street, London EC4 and to renovate the offices at 55 Broadway, SW1. Work for London's Underground is also being carried out, highlighted by the award of a £6 million plus contract for fire safety works at several underground stations. The extension to the tube network at Heathrow Airport to Terminal 4 required a rapid fitting-out contract to prepare for the grand opening by the Prince and Princess of Wales.

In another transport connection, Lovell Construction (Northern) has been awarded contracts to build multi-storey car parks – at Ipswich, for National Car Parks Ltd, and at Chelmsford for Chelmsford Borough Council.

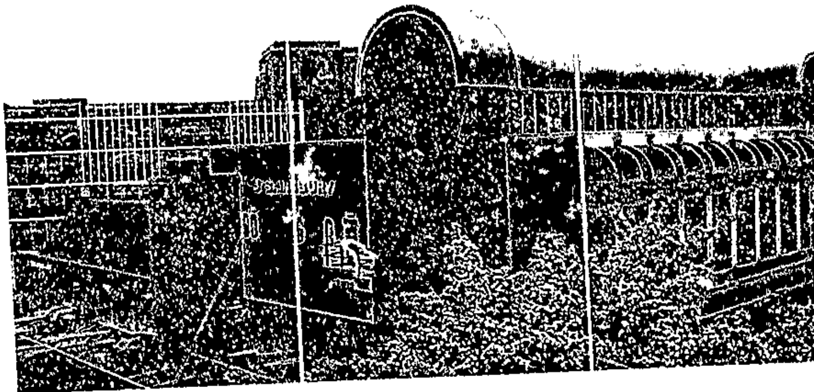
Towards the end of the year, Britel Developments (Bracknell) Ltd awarded a £7 million contract to build four large units at Mill Lane, Bracknell to Lovell Construction (Southern). Civil engineering works, to lay roads and sewers for the new Chineham Business Park at Basingstoke, feature in the company's completed works.

Some 40,000 m³ of material was removed by Lovell Construction (Northern) in the early stages of the contract to build the Royal Priors shopping centre in Leamington Spa for MEPC plc, in partnership with Warwick District Council. This excavation was necessary to underpin surrounding buildings and effect the construction on the sloping site which will accommodate a two-level shopping mall with a glazed, barrel-vaulted roof and a 500-space multi-deck car park.

Among retail completions was the new Sainsbury supermarket at High Wycombe. Built and fitted-out by Lovell Construction (Northern), its gross area amounts to over 6,000 m². A Gateway supermarket at Alcester was approaching completion at the end of the year, another building and fitting-out contract awarded to the Northern company, which also carried out the two-phased Buxton Central Development for Amalgamated Developers (Buxton) Ltd.

Lovell Construction (Northern) completed for Boddingtons Breweries Ltd, an extensive programme of alterations and refurbishment to the Royal Central Hotel, a distinctive Victorian building in the centre of Manchester. Great care was taken to preserve the character of this popular lunchtime venue, which now includes an elaborate dining gallery over the pavement.

South Bank Hospital, Worcester, completed by Lovell Construction (Northern) for HCA United Kingdom Ltd, received its first patient early in 1986. In London, Lovell Farrow



Sainsbury's, High Wycombe:
Architects: Sainsbury's
QS: Henry Riley & Son
Engineers: Ernest Green Partnership Ltd

Construction built a six-storey extension to the Churchill Clinic, incorporating a magnetic resonance imaging suite, in a management contract for Harvestcare Ltd. Laminated steel shielding was installed around the scanner room.

For Bruel & Kjaer (UK) Ltd, makers of vibration and noise monitoring instruments, Lovell Farrow Construction met stringent standards of sound insulation by incorporating lead lining into some of the partition walls and around plant in its contract to convert and refurbish the historic Harrow Weald Lodge.

PARTNERSHIPS DIVISION: ESTABLISHING LEADERSHIP

Urban regeneration is almost always housing-led, and initiatives are increasingly dependent on an appropriate blend of public and private resources.

As a pioneer of partnership housing – in which local authority land is made available for privately funded, low-cost residential development – Lovell established, at the end of 1985, a divisional company, Lovell Partnerships Ltd. Aims of the Division are to develop further the established partnership housing market – mainly on 'greenfield' sites – and to co-ordinate the fast-developing commitments of the Group to broader aspects of urban renewal.

Lovell Partnerships comprises four companies: Lovell Urban Renewal, Rendell Partnership Developments, Lovell Retirement Homes and PROBE (Partnership Renewal Of the Built Environment).

Through PROBE, an agreement has been signed to acquire, develop and exchange four areas of land and buildings in and around Swindon, in partnership with Thamesdown Borough Council. This will provide the means for a community complex, a health facility for the handicapped, public open space and 300 new homes for single people, first-time buyers and the elderly.

Funds generated by the housing developments will be used by PROBE under the direction of Thamesdown BC to carry out the works necessary to effect the community projects.

Part of the Buchanan's Wharf site, showing the degree of initial disrepair.

During the year, partnerships and urban renewal have been working in close harmony for a number of Lovell schemes, highlighted by the completion of the much acclaimed Baltic Wharf development in Bristol. This once-derelict timber wharf is now a thriving mixed community of 272 private houses, flats and local authority elderly persons' accommodation in a superb waterfront setting. It was developed by Rendell Partnership Developments, the Bristol & West Housing Association and Nationwide Housing Trust in conjunction with Bristol City Council.

With exhaustive preliminary tests having reached a successful conclusion, work began on the conversion of two 100-year-old, seven-storey grain warehouses at Buchanan's Wharf in Bristol. Of the 135 flats, bedsitters and penthouses in the development partnership between Lovell Urban Renewal, Bristol & West Housing Association and Bristol City Council, 63 dwellings are to be in the converted warehouses. The remainder are to be in adjacent new-build, which was incorporated to make the scheme viable.

At Ferrara Quay, Swansea, where Lovell Urban Renewal is developing a waterfront site in conjunction with the City of Swansea and Nationwide Housing Trust, buyers have been quick to make reservations in the new maritime village. The scheme comprises 249 flats and maisonettes, 30 houses, seven shops and a kiosk, while associated amenities include shopping and leisure centres and a yachting marina.

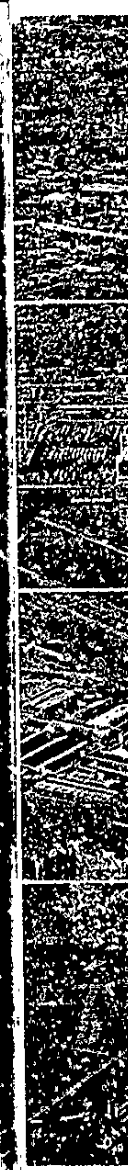
In a continuing series of developments in London's Docklands, Lovell Urban Renewal is progressing residential and commercial schemes at Surrey Quays. Show homes have been opened here and at Marlow Landings.

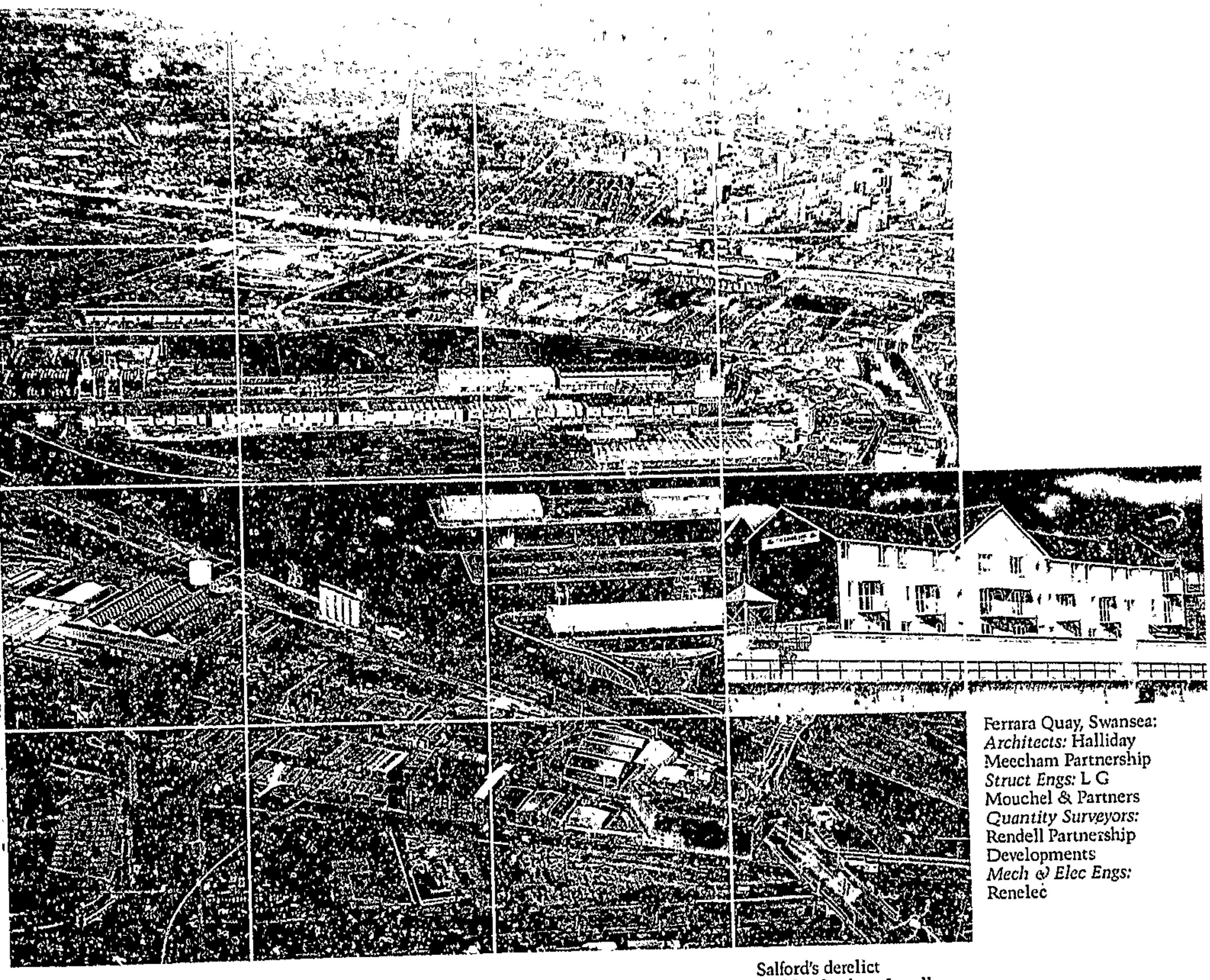
Much interest has been generated in the enlightened form of development offered by partnership schemes and the benefits have been given a wider audience through conferences and seminars.

In Cardiff, Lovell Partnerships, in association with the Royal Town Planning Institute (South Wales), organised 'Integration of Public and Private Sector Resources', for which the theme was urban renewal. The key speaker was the Secretary of State for Wales, the Right Honourable Nicholas Edwards, MP for Pembroke. His remarks were reinforced by George McDonic, President of the RTPI national office, Freddie Watson, Assistant Secretary at the Welsh Office (who spoke on Urban Development Grants) and David Weeks, marketing and business development manager for PROBE.

Rendell Partnership Developments organised a seminar, 'Partnership in Action', in conjunction with the West Sussex Chief Housing Officers Group. Held in Brighton, the guest speaker was Sir George Young, Under Secretary of State for the Department of the Environment.

John Patten, MP, Minister for Housing, Urban Affairs and Construction, unveiled a plaque to mark the official completion of a development of 152 houses and flats by Rendell Partnership Developments at Kingston-upon-Thames in conjunction with the Royal Borough. In providing homes for almost 400 people, this community scheme is the most ambitious ever undertaken by the Borough.

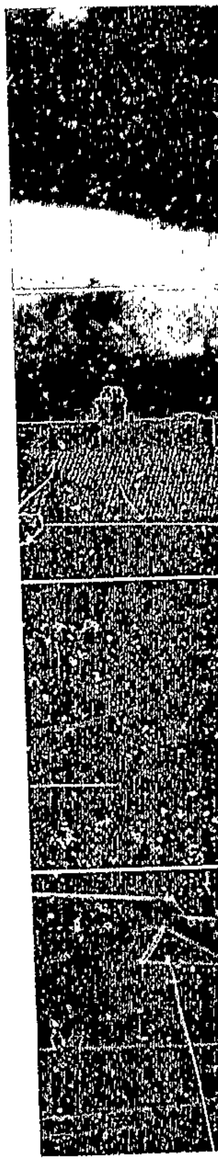




Ferrara Quay, Swansea:
Architects: Halliday Meecham Partnership
Struct Engs: L G Mouchel & Partners
Quantity Surveyors: Rendell Partnership Developments
Mech & Elec Engs: Renelec

Salford's derelict dockland, where Lovell Urban Renewal is to build 269 homes on a 9.2 acre site in partnership with the City Council and the Halifax Building Society.

Baltic Wharf, Bristol:
Architects: Halliday Meecham Partnership
Struct Engs: Smith Withers & Partners
QS: Rendell Partnership Developments

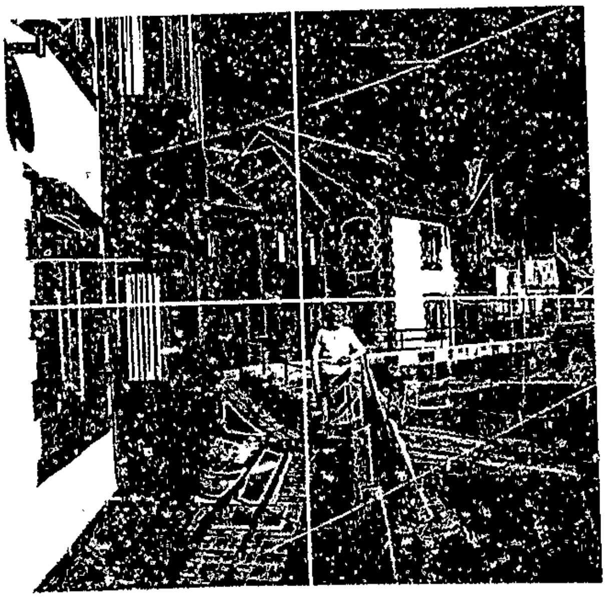


During 15 years, Rendell Partnership Developments has worked with some 50 local authorities on more than 90 schemes.

In recent years, retirement housing has been accounting for a larger proportion of partnership developments, with refinements incorporated in successive schemes. Two completed this year – at Countess Court, Amesbury and Alver Quay, Gosport – share several features. Both offer self-contained, one- and two-bedroom all-electric accommodation, speech-linked to the home of a resident secretary.

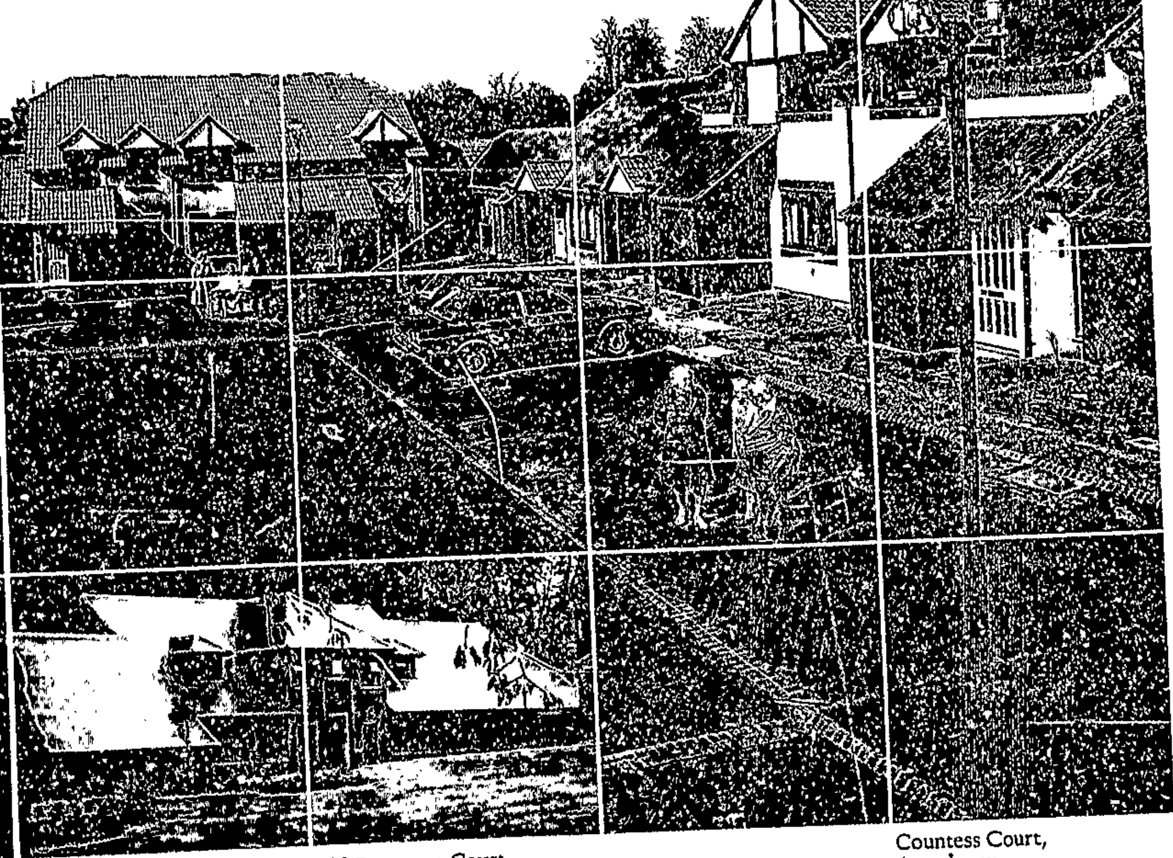
Managed by Guardian Housing Association, the schemes offer attractive environments: a cottage-style courtyard arrangement at Countess Court (developed jointly with Nationwide Housing Trust) and a galleried, waterfront setting at Alver Quay.

Lovell Retirement Homes is another company meeting the needs of retirement accommodation, in this case primarily through private developments in the middle-to-top end of the market. At Old Parsonage Court, West Malling, Kent, almost all the homes have now been sold and at Home Farm Court, Frant, Sussex, 28 luxury cottages in a rural setting have recently become available. A third scheme, at Birchington, near Margate, is also in progress. Like its predecessors, it has the homes set around a landscaped courtyard.



Alver Quay, Gosport:
Architects: The Architectural and Planning Partnership in conjunction with Rendell Partnership Developments
Engineers and QS: Rendell Partnership Developments
Local Authority: Borough of Gosport

Courtland Villas,
Thamesmead:
Architects: Andrews
Downie and Partners
Engineers: Lovell
Construction Services



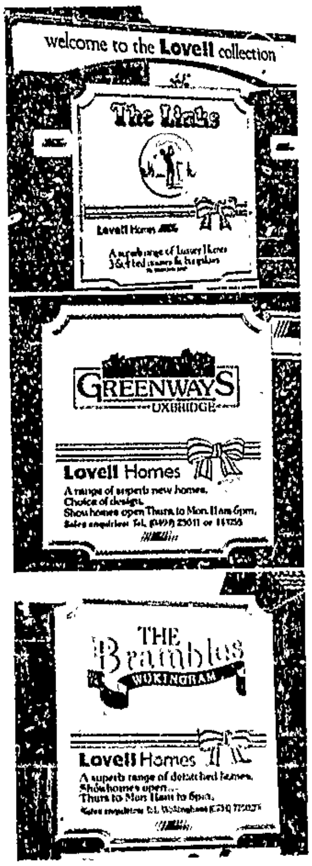
Old Parsonage Court,
West Malling:
Architects: Hodson
Rivers & Associates
(concept)
Lovell Construction
Services (detail)
QS: Poole, Stokes &
Wood
Engineers: Lovell
Construction Services

Countess Court,
Amesbury:
*Architects/Engineers/
QS:* Rendell
Partnership
Developments

Home Farm Court,
Frant:
Architects: Hodson
Rivers & Associates
(concept)
Lovell Construction
Services (detail)
QS: Poole, Stokes &
Wood
Engineers: Lovell
Construction Services

RESIDENTIAL DEVELOPMENT SEES MARKETING-LED EXPANSION

Woodlands, Bracknell.



Residential development, represented by the regional activities of Lovell Homes, is at an all-time high. A record number of private homes were sold during the financial year and in excess of 50 developments are on stream at any one time.

Occupation of every 200th home completed by Lovell Homes in the Bicentenary Year was accompanied by the presentation of a lead crystal decanter and matching glasses for the lucky new owners.

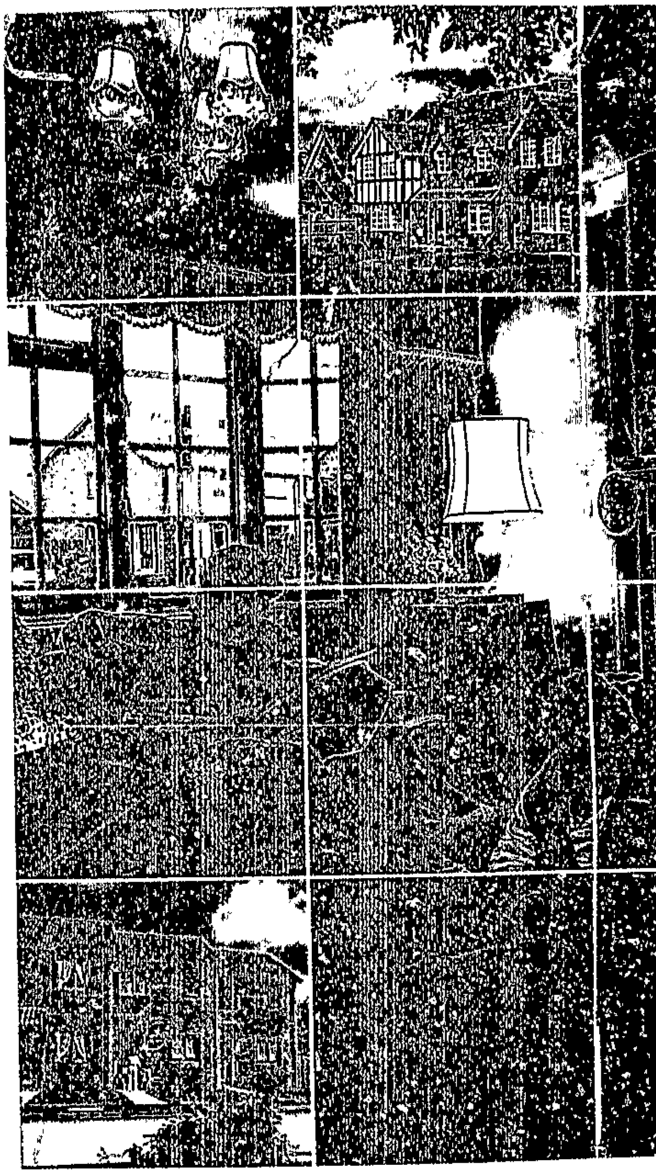
Recipients of the award for the 1,000th home were purchasers at the 'Greenways' development at Uxbridge, where the first couple to make a reservation spent all night in their car to be sure of ownership. The popularity of a Lovell home was also strongly in evidence at Bedworth, near Coventry, where 11 of the 14 houses released in the 48-home development were reserved within 36 hours; and at 'Windsor Meadows', Slough, where long queues formed before the sales office had opened.

New-look signage has added an even keener edge to the presentation of show centres to the buying public. A softer image, more suited to the consumer market, has been created, while the strong Lovell corporate identity has been maintained.

During the year, Rendell Homes moved to Chippenham and now trades as part of Lovell Homes Western, a region where there has been considerable activity. Much of this has been in Avon: site manager Ray Smith was presented with a commemorative tankard by Lovell Homes Western MD Tony Williams for laying his 800th house foundation in this county alone!

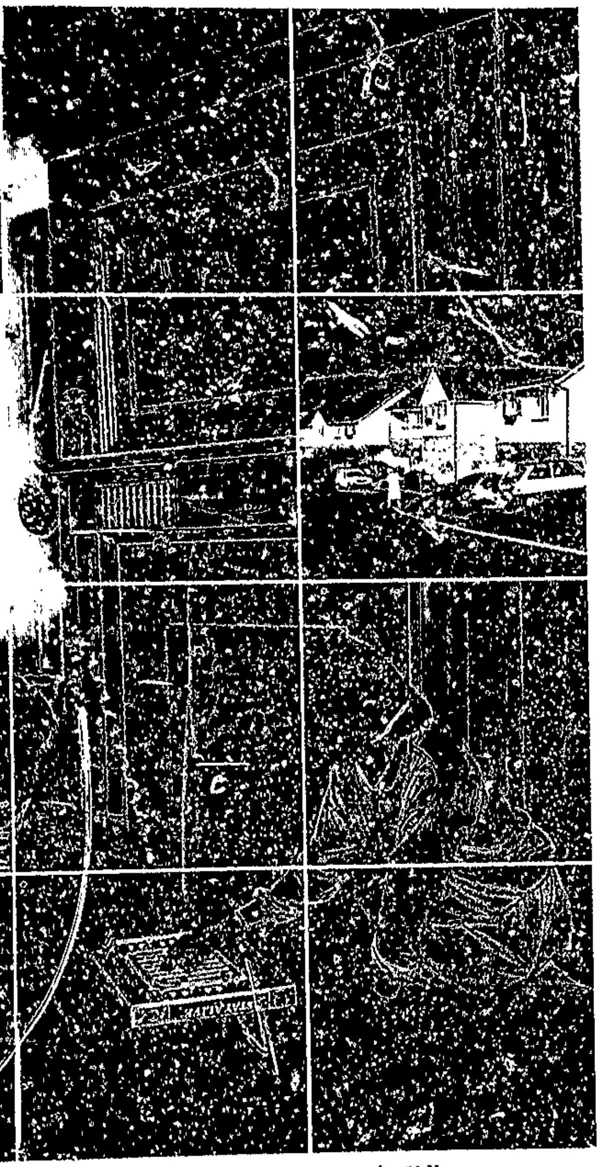
One of the largest developments has been Warmley, Bristol, where new phases of housing are following on from those currently being marketed. Other starts include Weston-super-Mare and Yatton, while developments have been completed at Weston and Nailsea. Show homes at Greycoat Lodge near Weston were opened with the help of television's popular character Danger Mouse, to the delight of the children who came along to enjoy the Lovell Homes open day.

Lovell Homes Midland consolidated its territory, opening new offices in Northampton with Alan Bartley as manager.



Greenways, Uxbridge. Coates Manor, Nailsea.

Four Oaks, Sutton Coldfield.



Inside: Manor Park, Sutton Coldfield.

Lincombe Valley, Ilfracombe.

From its Tamworth base, the company has completed developments at Bournville and Stratford-upon-Avon. New sites in progress include those at Northampton, Rushden and Gloucester.

The Windsor Meadows scheme in Slough is a continuing phased development for Lovell Homes Southern. Penn and Oxted have been the scene of new housing starts, while Forest Gate, Crawley has been completed.

Apartments at Enfield and houses at Leigh-on-Sea are among completions by Lovell Homes Eastern. New sites include Thamesmead, where other Lovell divisions have also been active, and Sittingbourne, Kent. Elderly people at the Day Centre of Rayleigh Age Concern had a taste of the building industry by courtesy of Lovell Homes Eastern when a '200' cake commemorating the Lovell Bicentenary was presented for their consumption.

Pinner and Northwood have seen completions by Lovell Homes London, the region responsible for new starts in Chiswick, South Northwood, Uxbridge and Haywards Heath.

Lovell Homes companies have been prominent among major housebuilders who participate in the Electricity Council's Medallion Award scheme. At a special function at the House of Lords, Homes business development director Peter Bailey was presented with an award which recognised the Lovell Homes achievement.

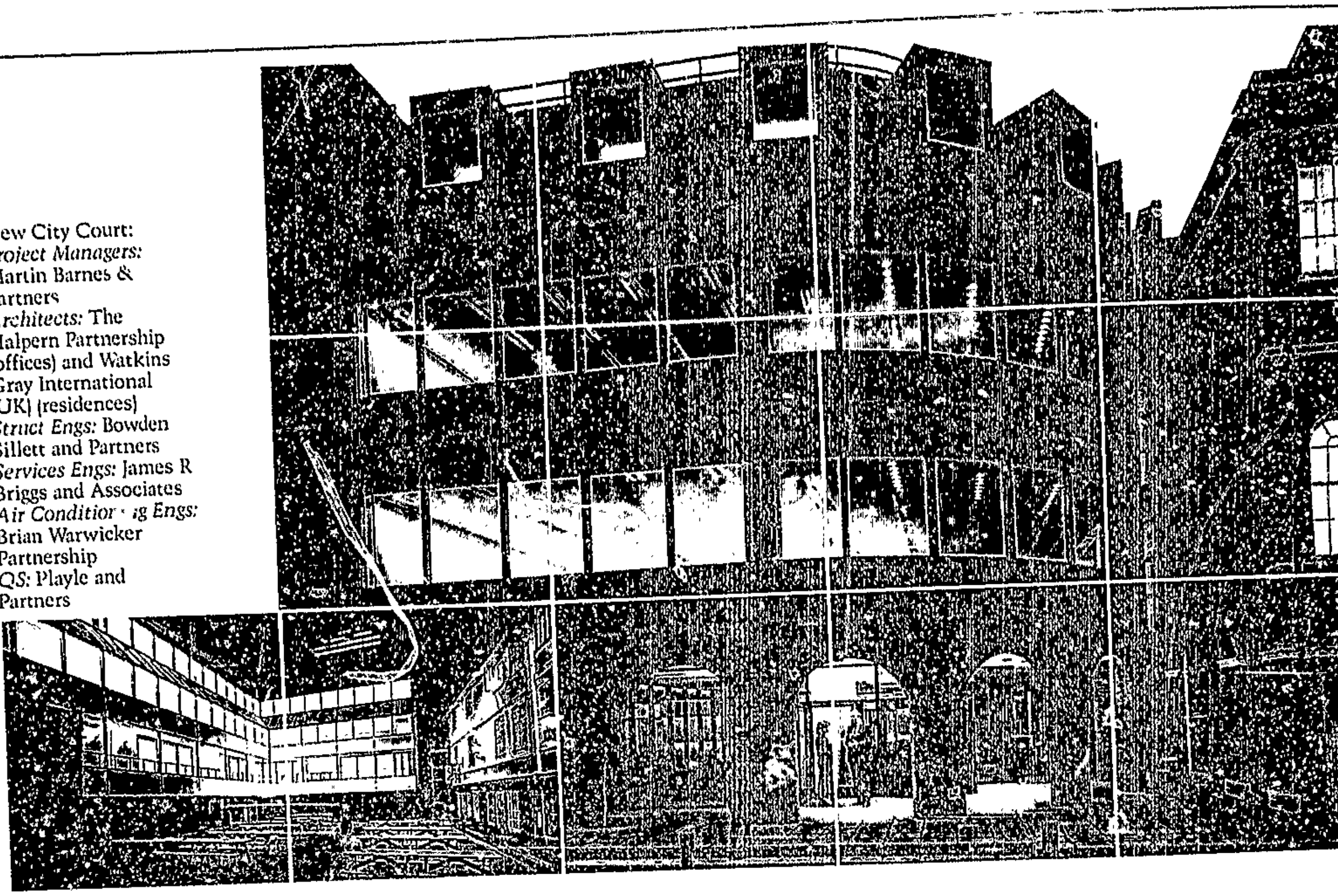
During the year Jim Standen was appointed MD of Lovell Homes Southern.

A new programme, Technical and System Control or 'TASC', to unify all the Lovell Homes regions' internal systems and methods, has been put into operation.

Training courses, such as the three-day 'Financial Management for House-builders', are held regularly, many in conjunction with other Lovell Group companies.

Monthly staff briefings by Lovell Homes directors are seen as an essential part of the internal information process, with the ultimate aim of providing a better service to customers. Land purchases, current house sales and future plans are on the agenda for discussion.

St. Mary's, Painswick.



New City Court:
Project Managers: Martin Barnes & Partners
Architects: The Halpern Partnership (offices) and Watkins Gray International (UK) (residences)
Struct Engs: Bowden Sillett and Partners
Services Engs: James R Briggs and Associates
Air Conditioning Engs: Brian Warwicker Partnership
QS: Playle and Partners

With the completion of New City Court, a £20 million scheme of office development near London Bridge, Lovell demonstrated the value of an equity-sharing partnership linked to the role of management contractor.

Looking beyond traditional contract forms at the outset Lovell, through Lovell Developments Ltd, took a 25 per cent stake in the development company Corfield Properties, a subsidiary of Chesterfield Properties plc.

Now fully let, with tenants such as Lloyds Bank and Savory Milne, New City Court cleverly evokes the traditional character of Southwark, with a rich blend of new-build, refurbishment and facade-retention. Even the original narrow street lines have been exactly preserved. Total office accommodation is in four blocks and amounts to almost 130,000 ft². Also included in the scheme is a six-storey residence for 276 nurses from nearby Guy's Hospital.

In another joint development, at Basingstoke, Lovell Developments is a partner with London & Edinburgh Trust plc and City Merchant Developers Ltd to build the 135,000 ft² Churchill Plaza, a spectacular 15-storey office building in the centre of the town. Beneath the blue-glass office tower is a three-storey podium with parking for 450 cars.

The largest speculative office development in Hampshire for six years, Churchill Plaza is due for completion early in 1987.

High-tech units, specifically designed for the technological age, are in progress at Stoke Road, Slough. Close to Slough station and the M4, the 15,000 ft² scheme is within sight of 'The Pavilions', a recently completed high-tech development in Stoke Gardens.

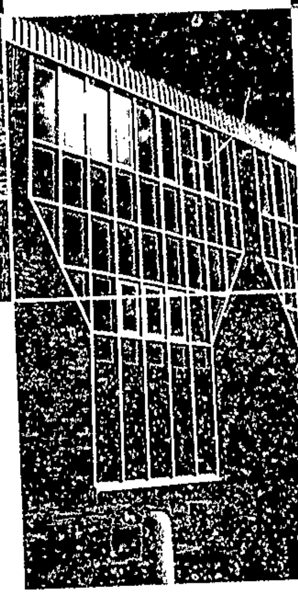
Opposite the Lovell Group headquarters in Gerrards Cross, another Lovell Developments initiative has produced an attractive new office block built by Lovell Construction (Northern). Accommodation amounts to 6,970 ft², with 25 on-site parking spaces.

Continuity of design is apparent in the High Street, Uxbridge where Lovell Developments and Sun Alliance joined forces for the redevelopment of former shop units into two-storey shops and offices built by Lovell Farrow Construction.

Let in its entirety to Midland Bank, the new building is next to an office project

Station Road, Gerrards Cross:
Letting Agents: Hillier Parker May and Rowden
Architects: Hutchison Locke & Monk
Struct & Mech Engs: Lovell Construction Services
QS: Silk and Frazier
Main Contractors: Lovell Construction (Northern)

High Street, Uxbridge:
Architects: Ketley Goold Associates
Struct Engs: Lovell Construction Services
QS: Davis Belfield & Everest
Main Contractors: Lovell Farrow Construction



The Pavilions, Stoke Gardens, Slough:
Joint Sole Letting Agents: Conrad Ritblat & Co and Richard Ellis
Architects: Salmon Speed Architects
Struct Engs: R Travers Morgan & Partners
Mech & Elec Engs: Voce Case & Partners
QS: Nigel Rose & Partners
Main Contractors: Lovell Construction (Northern)

completed by Lovell Developments in 1984. The two buildings share several design details and both complement the much-acclaimed adjacent Hillingdon Civic Centre, from which the courtyard idea has been adapted, thus providing a wider theme for both High Street developments.

Situated close to the junction of the M40 and M25, Uxbridge is increasingly being sought after as a commercial base. With a new development close to the town centre, Lovell Developments is providing a three-storey office building and adjacent small block of flats to help meet the demand. There will be some 13,250 ft² of lettable office space to a high specification, including computer flooring and air conditioning. Main contractors are Lovell Farrow Construction and completion is expected in April 1987. To celebrate the Bicentenary, the building will be called Young James House.

Final completion of the two-phase Wokingham development – which has involved Lovell Developments in an assembly of freehold and leasehold sites in Broad Street – will be towards the end of 1987. The first phase, to refurbish existing office and residential premises, was completed during the summer. The second phase is a courtyard development comprising a new three-storey office building of 9,700 ft² gross.

Two other major Lovell Developments schemes are about to begin: the redevelopment of Denham Bus Garage near Uxbridge as a headquarters type facility and 'The Spires' shopping centre in Barnet, Herts.

PLANT HIRE GROWTH: THE TERRITORIAL IMPERATIVE

Planned expansion has been the watchword for LPH Equipment. New plant depots have become firmly established and substantial purchases of new equipment have considerably extended the range.

Following on from the acquisition of depots at Potters Bar and Southend, reported in last year's Report and Accounts, coverage has been further strengthened with the more recent openings at Stevenage and Chesterfield, bringing the number of depots in the LPH national network to 25. New depots are fundamental to the expansion plan, as LPH managing director Ron Chatwin explains:

"With a catchment radius of about 30 miles, there has to be a limit to the business that can be done from each depot. So, to make a significant increase in turnover all round, we must continually look to open more depots and break into new operating territories."

Purchases of hoists and materials-handling equipment have extended and upgraded the quality of the hire fleet. The maxim "from a road lamp to a tower crane" to describe the wide plant range is even truer today than it was more than a quarter of a century ago when the Lovell plant hire company was founded.

Continual investment in new plant keeps LPH ahead.

Among recent introductions are the Steinweg 200 kg 'Superlift' and 150 kg 'Toplift' electrically powered goods hoists. Features include portability, fast erection and ease of operation. For materials-handling, there have been a number of significant purchases, such as 46 Manitou 2.6 tonne rough-terrain, forklift trucks and the big 530B-HL 'Highlift' to add to the range of JCB 'Loadall' telescopic handlers.

Electric start, hydraulic tipping and four-wheel drive are becoming standard features offered by the modern LPH dumper fleet. This incorporates a continually updated range of Benford machines.

Dumpers, of course, perhaps more than any other item of plant, have to work very hard during their lifetime and therefore reliability and regular replacement are essential.

Whatever the plant, however, high standards of servicing and routine maintenance are all part of the LPH customer relationship. Experienced engineers check everything carefully, after which the item is thoroughly cleaned and repainted if necessary before going back out on hire.

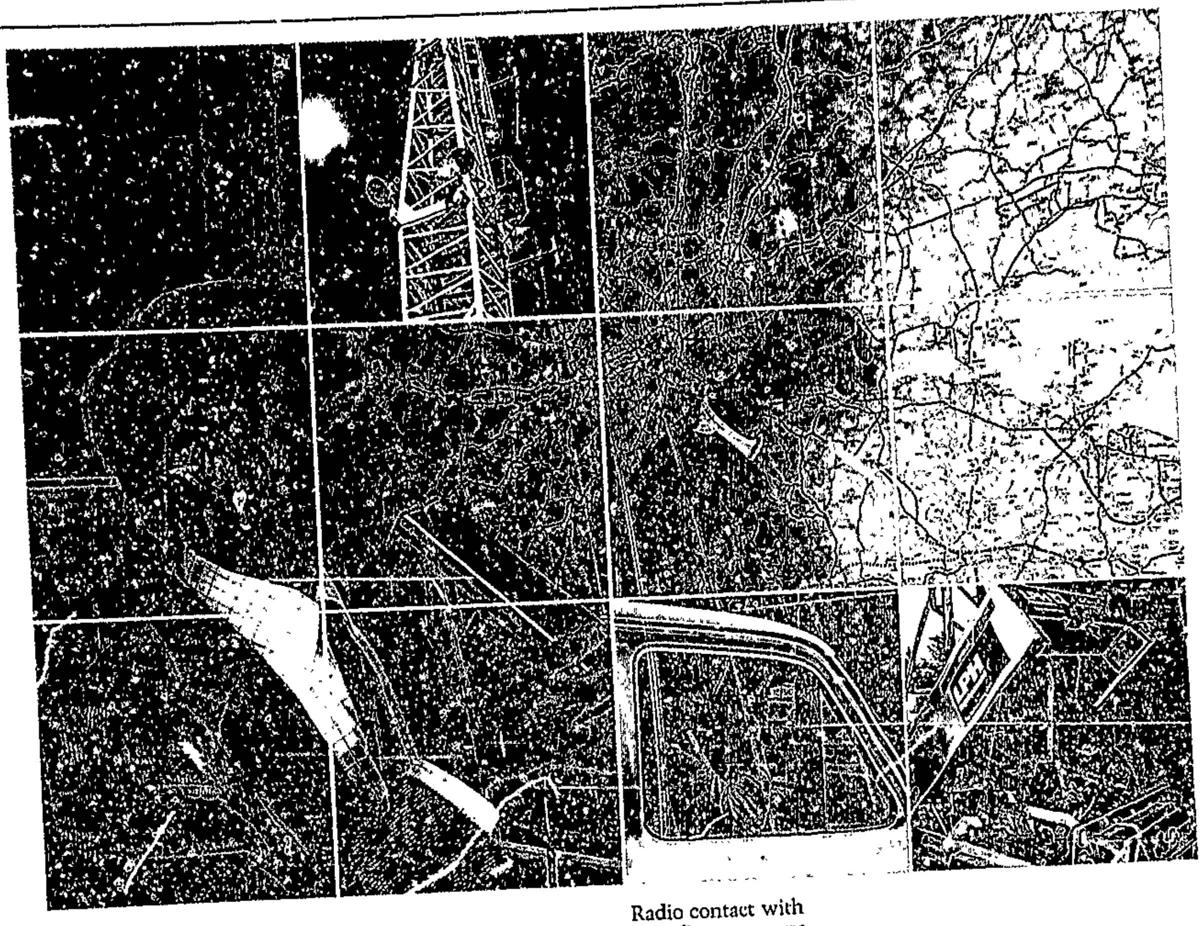
But even the best equipment can break down and always, it would seem, at the worst time. The LPH answer is a nationwide fleet of radio-linked fitters who are able to carry out repairs speedily on site, reducing downtime to a minimum.

Key to the total efficiency is a computer stock-control system connecting all depots. This not only presents an up-to-the-second picture of what is available but facilitates rapid interchange of plant, so that an individual depot can call on any other depot for a particular need.

Aware of the value of national promotion, LPH regularly participates in the annual premier national exhibition known as 'Site Equipment Demonstration'. In addition, the company supports community events at a local level through its depots. Occasionally such support has an international flavour, as with Exeter depot's free transport for 'Action Water', a charity set up to help the drought-stricken Sahel region of Africa.

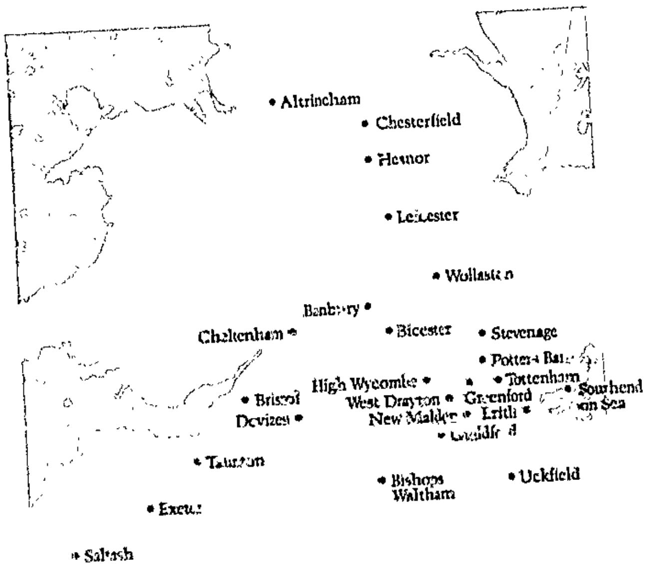
Taking the rough smoothly: JCB 'Highlift' telescopic handlers add even more versatility to the LPH service.

...and taking the heavy lightly: LPH operates its own transport fleet for swift delivery of plant to sites.



Radio contact with LPH fitters ensures that response times are kept to a minimum.

The expanding LPH depot network provides coverage nationwide.



UNITED STATES: FROM RESIDENTIAL TO COMMERCIAL DEVELOPMENT

Partnerships for residential development in the Washington-Baltimore corridor have provided a solid platform on which Y J Lovell (America) Inc has been able to expand. Residential developments continue to be the most important of the company's operations but the successful partnership formula has recently been extended to commercial development.

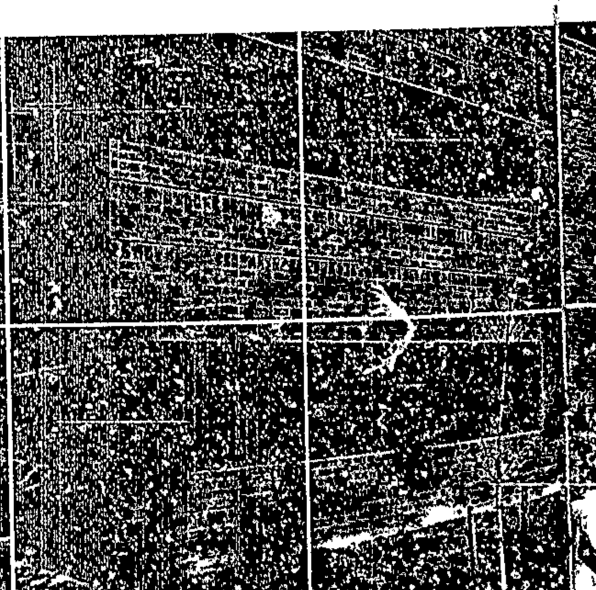
Y J Lovell (America) has three subsidiaries: Lovell Land (America), Lovell Homes (America) and Lovell Commercial (America). These provide the means to carry out both land and building development – two functions which tend to be treated separately in the United States.

With a land development partner, Brantly Development Corporation, Y J Lovell (America) has formed the BritAm Development Group. This is a single body to carry out all stages of development in projects controlled jointly by the two companies, including feasibility studies, cost evaluation and construction supervision.

BritAm has made its first venture into commercial land development with an agreement to develop the Montpelier Research Park, Maryland. Within its 100 or so acres, it is envisaged that there will be a site for an hotel and up to one million square feet of office accommodation. Altogether, land and building development should be worth in excess of 100 million dollars over the next seven to ten years.

In partnership with Brantly, Lovell has built its own new headquarters in Columbia, Maryland. Of the 21,000 ft^2 of office accommodation, over 6,000 ft^2 is occupied by

A typical development of townhouses.



The new headquarters of Y J Lovell (America) in Columbia.

Our American headquarters team, with Bob Woodward, fourth from left in the back row.

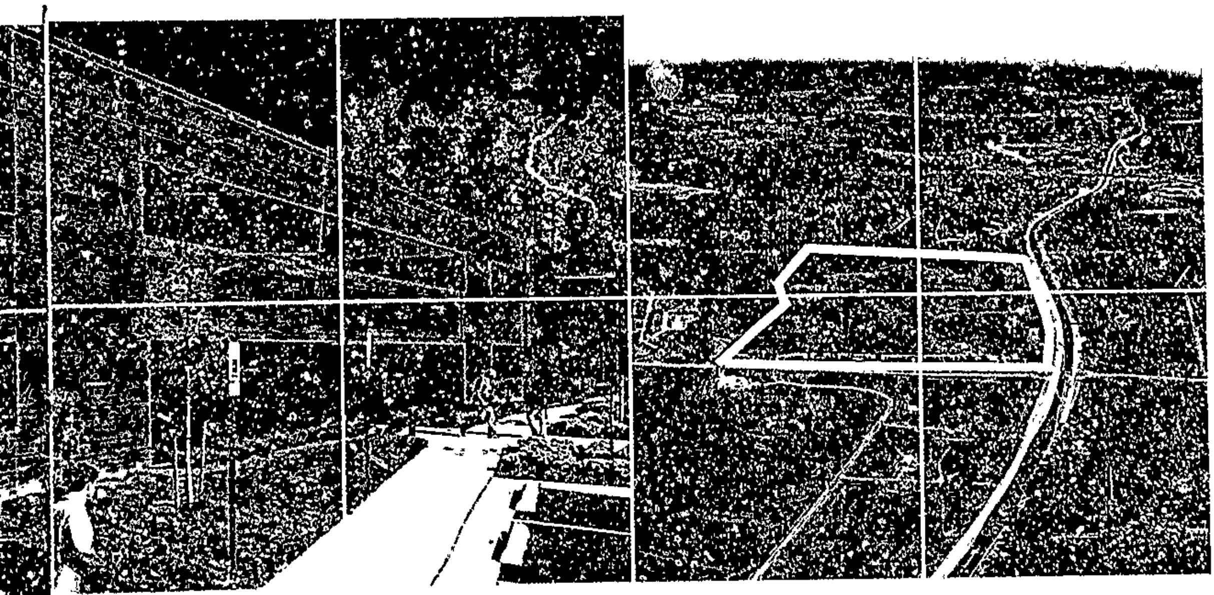
the co-developers. The remainder is for tenant occupation.

With the total projected value of existing partnerships exceeding 80 million dollars, Lovell/Brantly interests in residential land development are considerable. Schemes in and around Columbia alone involve some 1,250 house lots.

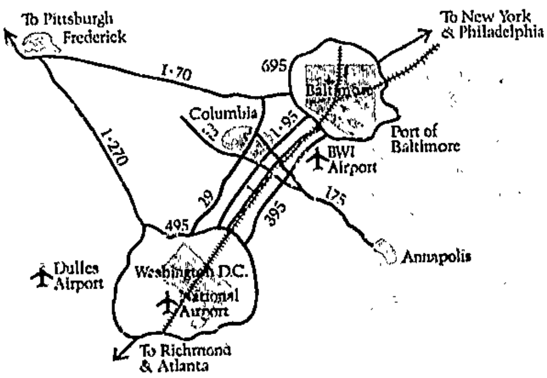
Lovell also operates as a partner in joint ventures with house builders. Under these schemes, land is sold to whichever builder is best suited for a particular project, with Diversified Housing Corporation a particularly active partner.

Proven American house designs, used by Y J Lovell (America) in Maryland, have been introduced to the UK. They form part of 'The Ridings' development by Lovell Homes Western in Devizes. Buyers of the two-, three- and four-bedroom luxury bungalows enjoy established American preferences for vaulted ceilings, generous built-in wardrobes, space-saving bi-fold doors and concealed laundry appliances. Technical specifications for heat conservation and ventilation are exceptionally high, with superior thermal insulation and an advanced heat-recovery system.

At the end of the year the management team was reinforced by the appointment of Bob Woodward, previously MD of Rendell Homes, as Vice-President. A prime-mover in the introduction of American-style homes in the UK over the past few years, Bob brings to his new role a wealth of experience of housing development. The move once again illustrates the Lovell Group's commitment to inter-company promotion and interchange of ideas, in this case across the Atlantic.



Aerial view of the site for the new Montpelier Research Park.



The Washington-Baltimore corridor, where much of the Lovell activity is concentrated.