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Front Cover
A Thames-side view of the Shakespeare Globe Theatre, where Lovell is the management contractor on the prestigious £12 million contract which has already gained world-wide interest.

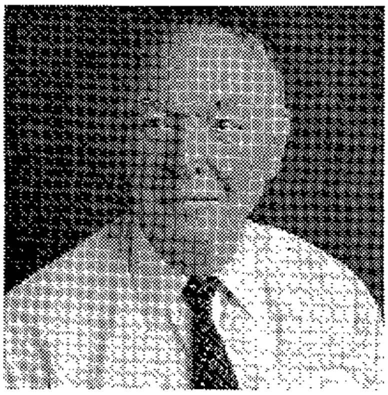
Cautious progress

The declared strategy of concentrating on the core businesses of Construction and Partnership Homes, while pursuing a programme of non-core assets disposal, has been at the heart of Lovell's progress during the year.

The three operations within Construction offer niche skills in new-build and refurbishment. These, together with marketing initiatives such as partnering agreements with major national clients, are improving Lovell's ability to increase future returns, even in continuing difficult market conditions.

Partnership Homes is recognised as the leading national housebuilder in the social housing market. A major re-organisation during the year improved its ability to bring creative solutions to housing association and local authority projects.

Solid progress was achieved in meeting targets to withdraw from the various non-core businesses and the orderly disposal of assets has resulted in a significant reduction of debt.



SIR DAVID HARDY CHAIRMAN

Chairman's statement

At this time last year I reported to shareholders the appointment of a new Chief Executive, together with the implementation of a clear strategy of debt reduction and a focusing of future activities into the Construction and Partnership Homes divisions.

I am now pleased to report that during the year there has been a significant reduction in Lovell's borrowings. The major portion of the reduction has come about from the successful sale of land and units in Lovell Homes, with cash inflows also from the other discontinuing businesses. This has enabled Lovell to reduce its year end on balance sheet net debt to £13.1 million (1995: £42.2m) and its total debt to £31.5million (1995: £66.4m). The Board remains committed to an ongoing programme to reduce debt.

Your Board was expecting a difficult trading year but the exceptional loss declared at the half year in Partnership Homes came as a deep disappointment. As a result, the Company approached its banking group and re-negotiated its facilities and extended them to 1999.

The Group has recorded a loss before taxation for the full year of £11.756 million (1995: £32.393m loss). I regret that the Company will not be in a position to pay a dividend to its Preference or Ordinary shareholders until the profit and loss reserve is returned to credit.

Market conditions have remained difficult throughout the year for our core businesses, although there have been signs of an improvement in private commercial work in the South East. Lovell has actively pursued opportunities in the health care sector. However, it has been disappointing to note that the Government has made little progress, despite a lot of talk, in establishing a satisfactory framework to enable PFI-funded health sector schemes to proceed. Furthermore, the Government is showing little commitment to providing the necessary funding to the social housing sector, where there is clearly a demand for higher levels of investment in both refurbished and new homes.

Against this background, Partnership Homes and Construction have adapted their strategies accordingly and Lovell can now look forward to achieving its fundamental objective of returning to profit as a first step in providing a satisfactory return to shareholders.

I am very pleased to welcome Paul Sellars to the position of Finance Director. Paul has considerable experience of the construction sector and I look forward to the contribution that I am sure he will make to the Company. He replaces Gerard McCormack, who has accepted an offer of an appointment as Finance Director with another plc. Gerry was appointed Finance Director in April 1994, following a period as Group Financial Controller. He has been an integral part of the executive team since the reconstruction and I thank him for his excellent contribution during that period. In addition to the reduction in the number of Board members at the beginning of the financial year, Alun Rees, formerly managing director of Partnership Homes, resigned from the Board in January 1996.

Geoffrey Taylor was appointed to the Board in June 1987. He is now approaching his 70th birthday and has decided not to stand for re-election at the forthcoming Annual General Meeting. I am very grateful for the assistance he has given me since my appointment and for the invaluable benefit to the Company of his banking experience.

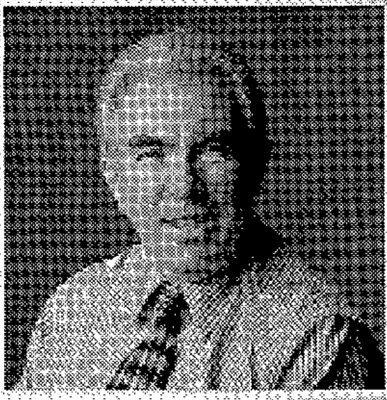
The Company continues to support the Codes of Best Practice as enunciated by the Cadbury and Greenbury Committees. The retirement of Geoffrey Taylor at the Annual General Meeting will reduce the number of non-executive Directors to two, one of whom is myself as Chairman, and three executive Directors. I believe that two non-executive Directors will continue to carry significant weight in the Board's decisions and, since it is not proposed at the present time to appoint a third, this will be a further economy.

The Board has passed a resolution permitting dealings in its Ordinary shares to be settled in the CREST system. In order to meet the requirements of the system it is not cost effective to continue to have an in-house Registrar and the Board has appointed Connaught St Michaels Limited to act as its Registrars with effect from early 1997.

I would like to thank management and staff for their commitment and loyalty in a period of continuing change, including those who have known that because of restructuring they would only have a limited period of employment. The people who work for Lovell remain the Company's most important asset.

The Remuneration and Nomination Committee has been conscious that during the last year there has been no incentive scheme in place for senior executives, and after careful consideration has decided to propose to the shareholders a long term incentive scheme designed to align the interests of senior employees and shareholders. I would commend the scheme to you.

The strong action that has been taken to reduce Lovell's borrowings and cost base mean that Lovell is now well positioned to improve trading in its core businesses.



DAVID HEPPELL CHIEF EXECUTIVE

costs and have plans to vacate our head office for more modest accommodation. Lovell is now a very different company. Not only is it smaller following the planned major disposal programme, but also far more commercially aware and focused on the need to earn acceptable returns. Nevertheless, there still remain major tasks ahead.

The mainstream markets for our two core activities have not helped our recovery process. For Construction, the competitive tender market continues to yield uneconomic margins and, as a result, we are directing our efforts increasingly towards partnering approaches where we see opportunities to improve margins through the creation of additional value for our clients. As a result of this philosophy, Construction has been able to reduce substantially its dependence on competitive tendering and in 1995/96 secured over 70% of its new orders through preferred relationships.

Chief Executive's report

This report, which marks my first year as Chief Executive, covers a period of fundamental change. The financial results tell part of the story, but they fail to reflect the considerable work undertaken to position your Company for recovery.

The Accounts indicate the emphasis placed on debt reduction. On balance sheet debt is less than one third of the level a year ago, and useful inroads have also been made into off balance sheet debt. The reduced debt levels have been achieved by a vigorous programme to dispose of non-core assets as well as tougher controls in the core businesses.

The Group loss before tax of £11.8 million is heavily influenced by the exceptional losses within Partnership Homes which were declared in the Interim Statement, but is also the result of poor trading as the core businesses work through lower margin contracts won in earlier periods. The second half showed the first signs of improved trading when Partnership Homes achieved an operating profit and Construction was profitable after attributable interest.

As a result of the losses which were uncovered by our thorough re-appraisal of Partnership Homes carried out after the management changes, it was clear that we would breach some of our banking covenants. It was also apparent that our banking facilities needed to be restructured to support the Group's recovery. We therefore entered into negotiations with our banks and, with their support, successfully established extended and more appropriate facilities to 1999.

In the short term, the two planks of our planned recovery remain a return to sustainable profitability in the core businesses and continuing debt reduction. Since the year end, we have sold Wyvols Court, near Reading, and the M Street property in Washington is under offer. Between them, these two deals should realise over £10 million, of which £7 million will further reduce on balance sheet debt and £3 million will repay an off balance sheet project loan.

Behind the scenes, we have implemented some major changes. We have completely reorganised Partnership Homes, and Construction has redirected its activities to create more profitable opportunities. We have also made significant inroads into central

Partnership Homes operates in a market which is largely dependent on funding from The Housing Corporation. This funding has fallen year by year, forcing housing associations to reduce their new build programmes, which have been Partnership Homes' main market. In anticipation of these trends, Partnership Homes has concentrated increasingly on bringing together mixed tenure housing projects which provide homes for rent by housing associations and for sale by Lovell on the open market.
The skills required to develop innovative solutions and bring them to fruition are the fundamental strengths of this business.

We are strengthening our position despite the difficulties in our core markets, and there is clear evidence from the second half trading results and the quality of our order book that our strategy is starting to create a profitable business. Construction and Partnership Homes ended the year with forward orders more than 50% higher than a year earlier. Furthermore, the anticipated margins to be earned on this work are also improving.

An increasing proportion of our potential workload requires wider skills than traditional contracting. As we become active in markets such as those created by the Private Finance Initiative and Single Regeneration Budget funding, we are tackling opportunities which involve the full range of skills found across our Group. The traditional demarcation between our two core businesses is reducing as we form multi-disciplinary groups to tackle a disparate and complex range of projects. These changes will enable us to improve our responses to clients' requirements and achieve a more effective use of our resources.

In demanding circumstances, our employees have worked admirably to achieve our present position. I appreciate their willingness to adapt to a more challenging and disciplined approach to our business.

Shareholders will realise that improved trading, coupled to debt reduction, is not in itself enough to recreate value for them. A critical step in our recovery plan will be the inevitable negotiations with our preference shareholders to allow this value to be more fully reflected in our ordinary shareholders' investments. We are very conscious of this issue and much of our efforts in the medium term will be directed to this end as we continue to pursue recovery.

Steady progress in difficult markets

Positive marketing strategies help the Division to trade profitably

The year has been one of transition, with the Construction Division completing a number of contracts secured in the depths of recession, while increasing its investment in marketing, aimed at generating new business under innovative methods and at acceptable margins.

While overall output in the Industry remained flat, London and the South East saw signs of recovery which, led by increased activity in the commercial sector, benefited both Lovell Construction and Walter Lilly. By contrast the Midlands and North West saw no real upturn, particularly in the public sector, where Bullock has a significant market niche.

Over-capacity continued to dominate the market, restricting the Industry's scope to raise tender margins to realistic levels and depressing the Division's turnover by 20% compared with the previous year. All three operations within the Division remained profitable after attributable interest, although at lower levels than last year.

Against a continuing difficult background, the Division was successful in avoiding the worst of the thin margin work available, by concentrating on its strategy of developing preferred relationships with clients and by reducing dependence on competitive tendering. As a result, a real shift in procurement patterns was achieved with 70% of new business being secured through partnering or negotiated contract arrangements.

With a forward order book of £135.6 million, the Division has made a satisfactory start to the new year and looks set to benefit from its marketing investment, particularly in the context of private finance initiatives and partnering contracts.

Lovell Construction

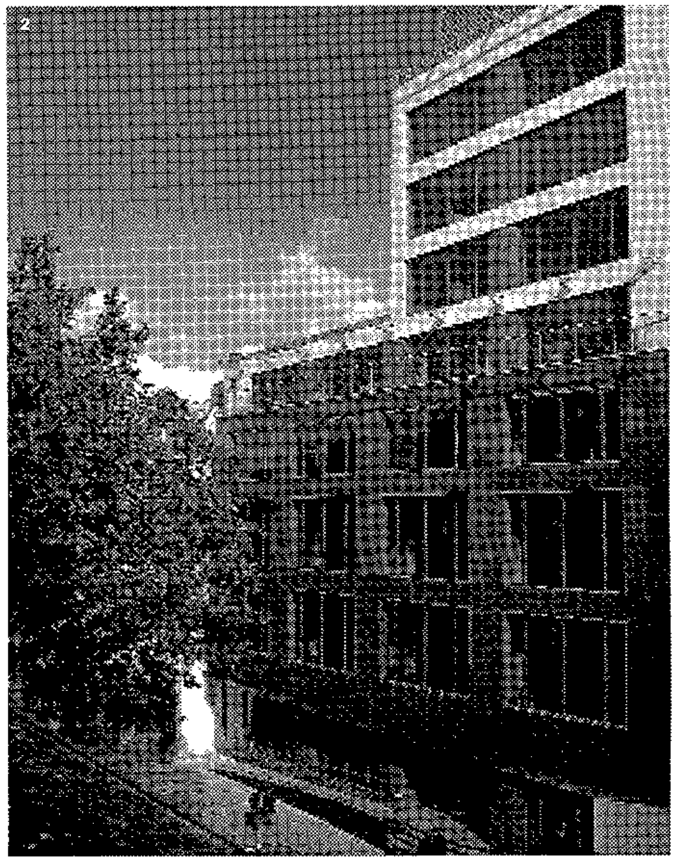
The Company not only maintained a strong foothold in its core markets of major new-build and refurbishment projects by securing £133 million of new business, but also improved its ratio of work gained under preferred contract forms. In particular, the Company achieved notable success in its strategy of seeking to maximise premium returns through the Partnering procurement route.

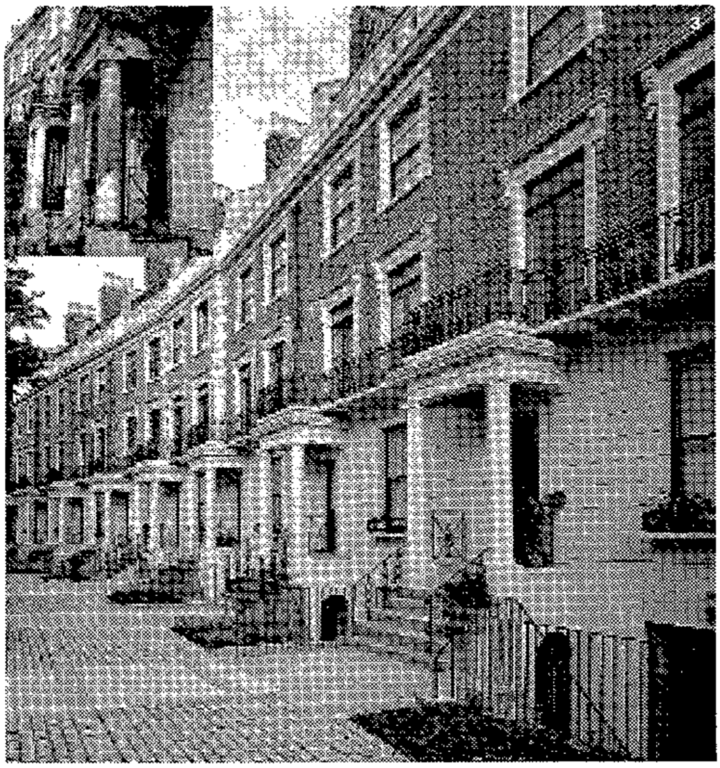
The Company's leading role in developing this concept is reflected in its continued success during the year, both in the private and public sectors. In central London, two commercial contracts secured under project partnering illustrate the growing potential of this style of positive working relationship. At St James's Square, an £18 million office redevelopment is being undertaken for NatWest Group Property and in Grosvenor Street, a £3.5 million office project is being carried out for Grosvenor Developments. In the public sector, the award of a £50 million strategic

CONSTRUCTION FACTFILE

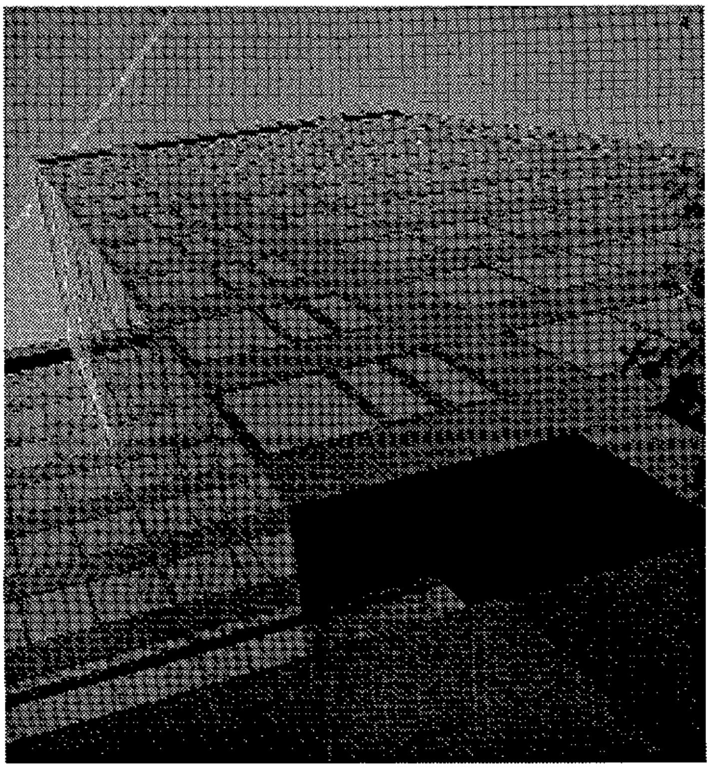
	1996 £m	1995 £m
External turnover	**106.9**	133.4
Operating (loss)/profit	**(1.3)**	1.3
Exceptional loss	**–**	(0.8)
(Loss)/profit before interest	**(1.3)**	0.5
Interest receivable	**2.0**	2.4
Profit before tax	**0.7**	2.9
Forward order book	**135.6**	81.0

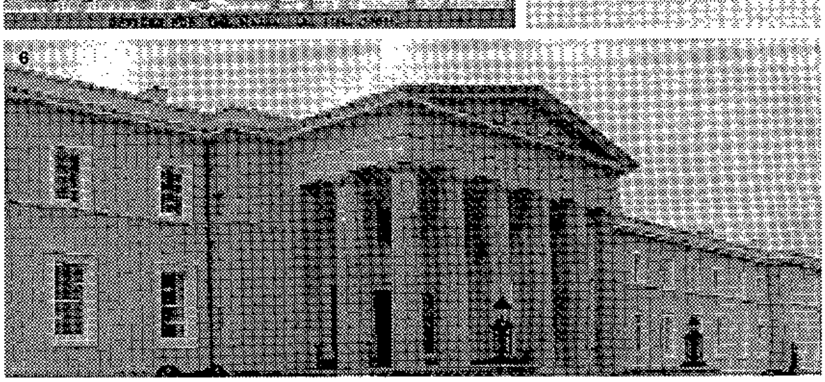
Divisional managing director – George Tilbrook





1 The £3 million Cedars Health and Leisure Club project for Richmond Hill Hotels.
2 A £7 million design-and-build office contract in central London carried out for Scottish Amicable.
3 Extensive refurbishment of Park Crescent, Stoke Newington for New Islington & Hackney Housing Association.
4 Offices at Cannon Street in the City of London – a £15 million project carried out for Land Securities.
5 The listed facade of St Leonard's Hospital, Shoreditch was carefully retained as part of a design-and-build contract to provide a frail care unit with support accommodation.
6 Two further refurbishment projects were undertaken during the year at the Royal Military Academy, Sandhurst.





partnering contract by Railtrack for backlog maintenance reflected, in part, the successful partnering relationship pioneered with London Underground, for whom the Company carried out projects worth a further £12 million during the year.

The Company's reputation for quality of product and performance has been demonstrated during the year by the award of a £15 million contract at Hampstead which includes the conversion of the listed Mount Vernon Hospital into one of the most prestigious residential schemes in London. Alongside this, an £8 million contract was secured for restoring bedrooms, suites and public facilities at the historically sensitive Claridge's hotel. Another prestige project is the Shakespeare Globe theatre at Southwark, where work is continuing apace on this unique development under a £12 million contract.

Other work secured during the year included a £9.5 million project at Grey Coat School, Westminster, and further health sector contracts at Horsham, Hove and Brighton. At the year's close, work was starting on an extension for Heathrow Express at Terminal One and the installation of ticket offices at stations on the new Jubilee Line for London Underground.

In the health sector, sole partner status was attained on the £25 million PFI scheme at the Royal Berkshire and Battle Hospital redevelopment which is due to start early in 1997 and, more recently, the Company has been shortlisted on two further PFI projects with a total value of £30 million.

Completions included the £15 million Cannon Street, EC4 office project for Land Securities; a £3 million leisure centre for Richmond Hill Hotels; a £5 million office development for NIG Scandia in Cardiff; a £7 million office reconstruction at Holborn for Scottish Amicable; officers' quarters at HMS Sultan, Gosport for £4 million; and a Sainsburys distribution centre under a £2.5 million contract for the Ladbroke Group.

Bullock Construction

Against a background of reduced public sector spending within its core housing refurbishment business, Bullock maintained profitable performance while increasing turnover through strong relationships with existing clients and by work secured with new private sector contacts.

Throughout the Midlands and North West a strong programme of work continued with local authorities and housing associations, with new projects being awarded by local authorities at Manchester, Birmingham, Walsall, Preston, Vale Royal, Chester, Sandwell, Dudley, Bristol and Nuneaton. Further work was gained from the William Sutton Trust, while the Company secured two contracts at Walsall with the newly formed Beechdale Community Housing Association and a scheme with the Housing Action Trust at Castle Vale, Birmingham.

Other public sector contracts were secured with the Liverpool & Broadgreen University Hospitals NHS Trust for refurbishment of wards and theatres, construction of a new fire station for the Greater Manchester Fire & Civil Defence Authority, and the refurbishment and extension of the Jonathon North Community College for Leicestershire County Council.

The long-standing relationship with Zeneca was strengthened with the establishment of a further three year partnering agreement, which incorporates the benefits of a joint Quality Assurance system, focusing on their critical success objectives. The Company also won contracts with Direct Line Insurance and Great Portland Estates while, during the year, it secured and completed a design-and-build project for a joint venture between Barberry Properties and Richardson Developments for the fast-track conversion of the former Maples store in the centre of Birmingham into high quality offices.

By taking selective opportunities in the private sector and with newly formed housing companies, while maintaining its well-established relationship with existing clients, Bullock will remain well-positioned in the present competitive market.

Walter Lilly

The specialist skills of Walter Lilly in high-class refurbishment and fitting-out, together with its concentration on projects in the laboratory research sector, have played a major part in the success of the Company in the year. Workload has grown directly as a result of new and repeat business clients recognising the benefits of working with a contractor who takes time and effort to understand their needs and thereby provides value for money. Among Walter Lilly's repeat customers during the year were Cadogan Estates, The Crown Estate, SmithKline Beecham, GlaxoWellcome, Banque Paribas, Bank of Scotland, British Telecom and Nortel.

Major contracts undertaken in the year include office fitting-out for Schroder Investment Management in the City and a further contract for Tesco, where extensions and fitting-out at their store in Bethnal Green were carried out in a short close-down period. The Company's continued reputation in the refurbishment of listed buildings has been further enhanced during the year by two additional projects at the Royal Military Academy, Sandhurst and by the completion of renovation works at Palace Green, Kensington for The Crown Estate.

The Company's marketing strategy of offering a partnering approach, with early project involvement, has been particularly successful and will provide a route towards future growth.

1 Internal and external refurbishment of two blocks of flats at West Bromwich for Sandwell Metropolitan Borough Council involved the phased decanting of residents during the project.

2 These laboratories for CIBA illustrate the expertise of Walter Lilly in the pharmaceutical sector.

3 Conversion of the former Maples furniture store into high quality offices in the centre of Birmingham for Barberry Properties and Richardson Developments.

4 Extensive student accommodation at the City University, London.

5 New offices in the centre of Cardiff, constructed under a £5 million design-and-build contract for NIG Scandia.

6 Work on Claridge's hotel, London involved careful restoration and improvements to the listed buildings with their many fine decorative features.

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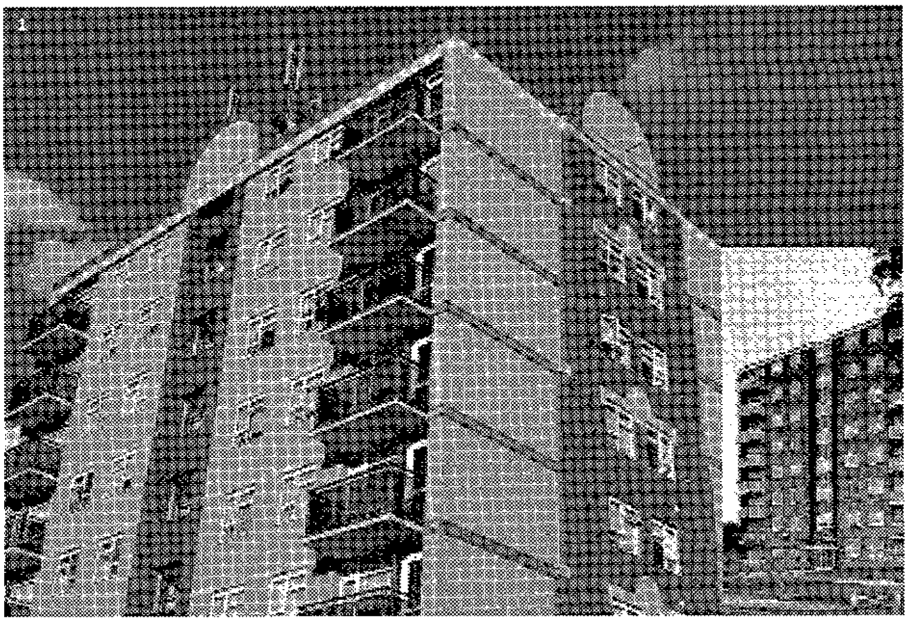

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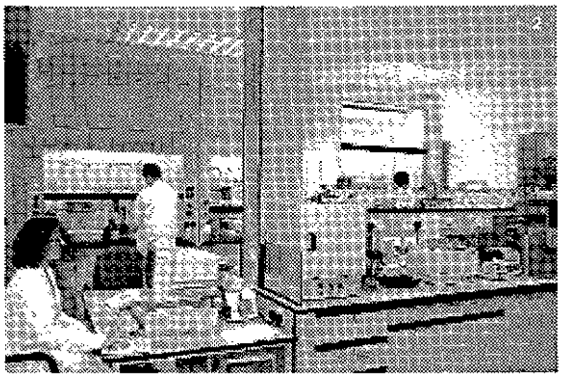

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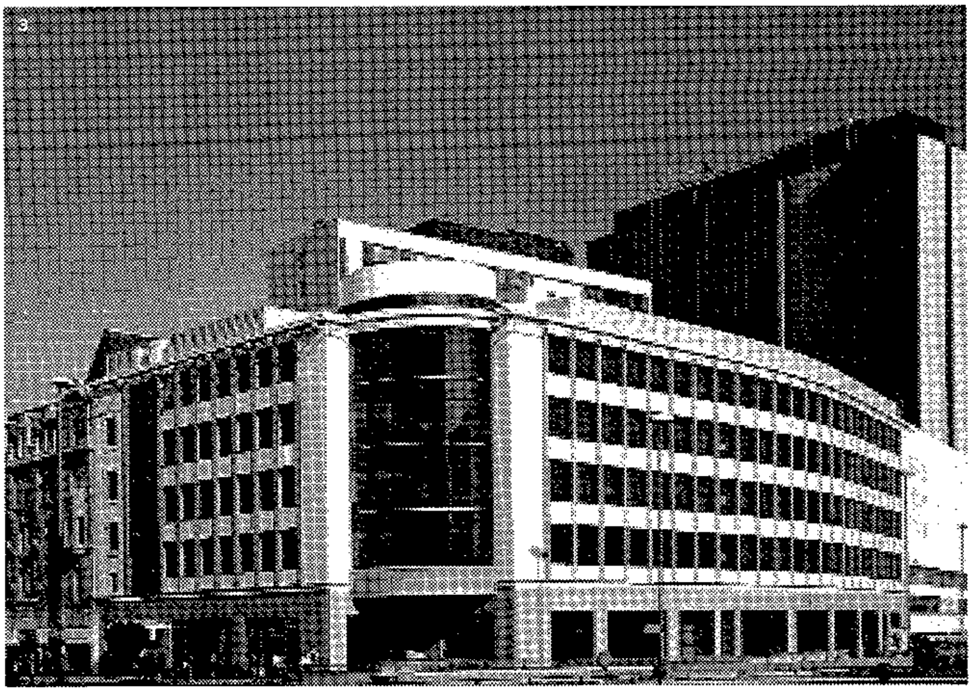

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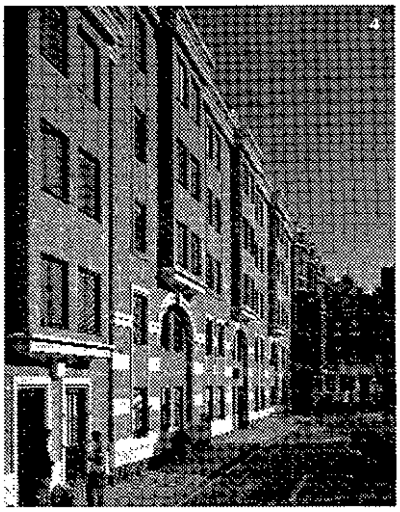

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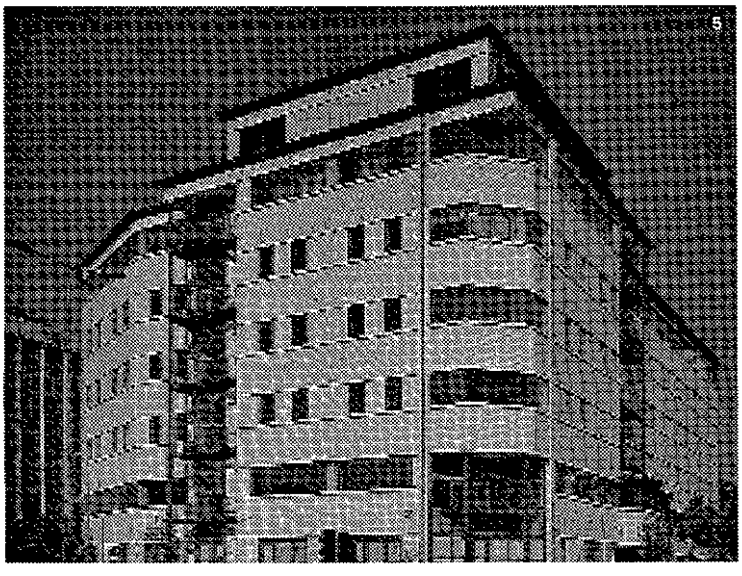

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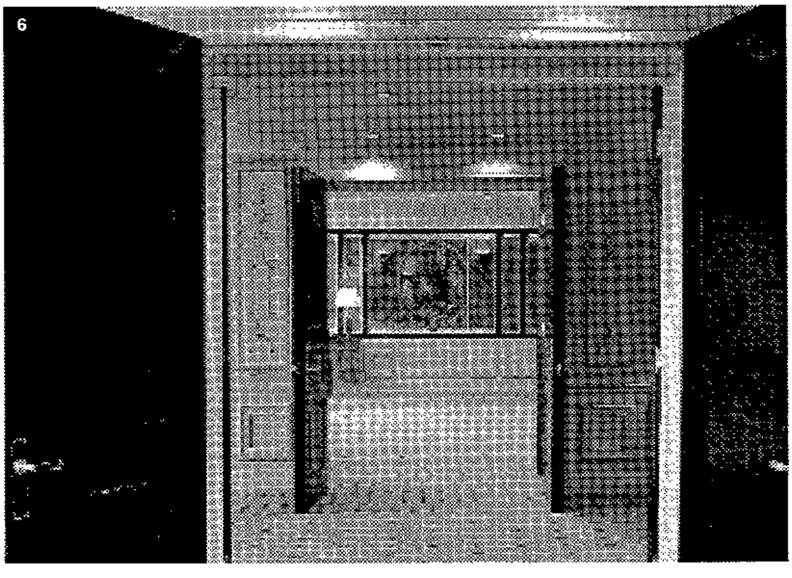


Market leadership maintained in year of re-organisation

Innovative solutions provide way forward in successful partnerships

Partnership Homes has been at the forefront of social housing development since its beginning. Through its wide experience and capabilities, the Company remains the acknowledged market leader in partnership housing and,by a variety of initiatives, enables local authorities and housing associations to meet their extensive needs in affordable housing.

This ability to provide solutions to a constant range of differing housing problems is reflected by the fact that, in spite of a market held in decline by constraints on public funding, Partnership Homes sold 2,592 homes, an increase of 8% over the previous year.

Following the problems identified early in the year, the Division has been subject to a thorough re-appraisal, relating both to its structure and its operational basis. The result has been the reorganisation of the Division under a new centralised executive and financial management team at its divisional headquarters in Tamworth. Additionally, there has been a restructuring and regrouping of the regional businesses to reflect market and geographical considerations. Central to this change has been the appointment of regional managing directors in the North and South, a new finance director and additional business development resources at national level. The cost of restructuring, together with a further review of losses on two major projects, required exceptional provisions of £4.26 million which were declared at the half year.

Partnership Homes is now confident that, following identification of the problems within the business, the necessary action has been taken in order to return it to profit. Support for this is evidenced by improved performance in the second half, with strengthening profitability underpinned by a substantial increase in underlying liquidity.

The forward order book of £115.5 million will benefit from the new management and controls. The schemes secured within this workload include rental housing under design-and-build contracts, affordable housing for sale either in the open market or to local authority nominated purchasers, and open market housing where the proceeds provide cross-subsidy to finance other affordable housing needs. An increasing proportion of the Division's workload is being planned under concepts that combine these various products into completely mixed tenure solutions.

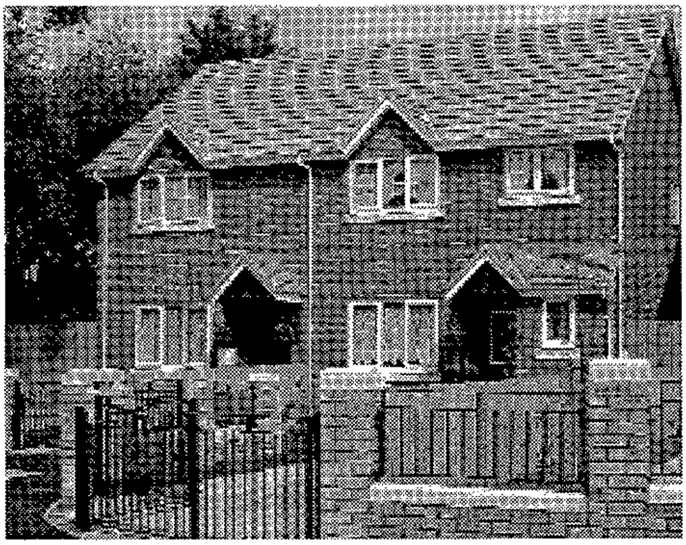
The variety of partnership solutions is illustrated by some examples of the Division's workload during the year.

A notable success was achieved in the National Housing and Town Planning Council's "Partnerships Awards" with a major estate regeneration project in Warrington. In partnership with Warrington Borough Council, Grosvenor Housing Association, Muir Housing Association and The Housing Corporation, outdated system-built accommodation is being

PARTNERSHIP HOMES FACTFILE

	1996 £m	1995 £m
External turnover	**96.7**	101.4
Operating profit	**0.1**	0.8
Exceptional loss	**(4.3)**	(5.8)
Loss before interest	**(4.2)**	(5.0)
Homes sold (units)	**2,592**	2,404
Forward order book	**115.5**	85.0

Divisional managing director – George Miller



1 A design-and-build scheme at White Hart Lane, London with Metropolitan Housing Trust.

2 The start of construction on this mixed tenure scheme with East Midlands Housing Association and Mansfield District Council was commemorated with a time capsule burial by the children from the adjacent school at Mansfield Woodhouse.

3 This elderly care home formed part of a mixed tenure scheme at Towcester, which also included homes for rent by Bedfordshire Pilgrims Housing Association, cross-subsidised from the sale of open market units.

4 The project at Talbot Green, Mid Glamorgan, comprised 45 design-and-build homes in partnership with Rhondda Housing Association.

5 At Wigginton, Hertfordshire, cross-subsidy from open market sales together with Social Housing Grant, ensured viability on this partnership with English Villages Housing Association and the Rural Housing Trust. The project was visited by the Princess Royal as patron of the Trust.

6 A multi-phased scheme at Hanwell with London & Quadrant Housing Trust, involving demolition of maisonette blocks and construction of 160 houses, maisonettes and flats under a design-and-build contract.

7 A £14 million estate regeneration project on six sites at Warrington involved demolition of system-built homes and the construction of homes for sale and rent together with bungalows for the elderly.

demolished to make way for homes for sale and rent, together with bungalows for the elderly.

Following the transfer of housing stock from Basingstoke and Deane District Council to two housing associations, Partnership Homes has secured projects with both. At the larger, in South Ham, it is working with Basingstoke & Upper Test Housing Association on a £9 million development over 4 years to replace defective PRC homes with a mixed scheme of houses, flats and bungalows. Key to this was a highly successful tenant consultation programme which, apart from involving residents in the planning of the move from their existing homes, also enabled them to participate in decision-making relating to the future development.

Working with Runnymede Borough Council, which received no housing grant allocation for 1995/96, Partnership Homes was able to propose five alternative solutions for the redevelopment of a pre-war estate of over 100 rented properties. Even within the constraints of some demanding design criteria, which included the site being within an existing flood plain, the selected scheme still provides 173 homes to replace the original 104. The mixed scheme includes rented houses, cross-subsidised by the sale of some open market homes and Lovell re-sale covenant properties.

In London, work is now well under way with the Metropolitan Housing Trust at the Hillyfields Estate in Walthamstow. Demolition of a vacant 21-storey tower block and adjoining occupied low-rise flats precedes the construction of 106 Partnership New Generation homes, including units specifically designed for the disabled. These homes will, in total, provide accommodation for some 400 people. To ensure wider economic advantages for the local community, links have been established with Waltham Forest Housing Action Trust, contributing to a network of local labour opportunity.

In the Midlands, the Division won a competitive cross-subsidy project redeveloping over 8 acres of Birmingham City Council land at Northfield. The capital receipt generated from the sale of open market homes is partly recycled as Local Authority Social Housing Grant. This, coupled with private finance introduced by Mercian Housing Association, provides houses for rent to council nominees, as well as allowing environmental improvements to existing properties. To balance the high level of capital outlay in acquiring the site, Partnership Homes was able to introduce Redrow as development partner for the mid-market housing, thus further optimising the tenure mix.

Following successful completion of the Brynhyfryd Estate development in Llanelli, the Division has furthered its relationship with the Welsh Office by securing Estate Partnership funding for two schemes with a combined value of £6 million. Starting this year, the projects will provide 150 new homes with a mix of rented housing and affordable open market homes to satisfy local current needs. The replacement of defective system houses on these run-down estates will help improve social and economic prospects in the area and is a good example of solving housing problems through innovative partnership solutions.

For the future, the Division's experience and ability to identify land and development opportunities utilising, where necessary, the funding of other agencies, will enable it to respond to the challenge of meeting housing needs within the pressures of a constantly changing market.

The regeneration of inner city estates has gained momentum and the introduction of further renewal funds will underpin the transfer of housing stock. The provisions of the recent Housing Act, promoting the formation of local housing companies, will enable local authorities to maintain involvement in housing transfers, while also raising private finance for refurbishment and redevelopment programmes. This should provide significant opportunities for Partnership Homes, where its record of working with local authorities in creating successful estate regeneration initiatives, together with its success in tenant consultation programmes, will put it in the forefront of this emerging market.

Overlying this, the Division is increasingly able to combine its own specialist market sector experience with the strengths of the rest of the Lovell Group, particularly that of the Construction Division. The composite skills within commercial, retail, transport and strategic partnering programmes, facilitate a fully integrated approach to urban and rural regeneration problems which should increase the potential for additional market share.

1

Partnership Homes

1 Top honours in the Birmingham Post Awards were taken by the two and three bedroom houses on this low cost open market scheme at Tipton, where land was provided through the Black Country Development Corporation.

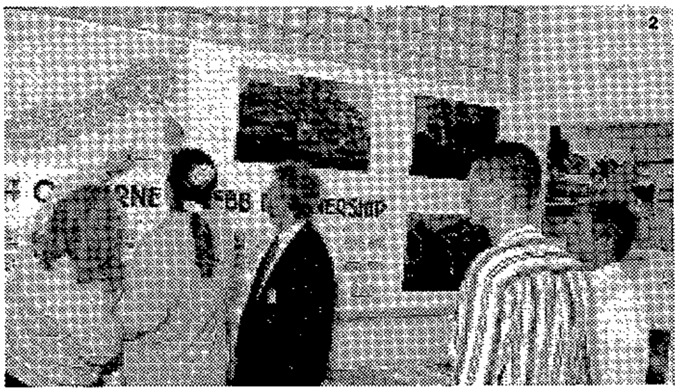
2 At Barry in South Wales, another highly successful Tenant Consultation Programme enabled residents to be involved with the layout and features of their proposed new homes. Working with the Vale of Glamorgan and the Newydd Housing Association, the development provides homes for council nominees, rent and affordable sale.

3 Built on a nine acre site reclaimed through the Black Country Development Corporation, Tividale Quays, near Dudley, was commended by the Birmingham Post as "a marvellous transformation of a former industrial site".

4 This scheme at Egham, provides a full tenure mix of rental, shared ownership, resale covenant and open market homes in the redevelopment of a 1930's estate.

5 Councillor Dora Tyler, chairperson of Ashfield District Council, carries out a tree planting ceremony on the mixed tenure development at Sutton-in-Ashfield, Notts.

6 A highly successful conversion and modernisation project, carried out in partnership with Sunderland City Council, created a dramatic change to several blocks of flats within the Sunderland City Challenge area.



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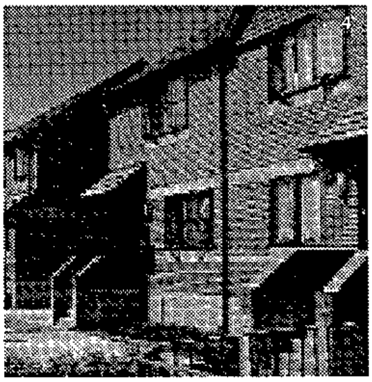

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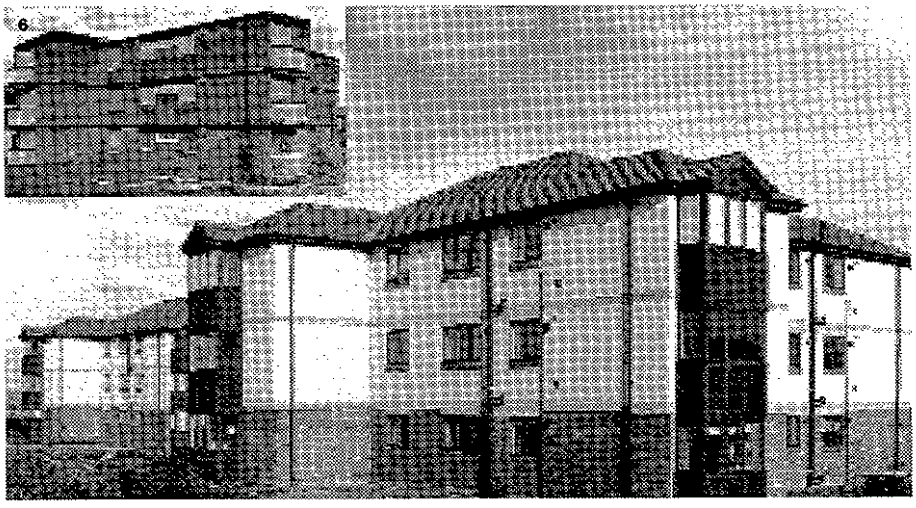

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Solid progress in withdrawal from non-core businesses

Targets achieved from planned disposals during the year

Lovell Homes

The programme of withdrawal from the market was accomplished successfully during the year. A total of 320 units were sold at an average price of £98,000 (1995: 473 units at an average price of £92,200). The majority of the remaining land bank has also been sold.

As a discontinuing business, full provision for closure costs was made last year. In addition, the debt of the Division has been repaid more rapidly than planned.

The remaining assets continue to be managed in accordance with the original programme.

Lovell America

Land development

The strategy of recovering land values through development continued this year. In furtherance of the Group's commitment to reduce investment in the USA, 436 plots were sold in spite of an erratic market (1995: 744 plots).

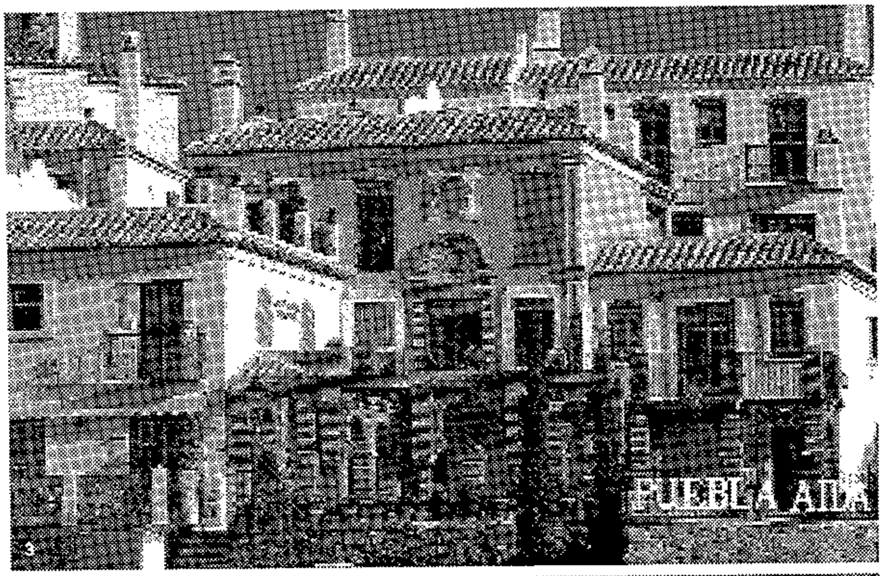
Planning consent has now been obtained on all remaining projects with the exception of 38 plots at West River/South Creek and at Montpelier. Site work has been difficult in the face of unusually prolonged and heavy rainfall but, nevertheless, all of the construction work planned for the year was completed.

At Russett, progress was achieved with the completion of phase I and the settlement of 226 plots. This pushes plot sales to date beyond the half way mark. Additionally, a long term negotiation with the local authority was settled favourably. Lyndwood has had a particularly good year with the settlement of 167 plots, 53 of which were sold in bulk. A contract was obtained on the shopping centre area (which completed just after the year end) and the County's golf course was finished and opened.

Margate has been brought substantially to completion and other sites have performed adequately, but reflected weakness in the market for detached houses. Progress was made with a start in developing the Montpelier site where an area of land is under contract and the purchaser has secured most of the approvals required under the terms of the contract.

Home-building

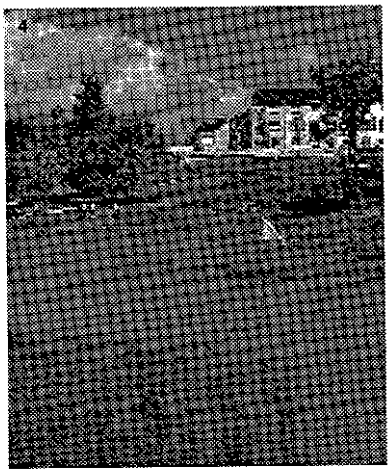
The decision to withdraw from speculative home-building was effected with the completion of a sale of the Company's interest in Lovell Regency for the sum of $3 million in cash and the balance of $3.6 million being paid evenly over a 3-year period.



OTHER BUSINESSES FACTFILE

	1996 £m	1995 £m
External turnover	50.7	54.0
Operating profit	–	0.9
Exceptional losses	–	(22.2)
Profit/(loss) before interest	–	(21.3)

1 At Marbella, these impressive beachside homes are now under construction on the new phase of White Pearl Beach.
2 The serviced office facility, Wyvols Court near Reading, was successfully sold after the year end.
3 The Puebla Aida development, with its distinctive Andalusian character, continues to appeal to a wide public, reflected in strong reservations on the latest phase.
4 The Lyndwood development in Maryland continued to make good progress, with occupation of over 150 homes and the opening of the golf course.



Commercial properties
Of the Company's two commercial properties in Washington DC, 2501 Pennsylvania Avenue was sold to a developer in June. The mixed use property, 2311 M Street, remained virtually fully let throughout the year and the sale of this property is anticipated in the early part of 1997.

Lovell Developments
Two further lettings have been achieved at the Group's shopping centre at Grantham in a very difficult trading period. A higher level of enquiries has been evident in the last quarter.

The serviced office centre at Wyvol's Court, Swallowfield, near Reading maintained its virtual full occupancy and was sold after the year end.

At Rushy Platt, Swindon, the sale of the industrial site was completed in December 1995.

Lovell Urban Renewal
Satisfactory progress has been made with disposals, with all the principal assets having now been sold, or contracted to sell, other than the development site at Newark and seven small office/shop units in Cardiff.

The last 25 residential units were sold during the year (1995: 66 units). One of the land parcel sales is conditional on obtaining detailed planning consent. The Newark site now has planning permission for the residential and office portions of the scheme. The local authority has resolved to grant consent for the retail part of the site, which will facilitate sale negotiations.

Lovell España
During the year demand for second and leisure homes on Lovell España's two Costa del Sol developments gathered momentum. German and Scandinavian interest remained particularly strong, with significant signs of recovery from the British market.

The projected sale of 26 units was attained and, while this was lower than last year (36 units), it represented all the available stock.

On the Puebla Aida development, adjoining Mijas Golf Course, work is under way on the next phase of 21 units, of which some 30% are already reserved. Detailed design work is in progress for later phases.

At White Pearl Beach, the first apartments in the latest beachside phase will be ready for handover to purchasers early in the new year and, meantime, planning approval is being sought for the next phases of the development.

GERARD McCORMACK FINANCE DIRECTOR

Finance Director's review

Last year we indicated that debt reduction was a priority. By that year end we had set in train a strategy for 1996 and beyond, the first phase of which was designed to reduce debt by the disposal of non-core assets. Therefore, it is pleasing to report success, primarily as the trade-out of Lovell Homes ran to plan. In addition, the beginning of 1996 saw the Group dispose of its plant hire business at a profit. Further successes were also achieved in the several operations which comprise the non-core Other Businesses.

Following successful renegotiations this Summer with our supportive Banking Group, covenants were reset and facilities renewed. The debt reductions and trading result meant that covenants were met and our revised banking arrangements provide greater operational flexibility for the Group going forward.

In the first half there was a disappointing set back in Partnership Homes, with exceptional problems identified

FACTFILE FINANCIAL SUMMARY

Table 1

£m 1996	Core: Construction	Core: Partnership Homes	Core: Centre*	Other	Total
External turnover	**106.9**	**96.7**	–	**50.7**	**254.3**
Operating (loss)/profit	(1.3)	0.1	(4.8)	–	**(6.0)**
Exceptional loss	–	(4.3)	–	–	**(4.3)**
Profit on disposal of discontinued business	–	–	1.4	–	**1.4**
Loss before interest	**(1.3)**	**(4.2)**	**(3.4)**	–	**(8.9)**
Interest payable					**(2.9)**
Loss before taxation					**(11.8)**

£m 1995	Core: Construction	Core: Partnership Homes	Core: Centre*	Other	Discontinued	Total
External turnover	**133.4**	**101.4**	–	**54.0**	**11.8**	**300.6**
Operating profit/(loss)	1.3	0.8	(2.9)	0.9	1.9	**2.0**
Exceptional (loss)/profit	(0.8)	(5.8)	(3.0)	(22.2)	1.3	**(30.5)**
(Loss)/profit before interest	**0.5**	**(5.0)**	**(5.9)**	**(21.3)**	**3.2**	**(28.5)**
Interest payable						**(3.9)**
Loss before taxation						**(32.4)**

*Centre costs include new provisions of £0.85m in 1996 (1995: £1.97m provisions utilised) on two developments. New management have now brought this business back onto an even keel and returned it to an operating profit in the second half. Construction continued its enviable record of profitability before tax, increasing the volume and quality of its order book in the process. On balance, the debt reduction successes have outweighed the trading disappointments. A new base line has been drawn, as central costs reduce commensurate with the scope of Group operations, creating a more sustainable, financially stronger core of Construction and Partnership Homes.

Accounting policies and corporate governance

By ensuring that the Accounts and accompanying notes comply with applicable UK Accounting Standards and that disclosures meet the recommendations of the Cadbury and Greenbury Committees, the Group continues its commitment to best practice standards. To assist users of the Accounts in assessing not only past performance but also future results and cash flows, the segmental analyses have been reduced to focus users on the Continuing core businesses (Construction and Partnership Homes) and to amalgamate the non-core businesses into a single segment as its several elements trade out.

Trading (See Table 1)

A 15% reduction in trading volumes, spread across the Group, produced marginally improved gross profit percentages, with exceptional losses greatly reduced from the levels of 1995. Overheads were even further reduced as the process of refocusing to two core businesses progressed. The continuing difficulties in our markets produced an operating loss of £10.2 million, of which £4.3 million represented exceptional losses reported at the half year. Nonetheless, this represented a 64% improvement over 1995. Second half performance from the core businesses resulted in a small operating loss before Group overheads, an improvement over the first half. Strong working capital control and falling debt and interest rate levels brought a useful 25% reduction in interest payable. As a result a £32.4 million loss on ordinary activities before tax in 1995 was curtailed to £11.8 million for 1996. Clearly, yet further improvements are needed.

Tax and dividends

The losses experienced in the year produced neither a tax charge nor a credit of material amount. While the loss per Ordinary share has reduced from 84p in 1995 to 32.5p in 1996, accumulated losses preclude the declaration of any dividend.

Banking arrangements

As part of the half year process, banking arrangements were renegotiated and new covenants were set. The extension of these facilities to 1999 reflects our principal banks' commitment to and support for the Group. In turn, this should continue to provide ongoing client and creditor confidence in the Group, reflected in the higher levels of work obtained in the year.

Cash Flows

This aspect of our finances has produced considerable success. Reflecting the new strategy, an operating cash outflow of £7 million in 1995 was reversed to an inflow of £21 million in 1996, representing a £28 million turnaround. Including the sale of the Group's plant hire business, an outflow before financing of £17 million in 1995 was turned into an inflow of £25 million, in this instance a £42 million change. In addition, the Group's share of off balance sheet debt fell by £6 million, providing a successful conclusion to the prime objective set last year. Further non-core assets remain available for disposal.

Financial position

Continuing, but reducing, losses have inevitably diminished net assets, which now stand at £18 million. However, the strength of the cash inflow in 1996 has brought on balance sheet gearing down by half from 141% in 1995 to 72% in 1996. Despite the long trade-out timescale for the Group's US land and remaining UK commercial developments (interests held off balance sheet), total gearing also produced a reduction from 221% to 173%. Looking at the last five years, the Group's debt position is now at its lowest level. (See table 2).

Table 2

£m	**1996**	1995	1994	1993	1992
On balance sheet net borrowings	**13.1**	42.2	25.5	95.0	79.9
Off balance sheet borrowings	**18.4**	24.2	26.3	39.5	52.3
Total debt	**31.5**	66.4	51.8	134.5	132.2

Post balance sheet event

On 18 November 1996, the Group sold its interests in Wyvols Court and Swallowfield Office Services Limited, a serviced offices property and business respectively, for £4 million in cash. This continued the non-core asset disposal programme and off balance sheet debt of £2.9 million was repaid (Group's equity share 50%) with the balance of £1.1 million reducing Group on balance sheet debt.

Strategic actions during 1996 have produced a creditable reversal of financial fortunes from 1995. They have created a platform for the future, with a capital base strong enough to fund the immediate needs of the refocused core businesses.

Directors

Sir David Hardy, FCA, FCIT, 66
was appointed to the Board as non-executive Chairman on 1 May 1994. He is also Chairman of the Trustees of the National Maritime Museum, MGM Assurance and Transport Research Foundation. Formerly he was Chairman of London Docklands Development Corporation and Chelsea Harbour Limited, and Deputy Chairman of London Transport. He is a Director of James Fisher, Hanson, Imperial Tobacco Group, Conrad Ritblat and Stirling Lloyd and an Advisory Director of HSBC Investment Bank.

David Heppell, MSc, BSc (Econ), 53
was appointed to the Board on 23 October 1995 as Chief Operating Officer and succeeded to the post of Chief Executive on 1 December 1995. He joined the Group in 1994 in the position of President of Lovell America Inc. Before joining the Group he held senior positions in George Wimpey plc, including President of its US subsidiary.

Gerard McCormack, LLB, CA, 44
was appointed to the Board as Finance Director on 1 April 1994 and will resign on 9 December 1996 to take up a Board appointment with another plc. He joined the Group in 1991 as Group Financial Controller having gained wide experience in the UK and abroad in the accounting profession.

George Miller, FRICS, 54
was appointed to the Board in March 1992. He joined the Group in 1960 and was Managing Director of the Construction Division from June 1991 to September 1995. He was appointed Managing Director of the Partnership Homes Division in January 1996.

Cedric Scroggs, 55
non-executive Director, was appointed to the Board in September 1990. He is a former Director and Chief Executive of Fisons plc.

Geoffrey Taylor, FCIB, CBIM, 69
non-executive Director, was appointed to the Board in June 1987. He was previously Group Chief Executive and Vice Chairman of Midland Bank plc. Among several senior positions held, he is Chairman of Foster Trading Company Ltd. In approaching his 70th birthday, he is not seeking re-election at the forthcoming Annual General Meeting.

Paul Sellars, FCA, 42
will be appointed to the Board as Finance Director on 9 December 1996. He has recently been the Finance Director of Berkeley Homes plc prior to which he had extensive experience in the property and construction sector.

Audit Committee
G W Taylor – *Chairman*
Sir David Hardy
C A Scroggs

Executive Remuneration and Nomination Committee
Sir David Hardy – *Chairman*
C A Scroggs
G W Taylor

Environmental Committee
G W L Miller
G W Tilbrook

Corporate governance

The workings of the Board and its committees

The Directors consider that the Company has complied throughout the year with the Code of Best Practice established by the Committee on the Financial Aspects of Corporate Governance (Cadbury Committee) and has made disclosures in accordance with the Code of Best Practice established by the Report of a Study Group chaired by Sir Richard Greenbury (Greenbury Committee). The Statement of Directors' responsibilities is set out on page 25.

The Board

The Board has operated since January 1996 with a non-executive Chairman and a Chief Executive who, together with 4 other Directors, have comprised a board of 3 non-executive Directors and 3 executive Directors. The Board has monthly meetings when it considers written and oral reports from the executive Directors. The Board reserves to itself certain powers including determining overall Group strategy and significant financial matters. The Board delegates clearly defined powers to its Audit, Environmental, General Purposes and Executive Remuneration and Nomination Committees. The Chief Executive exercises his executive powers through a Chief Executive's Committee which also meets on a monthly basis.

The Board's policy is to continue to review the Group's structure and procedures to ensure that it is able to exercise effective control.

Going concern

The Directors have made enquiries and are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider it appropriate to adopt the going concern basis in preparing the Accounts.

Internal financial control

The Directors have overall responsibility for the Group's system of internal control and for monitoring its effectiveness. Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Group's system is designed to provide the Directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately.

New procedures were put in place during 1995 following the identification of weaknesses in the internal control systems on certain large contracts in the Partnership Homes Division. Following a detailed reappraisal of the assumptions that had been made for the completion of the contract at Wyther Park, Leeds and the project at Caswell Bay, the Board formed the view that the previous assumptions of the financial effects of completing the schemes had been excessively optimistic and provided for exceptional losses at the half year.

The major elements of the Group's controls and systems are as follows:

i) A comprehensive budgeting system requiring operating divisions to set out their expectations for the next year and subsequent periods. This is then reviewed and approved by the Board. The Board receives monthly reports against this budget with narrative on variances. In addition an updated forecast is produced quarterly.

ii) Short term cash monitoring achieved by means of both monthly and weekly forecasts which are compared against budget and previous forecasts.

iii) Clearly defined capital investment guidelines and levels of authority, with certain matters reserved for the Board.

iv) An organisational structure within which individual responsibilities are identified and monitored.

Audit Committee

The Audit Committee had two meetings in the year. The terms of reference of the Committee include monitoring the auditors' performance and reviewing accounting policies and financial reporting procedures. The Chief Executive, Finance Director and representatives of the auditors are normally invited to the meetings.

Environmental Committee

An Environmental Committee chaired by an executive Director has been formed to draw up and keep under review a Group environmental policy.

General Purposes Committee

The General Purposes Committee is constituted by two or more executive Directors and considers routine day-to-day business decisions which are then reported to the Board.

The Directors of the Partnership Homes and Construction divisions have met on a monthly basis during the year to consider written and oral reports prepared by the divisions' management. The Board of the Group's US division met quarterly during the year.

Executive Remuneration and Nomination Committee Report

Structure

The Executive Remuneration and Nomination Committee consists of the three non-executive Directors with Sir David Hardy as Chairman. The non-executive Directors do not have any personal interest in the matters to be decided by the Committee other than as shareholders, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in the running of the Company.

The Executive Remuneration and Nomination Committee has met when necessary during the year. The Company seeks to provide competitive salaries and benefits to all its employees. The policy is to ensure that benefit packages provided are comparable to those provided by other companies in the sector.

Terms of reference

The terms of reference of the Executive Remuneration and Nomination Committee are as follows:

(a) To make recommendations to the Board to assist it in its appointment and retirement of executive and non-executive Directors including agreeing their terms of appointment setting out their duties, remuneration and review terms.

(b) To review recommendations from the Chief Executive on the overall remuneration and benefits policy of the Group, with the power and authority to amend if they consider appropriate.

(c) To determine the remuneration and benefits, including all bonus schemes, of the executive Directors and the Directors of divisional parent companies and other executives of similar status.

(d) To determine the allocation of share options granted under the provisions of the Lovell Share Option schemes.

Review of key matters

The Executive Directors all have service contracts requiring two year periods of notice of termination by either party. Such contractual obligations were entered into prior to the publication of the Greenbury Report with the exceptions mentioned below.

The service contract of the Chief Executive contains provisions requiring a two year period of notice of termination by either party for the reasons set out in last year's report.

P Sellars' service contract will provide for a one year period of notice of termination by either party.

D A Rees' service contract provided for a two year notice period by either party. Notice of termination of employment was given by the Company on 31 January 1996 and he left the Company's employment on 24 June 1996. An offer of settlement of D A Rees' contractual entitlement has been made by the Company but not accepted. Proceedings have been issued against the Company by D A Rees.

Remuneration policy

After consideration the Committee agreed it was inappropriate at this time to invite shareholders to approve its remuneration policy at the Annual General Meeting this year. In forming its remuneration policy, the Committee has given full consideration to the best practice provisions set out in Sections C and D of the Greenbury Report.

Salaries

The salaries and remuneration of the non-executive Chairman and other non-executive Directors and the executive Directors are recommended by the Committee and set by the Board. They are determined by comparison with emoluments paid to Directors in similar companies of a similar size and after a review of the performance of the individual. It is the aim of the Committee to reward Directors competitively and on the broad principle that they should be in the range of median to upper-quartile of remuneration paid to senior management of comparable public companies. For guidance, the Committee refers to published survey data.

Summary of the emoluments of the Company's Directors, including pension contributions during the year:

		Notes	1996 £000	1995 £000
Executive Directors –	salary and benefits	1	**551**	792
	bonuses		**–**	39
	pension contributions		**363**	319
	tax on supplementary pensions	2	**39**	136
	compensation for loss of office	3	**300**	–
	payment to former director	4	**–**	122
Non-executive Directors			**90**	90
Total emoluments during the year			**1,343**	1,498

No fees were paid

	Date of appointment	Date of resignation	Notes	Emoluments £000	Compensation for loss of office £000	Benefits £000	Pension contributions £000	1996 Total emoluments £000	1995 Total emoluments £000	Companies Act band 1996 £000	Companies Act band 1995 £000
Executive Directors											
D H Heppell	23 Oct 95		2	138	–	38	65	**241**	–	**175-180**	–
G J McCormack		9 Dec 96		102	–	6	17	**125**	124	**105-110**	105-110
G W L Miller				118	–	7	22	**147**	176	**120-125**	150-155
Non-executive Directors											
Sir David Hardy				60	–	–	–	**60**	60	**55-60**	55-60
G W Taylor				15	–	–	–	**15**	15	**10-15**	10-15
C A Scroggs				15	–	–	–	**15**	15	**10-15**	10-15
Former Directors											
R H Sellier		30 Nov 95	2,3	36	108	24	237	**405**	595	**165-170**	365-370
P D L Butcher		30 Nov 95	3	20	78	3	4	**105**	153	**100-105**	130-135
D A Rees		23 Jan 96		72	–	4	11	**87**	117	**75-80**	100-105
E A Smith		30 Nov 95	2,3	16	114	6	7	**143**	121	**135-140**	100-105
T W West		31 Mar 94	4	–	–	–	–	**–**	122	**–**	–
				592	300	88	363	**1,343**	1,498		

Notes

1. Benefits normally consist of the provision of a company car, with fuel provided, private medical cover and taxation payments on the benefit of the unapproved pension scheme, where appropriate. (see note 2).
2. The pensions of certain Directors are not fully fundable by the main pension scheme as a result of the government's earnings cap rules. The Company made additional payments into an unapproved pension scheme. In order to place the relevant Directors in the same position as their colleagues the Company met the taxation payments that would have been suffered by the individuals. This sum is included in benefits. The only significant payment made by the Company related to R H Sellier where the Company paid £135,200 in taxation during the year ended 30 September 1995.
3. In the year the Company agreed to the early termination of three executive Directors' contracts. The full costs provided in 1995 for these individuals were:
   (a) R H Sellier: a payment of £107,500, with continued use of a company car and other benefits until the end of May 1996. The total cost of this agreement was £140,000. In addition the Company made a payment into the main staff pension scheme of £216,500 to fund its contractual pension liabilities to him;
   (b) P D L Butcher: a payment of £147,015 payable over the period to February 1997, with the continued use of a company car and other benefits until May 1996.
   (c) E A Smith: a payment of £284,000 payable over the period to December 1997, with the continued use of a company car and other benefits until November 1996.
   The amounts paid under these agreements are included in the tables above.
4. At the time of the Financial Restructuring in 1994 T W West, then the Finance Director, entered into a conditional contract and resigned from the Board. The payment to him was made under the terms of that contract, which was completed in September 1995.

Bonus scheme
The Company provides a discretionary bonus incentive scheme for directors and senior executives of the operating companies, linked to the performance of the business for which they are responsible. Maximum bonus potential is set according to seniority.

There has been no bonus scheme for the Directors of the Company during the year.

Share Option scheme
The Lovell 1995 Executive Share Option scheme was established and approved at the Annual General Meeting of the Company on 24 January 1995. The Rules of the scheme are in accordance with institutional guidelines. No options have been granted under the scheme during the year.

Long Term Performance Related Incentive Scheme
After careful consideration the Committee has decided that the most effective method of aligning senior management's incentive entitlements with the interests of the shareholders is by the introduction of a Long Term Incentive scheme. A resolution is being proposed at the Annual General Meeting for such a scheme, full details of which are provided in the accompanying Chairman's letter to shareholders.

Pensions
The Group provides retirement benefits for employees by way of three independent pension schemes. The assets of these schemes are held by separate trustees and managed by independent investment managers. The chairman of the principal scheme is a non-executive Director of the Company. Other trustees include a current pensioner and two trustees who are not associated with the Company. The practice of including the average of three consecutive years' bonuses in the calculation for final pensionable salary for executive Directors, which commenced in 1985, ceased prior to D H Heppell's appointment in 1995.

Safety at Work and Environmental policies

The Group is committed to progressive improvement in health, safety and welfare standards and conducts its undertakings having regard to the Health & Safety at Work Act 1974 and other relevant legislation and regulations.

It is the Safety at Work policy of the Group to:

- Comply with all relevant legislative requirements pertaining to health, safety and welfare as the minimum standard;
- Pursue high standards of health, safety and welfare as an integral part of efficient management of the business and to ensure that decisions about other priorities take proper account of health and safety requirements;
- Safeguard the health, safety and welfare of all its employees while at work, and to provide, so far as is reasonably practicable, working environments which are safe and without risk to health;
- Conduct its undertakings in such a way as to ensure, so far as is reasonably practicable, that people not in its employment, but who may be affected, are not exposed to risks as regards their health and safety;
- Manage a programme to ensure that the Group understands and complies with changing legislation and policies and assists where possible in developing together with other industry, government and professional bodies a betterment of safety policy and objectives;
- Provide the necessary training to enable all employees to carry out their responsibilities under this policy.

Environmentally the Group is committed to the development and implementation of a corporate environmental policy and environmental management system which will ensure that its activities are carried out in a way which maximises positive benefits to the environment.

It is the Environmental policy and objectives of the Group to:

- Comply with all relevant legislative requirements and codes of practice pertaining to the environment as the minimum standard;
- Pursue high standards of environmental management and seek to ensure that decisions on other priorities take due account of environmental issues insofar as they lie within the Group's control;
- Make efficient use of natural resources and manage waste;
- Minimise disruption or nuisance on or adjoining its sites and be sensitive to local concern;
- Avoid pollution of the air, ground or water;
- Ensure that waste is handled and disposed of in a proper manner;
- Promote awareness and understanding of the Group environmental policy amongst all employees;
- Ensure that sub-contractors and suppliers are aware of relevant parts of the Group environmental policy and, in particular, the actions required of them;
- Review performance to ensure that policies and objectives are being implemented in a manner which best serves the communities in which the Group does business and in the interests of shareholders, customers and employees.

Auditors' report on corporate governance

Review report by the Auditors to Y J Lovell (Holdings) plc on corporate governance

In addition to our audit of the Accounts, we have reviewed the Directors' statements on pages 17 to 20 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to any non-compliance with those paragraphs of the Code which is not disclosed.

We carried out our review in accordance with Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board and assessed whether the Directors' statements on going concern and internal financial controls are consistent with the information of which we are aware from our audit. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company to continue in operational existence.

Opinion

With respect to the Directors' statements on internal financial control and going concern on pages 17 and 18, in our opinion the Directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for Directors) and such statements are consistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain Directors and officers of the Company, and examination of relevant documents, in our opinion the Directors' statement on page 17 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.

Ernst & Young
Chartered Accountants
London

5 December 1996

Report and Accounts

Directors' report

The Directors present their Report and the audited Accounts of the Company and its subsidiaries for the year ended 30 September 1996.

Principal Activities and Business Review

The principal activities of the Group continued to be construction and partnership housing, together with the management of discontinuing businesses. More details of these activities, the year's trading, post balance sheet events and future developments are contained in the Chairman's statement, the Chief Executive's report, the Operational review, the Finance Director's review and the Accounts.

The Group does not undertake any research and development.

If the Cumulative Convertible Redeemable Preference shares had been converted into Ordinary shares at that date, interests in the fully diluted issued Ordinary share capital of the Company would include:

	% of fully diluted issued Ordinary share capital
Barclays de Zoete Wedd	11.7%*
National Westminster Bank	8.6%
Barclays Bank	8.3%
Signet Bank	4.9%
Swiss Bank Corporation	4.7%
Hill Samuel Bank	3.6%
The Bank of Scotland	3.5%
Canadian Imperial Bank of Commerce	1.5%**
N M Rothschild & Sons	1.3%

* Note: 10.6% held non-beneficially

** held non-beneficially

A list of the principal operating subsidiary undertakings and joint venture of the Group at 30 September 1996 appears on page 39.

Results and Dividends

The Group loss for the year before taxation was £11,756,000 (1995: £32,393,000). The Group loss attributable to Ordinary shareholders was £12,991,000 (1995: £33,528,000). In view of the results for the year ended 30 September 1996, the Directors recommend that there should be no dividend payable on the Ordinary shares (1995: £nil). An amount of £12,991,000 has been transferred from reserves (1995: £33,528,000).

Shareholdings

The Company is neither a 'close company' nor a 'close investment holding company' for taxation purposes. At 25 November 1996 notification had been received of the following interests which exceed a 3% interest in the issued Ordinary share capital of the Company:

	Ordinary shares of 10p	% of issued Share Capital
M & G Investment Management	3,750,852	9.4
Scottish Widows Fund & Life Assurance Society	3,008,681	7.5
Förvaltnings A B Browallia	2,125,000	5.3
CTCL-CU Prestige Smaller Co's Fund	2,000,000	5.0
Schroder Recovery Fund	1,943,543	4.9
Mr E Nassar	1,650,000	4.1

Directors and their interests

The current Directors are listed on page 16. D A Rees resigned as a Director on 23 January 1996 and G J McCormack has resigned with effect from 9 December 1996.

D H Heppell was appointed a Director on 23 October 1995 and P Sellars was appointed a Director on 19 November 1996 with effect from 9 December 1996. R H Sellier, P D L Butcher and E A Smith retired as directors on 30 November 1995. Having been appointed since the last Annual General Meeting, P Sellars retires from the Board in accordance with the Articles of Association and, being eligible, offers himself for election. Sir David Hardy retires from the Board by rotation and, being eligible, offers himself for re-election. G W Taylor also retires from the Board by rotation and will not be standing for re-election.

During the year the Company maintained liability insurance for its Directors and officers as permitted by section 310(3) of the Companies Act 1985 and by Article 96 of the Company's Articles.

The interests of the Directors, their wives and infant children in the shares of the Company, all of which were beneficial interests, were as shown below. No Director has any interests in any other Group company. The share options are exercisable at prices and between dates as disclosed in note 20 to the Accounts. There have been no movements since the year end.

	Options		Ordinary shares	
	30.9.1996	30.9.1995	30.9.1996	30.9.1995
Sir David Hardy	–	–	55,000	15,000
D H Heppell	50,000	50,000	60,000	–
G J McCormack	52,781	52,781	6,000	6,000
G W L Miller	63,906	63,906	5,911	5,911
C A Scroggs	–	–	5,000	5,000
G W Taylor	–	–	6,720	6,720

Share Options granted under The Lovell Executive Scheme

	1992	1994	Total 30 September 1996
D H Heppell	–	50,000	50,000
G J McCormack	2,781	50,000	52,781
G W L Miller	13,906	50,000	63,906

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

Fixed assets
Details of the movements in fixed assets are given in notes 9 and 10 to the Accounts.

Donations
No charitable donations were made during the year (1995: £6,000). No political donations were made during the year (1995: £nil).

Employee involvement
The Directors recognise the need for communication with employees at every level. All employees receive a copy of the Annual Report and Accounts which together with briefing meetings and internal notice board statements keep them informed of the Group's progress. Details of the Company's Share Option Schemes can be found in note 20 to the Accounts. A Company SAYE Employee Share Option Scheme has been established but no options have been granted under the scheme to date. The Group's Health and Safety and Environmental policies are set out on page 20.

Post balance sheet event
On 18 November 1996 the Group sold its interests in Wyvols Court and Swallowfield Office Services Limited. Swallowfield Office Services is a serviced office business operating from Wyvols Court, a property located in Swallowfield near Reading. The sale to HQ Grosvenor Street Limited was made for a cash consideration of £4 million. The proceeds repaid the off balance sheet loan of £2.9m secured on the property with the balance used to reduce Group on balance sheet borrowings. The sale should not lead to any tax charge.

CREST
CREST is the new computerised system for the settlement of share dealings on the London Stock Exchange. It will reduce the amount of documentation currently required and also make the trading of shares faster and more secure. CREST will enable shares to be held in an electronic form instead of the traditional share certificates.

CREST is voluntary: shareholders can keep their share certificates if they wish. This may be especially preferable for shareholders who do not trade frequently.

This is to give you notice, in accordance with the Uncertificated Securities Regulations 1995 ("the Regulations"), that, on 19 November 1996 the Company resolved by a resolution of its Directors that title to the Ordinary shares of 10p each in the capital of the Company, in issue or to be issued, may be transferred by means of a relevant system. The resolution of the Directors will become effective immediately prior to CRESTCo Limited granting permission for the shares concerned to be transferred by means of the CREST system.

It is expected that, subject to the approval of the operator of the CREST system, dealings in the Company's Ordinary shares will be settled in CREST from 24 March 1997.

Share capital
Since the last Annual General Meeting no shares have been issued nor any offer made or agreement entered into which would require shares to be issued.

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

Supplier payment policy
The Company recognises the importance of good relationships with its suppliers and sub-contractors, therefore its established payment policy is to:

(a) agree payment terms in advance of any commitment being entered into;

(b) ensure suppliers are made aware of these terms by inclusion of the terms of payment on the order or contract;

(c) ensure that payments are made in accordance with the terms of the contract or order providing that the presented documentation is complete and accurate.

Auditors
Ernst & Young have expressed their willingness to continue as auditors. A resolution will be proposed at the Annual General Meeting to reappoint them and to authorise the Directors to fix their remuneration.

By Order of the Board

A M-A Price
Secretary

5 December 1996

Statement of Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

Auditors' report

To the members of Y J Lovell (Holdings) plc

We have audited the accounts on pages 26 to 39, which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and on the basis of the accounting policies set out on pages 30 and 31.

Respective responsibilities of Directors and Auditors

As described above, the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 30 September 1996 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Ernst & Young
Chartered Accountants
Registered Auditor
London

5 December 1996

Group profit and loss account

For the year ended 30 September	Notes	Continuing Businesses 1996 Before Exceptional Items £000	Exceptional Items £000	Total £000	1995 Total £000
Turnover	2	254,311	–	254,311	300,615
Cost of sales	3	(240,092)	(3,810)	(243,902)	(289,170)
Gross profit		14,219	(3,810)	10,409	11,445
Administrative expenses	3	(20,948)	(450)	(21,398)	(32,534)
Income from joint ventures	11	–	–	–	(9,316)
Other operating income	4	761	–	761	1,910
Operating loss		(5,968)	(4,260)	(10,228)	(28,495)
Profit on disposal of discontinued business	30			1,388	–
Loss on ordinary activities before interest	2			(8,840)	(28,495)
Interest payable	5			(2,916)	(3,898)
Loss on ordinary activities before taxation				(11,756)	(32,393)
Taxation recoverable on ordinary activities	7			6	106
Loss on ordinary activities after taxation				(11,750)	(32,287)
Dividends and other appropriations:					
Accrued cumulative preference dividend (including appropriation of issue costs £141,000 (1995: £141,000))				(1,241)	(1,241)
Loss for the year				(12,991)	(33,528)
Loss per Ordinary share	8			(32.5)p	(84.0)p

Group statement of total recognised gains and losses

For the year ended 30 September	Note	1996 £000	1995 £000
Loss for the year after taxation		(11,750)	(32,287)
Revaluation profit on disposal of fixed assets	21	189	–
Currency translation differences on foreign currency net investments	21	(115)	94
Overprovision for expenses of issuing shares		–	9
Total recognised gains and losses relating to the year		(11,676)	(32,184)

There are no material differences between the result disclosed in the profit and loss account and the result on an unmodified historical cost basis.

Group balance sheet

At 30 September	Notes	1996 £000	1995 £000
Fixed assets			
Tangible assets	9	**5,286**	13,852
Current assets			
Investments in joint venture developments	11	**20,528**	24,929
Stocks and work in progress	12	**55,658**	95,405
Debtors: due within one year	13	**28,424**	37,016
due after more than one year	13	**14,278**	14,165
Cash at bank and in hand	14	**7,229**	1,138
		126,117	172,653
Creditors: amounts falling due within one year	15	**77,578**	89,849
Net current assets		**48,539**	82,804
Total assets less current liabilities		**53,825**	96,656
Creditors: amounts falling due after more than one year			
Long term debt	16	**13,663**	35,885
Other creditors	17	**13,132**	18,754
		26,795	54,639
		27,030	42,017
Provisions for liabilities and charges	19	**8,847**	11,969
		18,183	30,048
Shareholders' funds			
Share capital	20	**26,912**	26,912
Share premium account	21	**31,437**	31,437
Revaluation reserve	21	**2,265**	2,454
Capital reserve	21	**314**	314
Profit and loss account	21	**(42,745)**	(31,069)
		18,183	30,048
Equity interests	20/21	**(28,445)**	(15,480)
Non-equity interests	20/21	**46,628**	45,528
		18,183	30,048

Approved by the Board and signed on its behalf:

D H Heppell
G J McCormack
Directors

5 December 1996

Company balance sheet

At 30 September	Notes	1996 £000	1995 £000
Fixed assets			
Tangible assets	9	**5,065**	5,412
Investments	10	**74,798**	57,438
		79,863	62,850
Current assets			
Debtors: due within one year	13	**35,052**	63,282
due after more than one year	13	**1,188**	1,174
Cash at bank and in hand	14	**7,019**	2
		43,259	64,458
Creditors: amounts falling due within one year	15	**84,810**	64,805
Net current liabilities		**(41,551)**	(347)
Total assets less current liabilities		**38,312**	62,503
Creditors: amounts falling due after more than one year			
Long term debt	16	**11,329**	26,290
Other creditors	17	**2,806**	2,782
		14,135	29,072
		24,177	33,431
Provisions for liabilities and charges	19	**5,994**	2,790
		18,183	30,641
Shareholders' funds			
Share capital	20	**26,912**	26,912
Share premium account	21	**31,437**	31,437
Revaluation reserve	21	**2,265**	2,454
Capital reserve	21	**275**	275
Profit and loss account	21	**(42,706)**	(30,437)
		18,183	30,641
Equity interests	20/21	**(28,445)**	(14,887)
Non-equity interests	20/21	**46,628**	45,528
		18,183	30,641

Approved by the Board and signed on its behalf:

D H Heppell
G J McCormack
Directors

5 December 1996

Group statement of cash flow

For the year ended 30 September	Notes	1996 £000	1995 £000
Net cash inflow/(outflow) from operating activities	27	**20,720**	(7,492)
Returns on investments and servicing of finance			
Interest received		**248**	782
Interest paid		**(2,692)**	(3,553)
Interest element of finance lease payments		**(2)**	(372)
Dividends paid		**–**	(1,133)
Net cash outflow from returns on investments and servicing of finance		**(2,446)**	(4,276)
Taxation			
UK corporation tax paid		**–**	(285)
Overseas tax recovered/(paid)		**109**	(7)
Net cash inflow/(outflow) from taxation		**109**	(292)
Investing activities			
Receipts from sale of subsidiary undertaking	30	**5,760**	–
Sale of partnership interest	11	**4,105**	–
Investments in and movements on loans to joint ventures	11	**(3,271)**	(2,704)
Payments to acquire tangible fixed assets		**(67)**	(4,382)
Receipts from sales of tangible fixed assets		**349**	1,986
Assumption of joint venture partner's responsibilities	29	**(122)**	–
Net cash inflow/(outflow) from investing activities		**6,754**	(5,100)
Net cash inflow/(outflow) before financing		**25,137**	(17,160)
Financing			
(Repaid)/new loans	31	**(22,560)**	2,567
(Decrease)/increase in capital element of finance leases	31	**(42)**	2,812
Recovered issue costs		**–**	9
Net cash (outflow)/inflow from financing		**(22,602)**	5,388
Increase/(decrease) in cash and cash equivalents	28	**2,535**	(11,772)

Notes to the accounts

1 Accounting policies

(i) Basis of accounts

The accounts have been prepared on the going concern basis and in accordance with applicable accounting standards under the historical cost convention, modified by the revaluation of certain land and buildings.

(ii) Basis of consolidation

The Group accounts consolidate the accounts of the Company, its subsidiary undertakings and the attributable share of the results and net assets of associated undertakings, all made up to 30 September in each year. The results and net assets of subsidiary and associated undertakings, acquired or disposed of are included in the Group profit and loss account and balance sheet using the acquisition method of accounting from the effective date of acquisition or to the effective date of disposal respectively. Undertakings, other than subsidiary undertakings, in which the Group has an investment representing not less than 20% of the voting rights and over which it exerts significant influence are treated as associated undertakings. Where necessary, adjustments are made on consolidation to bring the results of all undertakings into line with Group accounting policies.

(iii) Associated undertakings and joint ventures

In the normal course of business, the Group invests in associated undertakings and joint ventures which are short term investments and are therefore shown as current assets. Their stocks and work in progress are stated at the lower of cost and net realisable value. In the case of joint venture properties under development, cost includes direct development administrative expenses and interest on non-group specific project finance. The carrying value of these investments is amended in certain cases to incorporate further provisions made by the Directors.

(iv) Long term contracts

Long term contracts are stated at cost plus attributable profit after providing for anticipated future losses and contingencies. Progress payments received are deducted from these amounts. Cost includes appropriate administrative expenses. No account is taken of claims recoverable which have not been agreed. Long term contract work in progress is included in debtors as amounts recoverable on contracts.

(v) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value, amended in certain cases to incorporate further provisions made by the Directors. Cost includes appropriate administrative expenses and excludes interest.

(vi) Turnover

Turnover, excluding sales within the Group and Value Added Tax, comprises:

- the value of work executed during the year on construction contracts;
- sales of residential properties and land based upon legal completions;
- gross rental income from plant hire;
- sales of commercial properties based upon legal completions.

(vii) Depreciation

Depreciation is provided on all tangible fixed assets, other than investment properties not occupied by Group undertakings. Provision is made at rates calculated to write off the cost or valuation of each asset, less estimated residual value, evenly over its expected useful life as follows:

Group occupied property	–	fifty years or remaining lease period
Plant and vehicles	–	three to ten years
Office equipment	–	three to seven years

(viii) Properties

Certain of the Group's properties are held for long term investment. Investment properties are accounted for in accordance with SSAP19 (revised), as follows:

(i) investment properties are revalued annually. Any changes in value are shown in the statement of total recognised gains and losses, except where a deficit on an individual property is expected to be permanent, in which case it is charged to the profit and loss account; and

(ii) no depreciation or amortisation is provided in respect of freehold and long leasehold investment properties.

Although the Companies Act 1985 would normally require the systematic annual depreciation of fixed assets, the Directors believe that this policy of not providing depreciation or amortisation is necessary in order for the accounts to give a true and fair view, since the current value of investment properties, and changes in that current value, are of prime importance rather than a calculation of systematic annual depreciation. Depreciation is only one of the many factors reflected in the annual valuation, and the amount which might otherwise have been shown cannot be separately identified or quantified.

The profit or loss arising on disposal of properties is disclosed separately as an exceptional item, when material. The profit or loss represents the difference between proceeds and net book value.

(ix) Deferred taxation

Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

(x) Foreign currencies

Company

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

Group

The accounts of overseas subsidiary and associated undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves. All other translation differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against Group equity investments in foreign enterprises, which are taken directly to reserves together with the exchange difference on the opening net investment in these enterprises.

(xi) Goodwill

Goodwill is the difference between the amount paid on the acquisition of a business and the aggregate fair value of its separable net assets. It is eliminated by a charge to reserves in the year in which it arises.

(xii) Leasing commitments

Assets held under finance leases are capitalised and are depreciated in accordance with the depreciation policy. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

(xiii) Pensions

The regular cost of the defined benefit pension scheme is charged to the profit and loss account over the service lives of employees in the scheme. Variations identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Notes to the accounts

1 Accounting policies continued

(xiv) Discontinuing businesses

Provision is made for the direct costs and operating losses, less aggregate profits, to be realised in future periods up to the expected date of discontinuance for all businesses classed as "other".

(xv) Discontinued businesses

Following its sale on 22 November 1995 the Group's plant hire business has been classed as a discontinued operation.

(xvi) Capital instruments

Capital instruments issued are classified as debt or shares in accordance with Financial Reporting Standard 4 "Capital Instruments". Shares issued are further classified into equity and non-equity components. The non-equity element of shareholders' funds represents the nominal value of the Cumulative Convertible Redeemable Preference Shares issued and the associated share premium, together with accumulated unpaid preference dividends.

Issue costs relating to shares are written off to the share premium account. The issue costs associated with non-equity shares are appropriated through the profit and loss account over the term of the instrument as part of the preference dividend for the period. Issue costs relating to debt instruments are netted against initial proceeds on the face of the balance sheet. Such issue costs are amortised to the profit and loss account as part of the interest expense for the period over the term of the debt.

2 Segmental analyses

External turnover, loss on ordinary activities before interest and taxation, and net assets are analysed as follows:

By geographical area (origin and destination)	1996 £000	1995 £000
Turnover		
United Kingdom	**251,630**	296,273
USA	**11,546**	27,391
Spain	**2,449**	4,986
Gross turnover	**265,625**	328,650
Less: Share of United Kingdom joint ventures	**737**	644
Share of USA joint ventures	**10,577**	27,391
External turnover	**254,311**	300,615
(Loss)/profit on ordinary activities before interest and taxation		
Before exceptional (losses)/profits:		
United Kingdom	**(5,968)**	1,605
USA	**–**	550
Spain	**–**	(112)
	(5,968)	2,043
Less exceptional (losses)/profits:		
United Kingdom	**(4,260)**	(17,362)
USA	**–**	(14,402)
Spain	**–**	1,226
	(4,260)	(30,538)
Profit on disposal of UK discontinued business	**1,388**	–
Loss on ordinary activities before interest and taxation	**(8,840)**	(28,495)

By class of business	1996 £000	1995 £000
Turnover		
Continuing – core businesses		
Construction	**106,952**	133,444
Partnership homes	**96,740**	101,411
	203,692	234,855
Continuing – other businesses	**61,933**	82,039
Discontinued business	**–**	11,756
Gross turnover	**265,625**	328,650
Less: Share of joint ventures	**11,314**	28,035
External turnover	**254,311**	300,615
(Loss)/profit on ordinary activities before interest and taxation		
Before exceptional (losses)/profits:		
Continuing – core businesses		
Construction	**(1,267)**	1,297
Partnership homes	**116**	759
	(1,151)	2,056
Continuing – other businesses	**–**	964
Discontinued business	**–**	1,872
	(1,151)	4,892
Central overhead cost	**(3,967)**	(4,818)
Central provisions (created)/utilised	**(850)**	1,969
	(5,968)	2,043
Less exceptional (losses)/profits:		
Centre	**–**	(3,000)
Construction	**–**	(797)
Partnership homes	**(4,260)**	(5,857)
Other businesses	**–**	(22,198)
Discontinued business	**–**	1,314
	(4,260)	(30,538)
Profit on disposal of discontinued business	**1,388**	–
Loss on ordinary activities before interest and taxation	**(8,840)**	(28,495)

Notes to the accounts

2 Segmental analyses continued

Net assets are invested as follows:

By geographical segment	1996 £000	1995 £000
United Kingdom	(9,874)	1,399
USA	24,863	25,615
Spain	3,194	3,034
Net assets	18,183	30,048

By class of business	1996 £000	1995 £000
Continuing – core businesses		
Construction	(22,422)	(23,405)
Partnership homes	1,469	12,716
	(20,953)	(10,689)
Continuing – other businesses	48,758	74,041
Discontinued business	–	3,488
Central net liabilities	(9,622)	(36,792)
Net assets	18,183	30,048

As permitted by Section 230 of the Companies Act 1985, the Company has not presented its own Profit and Loss Account. The loss after taxation for the financial year dealt with in the accounts of the Company was £12,458,000 (1995: loss £32,525,000).

3 Cost of sales, administrative expenses and exceptional operating (losses)/profits

	1996 £000	1995 £000
Cost of sales:		
Continuing	243,902	284,965
Discontinued	–	4,205
	243,902	289,170
which includes:		
Depreciation of owned assets	61	440
Profit on sale of fixed assets	(39)	(419)
Depreciation on assets held under finance leases	–	1,192
Operating lease rentals in respect of plant and machinery	3,012	3,157
Other operating lease rentals	919	1,133
Administrative expenses:		
Continuing	21,398	28,014
Discontinued	–	4,520
	21,398	32,534
which includes:		
Auditors' remuneration – audit services	280	318
– other services	111	126
Depreciation of owned assets	198	498
Profit on sale of fixed assets	(18)	(24)
Depreciation on assets held under finance leases	9	18
Operating lease rentals in respect of plant and machinery	11	10
Other operating lease rentals	952	1,051

Exceptional operating (losses)/profits comprise:

	1996 £000	1995 £000
Land writedowns – UK	(3,810)	(9,841)
– US joint ventures	–	(9,724)
Property writedowns	–	(6,487)
Buyback incentive	–	(1,522)
Restructuring and closure costs – continuing	(450)	(5,774)
– discontinued	–	(150)
Provisions no longer required – continuing	–	1,646
– discontinued	–	1,314
	(4,260)	(30,538)

4 Other operating income

	1996 £000	1995 £000
Interest receivable	248	782
Net external rents receivable	162	320
Other income	351	808
	761	1,910

5 Interest payable

	1996 £000	1995 £000
On bank loans, overdrafts and bills	3,164	3,868
Other interest payable	189	97
On finance leases	2	372
	3,355	4,337
Less: Prior year provisions utilised	(439)	(439)
	2,916	3,898

6 Employee numbers and remuneration

	1996 No.	1995 No.
The average weekly number of employees during the year was:	1,162	1,567
At 30 September	1,092	1,492
The analysis of the average weekly number of employees during the year was:		
Administration	443	600
Production	719	967
	1,162	1,567

Costs of staff including Directors, during the year amounted to:

	1996 £000	1995 £000
Wages and salaries	24,079	30,291
Social security costs	2,050	2,613
Other pensions costs	2,447	2,648
	28,576	35,552

Directors' emoluments can be found within the Executive Remuneration and Nomination Committee Report on page 18.

7 Taxation recoverable on ordinary activities

	1996 £000	1995 £000
The credit for the year is made up as follows:		
Corporation tax		
Previous year	–	(2)
Overseas tax		
Previous year	6	108
	6	106

UK Corporation tax is calculated at 33% (1995: 33%) of the result for the year as adjusted for tax purposes. The actual tax rate is lower than the statutory rate due principally to the use of tax losses brought forward from previous years.

8 Loss per Ordinary share

The loss per Ordinary share is based upon the loss for the Group of £11,750,000 (1995: loss £32,287,000) plus Preference dividends £1,100,000 (1995: £1,100,000) and appropriation of issue costs £141,000 (1995: £141,000) divided by 39,933,008 (1995: 39,933,008), being the weighted average number of Ordinary shares in issue during the year. Dilution of the loss per Ordinary share is not applicable in 1996 or 1995.

9 Tangible fixed assets

Group	Freeholds £000	Long leaseholds £000	Plant, vehicles & equipment £000	Total £000
Cost or valuation:				
1 October 1995	4,362	1,392	28,035	33,789
Exchange adjustment	–	–	(1)	(1)
Additions	–	–	67	67
Disposals	(250)	(25)	(203)	(478)
Assets of subsidiary sold	–	–	(23,778)	(23,778)
30 September 1996	4,112	1,367	4,120	9,599
Depreciation:				
1 October 1995	298	134	19,505	19,937
Exchange adjustment	–	–	–	–
Provision for year	23	1	244	268
Disposals	–	–	(186)	(186)
Assets of subsidiary sold	–	–	(15,706)	(15,706)
30 September 1996	321	135	3,857	4,313
Net book value:				
30 September 1996	3,791	1,232	263	5,286
30 September 1995	4,064	1,258	8,530	13,852
At cost less depreciation	–	–	263	263
At Directors' valuation in 1996	2,452	1,172	–	3,624
At professional valuation in 1991 less depreciation	1,339	60	–	1,399
30 September 1996	3,791	1,232	263	5,286
Revalued properties:				
Cost	2,309	905		3,214
Accumulated depreciation	321	135		456
30 September 1996	1,988	770		2,758
Properties held for investment	2,452	1,172		3,624
Properties occupied by the Group	1,339	60		1,399
30 September 1996	3,791	1,232		5,023

Company	Freeholds £000	Long leaseholds £000	Plant, vehicles & equipment £000	Total £000
Cost or valuation:				
1 October 1995	4,362	1,367	599	6,328
Additions	–	–	10	10
Disposals	(250)	–	(83)	(333)
30 September 1996	4,112	1,367	526	6,005
Depreciation:				
1 October 1995	298	134	484	916
Provision for year	23	1	66	90
Disposal	–	–	(66)	(66)
30 September 1996	321	135	484	940
Net book value:				
30 September 1996	3,791	1,232	42	5,065
30 September 1995	4,064	1,233	115	5,412
At cost less depreciation	–	–	42	42
At Directors' valuation in 1996	2,452	1,172	–	3,624
At professional valuation in 1991 less depreciation	1,339	60	–	1,399
30 September 1996	3,791	1,232	42	5,065
Revalued properties:				
Cost	2,309	905		3,214
Accumulated depreciation	321	135		456
30 September 1996	1,988	770		2,758
Properties held for investment	2,452	1,172		3,624
Properties occupied by the Group	1,339	60		1,399
30 September 1996	3,791	1,232		5,023

On 22 November 1995 the Group sold its wholly owned plant hire business, LPH Plant Hire Limited. The fixed assets of this subsidiary consisting of plant, vehicles and other equipment were transferred as part of this sale. The net book value of the fixed assets sold was £8,072,000. Of this £5,812,000 was held under finance leases.

A valuation of United Kingdom properties was undertaken at 30 September 1991 by Hillier, Parker, May & Rowden, Chartered Surveyors, on the basis of an open market valuation for existing use.

Investment properties have been included at Directors' valuation at 30 September 1996.

The net book value of plant, vehicles and equipment includes an amount of £nil (1995: £5,848,000) in respect of assets held under finance leases by the Group.

The net book value of plant, vehicles and equipment includes an amount of £nil (1995: £27,000) in respect of assets held under finance leases by the Company.

Notes to the accounts

10 Investments

Company	Subsidiary undertakings £000
Shares at cost:	
1 October 1995	131,224
Additions	10,000
Elimination of dormant undertakings	(2,198)
30 September 1996	139,026
Provisions:	
1 October 1995	73,786
Amounts written off	8,733
Amounts written back	(16,093)
Elimination of dormant undertakings	(2,198)
30 September 1996	64,228
Net book value:	
30 September 1996	**74,798**
30 September 1995	57,438

Details of the principal subsidiary undertakings are included in note 32.

11 Investments in joint venture developments

The investments in joint venture developments consist of:

Group	Share of net liabilities £000	Loan advances £000	Total £000
1 October 1995	(3,402)	28,331	24,929
Exchange	(42)	347	305
Equity adjustments	(1,160)	1,160	–
Share of results	–	–	–
Reclassification to provisions	–	3,646	3,646
Net loan advances	–	3,271	3,271
Sale of partnership interest	(3,041)	(1,064)	(4,105)
Transfer to subsidiary	4,032	(11,550)	(7,518)
30 September 1996	**(3,613)**	**24,141**	**20,528**

The value of invested capital in these joint ventures is immaterial.

The Group's share of the assets and liabilities in these joint ventures comprises:

	1996 £000	1995 £000
Tangible fixed assets	1,403	1,363
Stocks and work in progress	31,803	38,851
Debtors	12,112	12,714
Cash	335	940
Creditors	(7,428)	(9,486)
Partner loans	(23,403)	(23,630)
Bank loans and overdrafts	(2,781)	(3,724)
Medium term loans	(15,654)	(20,430)
Share of net liabilities	(3,613)	(3,402)

The Group's share of the assets and liabilities in each joint venture varies. On average at 30 September 1996 it was 48% (1995: 47%). Stocks and work in progress noted above is stated at the lower of cost and net realisable value, which includes non-Group specific project finance interest of £4,274,000 (1995: £3,994,000). Details of the principal joint venture is shown in note 32. In relation to the above bank borrowings of £18,435,000 (1995: £24,154,000), the Company has given facility guarantees, in addition to those in note 24, as follows:

	1996 £000	1995 £000
Amount of guarantee	25,666	25,590
Amount outstanding	23,443	23,624

On 18 April 1996 the Group sold its 50 per cent interest in Lovell Regency Homes partnership for net book value, to its partner, Regency Corporation Inc. The consideration was $6,610,000 of which $3,000,000 was paid in cash on completion and the balance is by way of an interest bearing note repayable in quarterly instalments until September 1999.

On 5 July 1996 the Group assumed the responsibilities of its partner in Avalon Limited Partnership and Kingsbrook Limited Partnership for a nominal consideration.

At 30 September 1995 a decision was made to discontinue the Group's American operations and full provision was made in accordance with the Group's accounting policies. In order to report this business consistent with the other discontinuing businesses the costs of discontinuance of £3,646,000 have been reclassified as provisions (see note 19).

12 Stocks and work in progress

Group	1996 £000	1995 £000
Residential developments and undeveloped land	46,663	78,601
Commercial developments	6,138	9,813
Stocks of raw materials and consumables	154	311
Part exchange houses	2,703	6,680
	55,658	95,405

The replacement costs of the stocks of raw materials and consumables is not materially different to the carrying value.

13 Debtors

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Due within one year:				
Trade debtors	1,560	3,947	70	297
Amounts owed by subsidiary undertakings	–	–	34,324	61,466
Amounts recoverable on contracts	22,103	25,035	–	–
Mortgage debt	1,910	2,538	–	–
Other debtors	1,576	3,664	160	355
Corporation tax	82	184	82	–
Prepayments and accrued income	1,193	1,648	416	1,164
	28,424	37,016	35,052	63,282
Due after more than one year:				
Mortgage debt	12,704	14,007	–	–
Other debtors	1,574	158	–	–
Amounts owed by group joint venture	–	–	1,188	1,174
	14,278	14,165	1,188	1,174

£9,202,000 of the mortgage debt is repayable between one and five years, £1,359,000 between five and seven years and the balance is repayable on the earlier of the death of the owner, or disposal of the property.

14 Cash at bank and in hand

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Short term deposits	7,000	212	7,000	–
Cash at bank	193	876	17	–
Cash in hand	36	50	2	2
	7,229	1,138	7,019	2

Notes to the accounts

15 Creditors: amounts falling due within one year

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Bank loans and overdrafts – secured	**6,665**	3,109	**–**	–
Obligations under finance leases	**–**	1,282	**–**	14
Payments received on account	**6,630**	4,110	**–**	–
Trade creditors	**21,576**	29,509	**18**	1,281
Other taxation and social security	**967**	1,083	**797**	943
Due to subsidiary undertakings	**–**	–	**81,319**	55,623
Other creditors	**7,265**	3,323	**574**	670
Accruals and deferred income	**34,475**	47,433	**2,102**	6,274
	77,578	89,849	**84,810**	64,805

The bank loans and overdrafts are secured on development work in progress. Interest is payable at rates approximately 1.5% per annum over LIBOR (1995: 2% per annum) except for borrowings of £6,128,000 (1995: £6,116,000 of long term debt) on which interest is payable at a fixed rate of 7% per annum. All the bank loans and overdrafts in 1996 are denominated in US dollars.

16 Long term debt

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Secured bank loans repayable between:				
one and two years	**–**	22,578	**–**	13,726
two and five years	**13,663**	13,307	**11,329**	12,564
	13,663	35,885	**11,329**	26,290

Of the long term debt above £1,975,000 (1995: £9,789,000) is secured on specific development work in progress.

The balance of long term debt is secured by a fixed and floating charge over the net assets of the Group under the terms of a Debenture and Guarantee granted to Barclays Bank plc and others.

Interest is payable on amounts outstanding at rates approximately 1.5% per annum over LIBOR (1995: 2% per annum).

Of total long term debt, approximately £11,063,000 (1995: £29,681,000) is denominated in US dollars.

17 Other creditors: amounts falling due after more than one year

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Pension scheme (see note 25)	**2,806**	2,753	**2,806**	2,753
Obligations under finance leases:				
payable between one and two years	**–**	1,309	**–**	29
payable between two and five years	**–**	1,779	**–**	–
Other creditors	**9,487**	11,111	**–**	–
Accruals and deferred income	**839**	1,802	**–**	–
	13,132	18,754	**2,806**	2,782

18 Deferred taxation

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Taxation deferred and not provided in the accounts of the Group:				
Capital allowances	**–**	667	**–**	–
Property revaluation surpluses and gains rolled over	**748**	810	**748**	810
	748	1,477	**748**	810
Less: unused tax relief	**(748)**	(1,477)	**(748)**	(810)
	–	–	**–**	–

The Group and the Company have further substantial unused UK tax losses available for carry forward against future UK taxable profits. In addition there are tax losses available in both the US and Spanish businesses.

19 Provisions for liabilities and charges

Group	Contract & other £000	Discontinuing businesses £000	Total £000
1 October 1995	4,460	7,509	11,969
Currency translation	–	(25)	(25)
Reclassification from joint ventures	–	3,646	3,646
Provided in year	2,687	–	2,687
Utilised	(3,346)	(6,084)	(9,430)
30 September 1996	**3,801**	**5,046**	**8,847**
Company	£000	£000	£000
1 October 1995	2,124	666	2,790
Provided in year	1,545	3,131	4,676
Utilised	(1,390)	(82)	(1,472)
30 September 1996	**2,279**	**3,715**	**5,994**

Included within the provision utilised of £9,430,000 in the Group £4,991,000 relates to provisions now allocated to specific projects and netted against work in progress.

20 Share capital

	1996 £	1995 £
a Authorised:		
88,784,949 Ordinary shares of 10p each	**8,878,495**	8,878,495
35,666,667 A Cumulative Convertible Redeemable Preference shares of 50p each ("A Preference")	**17,833,333**	17,833,333
10,171,335 B Cumulative Convertible Redeemable Preference shares of 50p each ("B Preference")	**5,085,667**	5,085,667
	31,797,495	31,797,495

	1996 £000	1995 £000
b Allotted, called up and fully paid:		
Equity:		
39,933,008 Ordinary shares of 10p each (see c)	**3,993**	3,993
	3,993	3,993
Non-equity:		
35,666,667 A Preference shares of 50p each (see c4)	**17,833**	17,833
10,171,335 B Preference shares of 50p each (see c4)	**5,086**	5,086
	22,919	22,919
	26,912	26,912

Notes to the accounts

20 Share capital continued

c Financial restructuring

Under the terms of a Special Resolution passed at an Extraordinary General Meeting of the Company held on 17 January 1994 the following changes to the share capital of the Company were approved and subsequently effected.

1. The Ordinary shares of 25p each were subdivided into one Ordinary share of 1p and 24 Deferred shares of 1p.

2. The authorised share capital was increased to £51,764,000 by the creation of 71,999,900 Ordinary shares of 1p each, 35,666,667 A Preference shares of 50p each and 10,171,335 B Preference shares of 50p each.

3. On 26 January 1994 316,136,314 Ordinary shares of 1p were allotted and fully paid under the terms of the Placing and Open Offer.

4. On 26 January 1994 35,666,667 A Preference shares and 10,171,335 B Preference shares were allotted and fully paid under the terms of the Subscription Agreement in exchange for the cancellation of certain debts and other liabilities.

5. On 31 January 1994 every 10 Ordinary shares of 1p were consolidated and converted to one Ordinary share of 10p.

6. On 25 March 1994, having received the sanction of the High Court, the Deferred shares were cancelled in order to reduce the deficit on the Company's profit and loss account reserve. At the same time, the Share Premium account was reduced by £56,772,496 to eliminate the remaining deficit then on the Company's profit and loss account reserve.

d A and B Preference shares

The A and B Preference shares are identical in all respects save that in a winding up the B Preference shares rank after the A Preference shares.

Dividend Rights:
The Preference shares carry an entitlement to a dividend payable at the same time as the interim and final dividends payable on the Ordinary shares in each year. The amount payable will equate to the amount of dividend receivable on the number of Ordinary shares into which the Preference shares would convert, if conversion had taken place immediately prior to the record date for payment of the ordinary dividend. In addition, the Preference shares are entitled to a further dividend, payable at the time of the final dividend for the preceding year (or 30 April if no such payment), so as to ensure the total amount of dividends payable is not less than 3p gross per share (currently 2.4p and associated tax credit). All dividend entitlements are cumulative.

Conversion rights:
The Preference shares may be converted into Ordinary shares of the Company at the rate of 8p of nominal Ordinary share capital for every 50p of nominal amount of Preference share capital. These rights of conversion are restricted as follows:

1. No conversion may take place prior to the earlier of the first anniversary of the allotment of Preference shares and the publication of the Group's results for the year ended 30 September 1994.

2. No more than 25 per cent of each holding may be converted prior to the earlier of the second anniversary of the allotment of the Preference shares and the publication of the Group's results for the year ended 30 September 1995.

3. Conversion may take place subject to 1 and 2 above at any time until 25 January 2004.

4. If, at any time, 90 per cent or more of the Preference shares issued have been converted, the Company may require the remainder to be converted.

Redemption and purchase:
The Preference shares will, unless previously converted, be redeemed in whole or part at par plus premium of 50 pence per share and arrears of preference dividend by the Company on 25 January 2004. The Company may purchase Preference shares at any time in the market, by tender or by private treaty.

Winding up:
In a winding up, the holders of each Preference share would receive £1 per share in priority over all other classes of shares together with any arrears of preference dividend.

Voting rights:
The Preference shares have no voting rights unless:
1. The payment of the fixed preferential dividend is in arrears, or
2. A resolution to change the rights of the Preference shares is proposed, or
3. A majority of the holders of Preference shares agree to vote for or against a resolution.

In the last case, the holders of Preference shares are restricted to 25.1 per cent of total votes capable of being cast at the meeting or if the Ordinary shares arising on conversion of the Preference shares then in issue would represent less than 25.1 per cent of the then issued Ordinary shares, to such smaller percentage.

Appointment of director:
The holders of Preference shares as a class have the right in certain circumstances to appoint a director in the event of a continuing default by the Company under the terms of the loan facilities.

e Share options

Unissued Ordinary shares have been reserved for the Executive Share Option scheme.
At the date of this report, options outstanding remained as follows:
1990 issue: 12,511 shares at 1754.56p exercisable between 12 February 1993 and 11 February 1997.
1991 issue: 16,683 shares at 808.97p exercisable between 11 February 1994 and 10 February 1998.
1992 issue (1): 187,733 shares at 179.77p exercisable between 1 January 1995 and 31 December 1998.
1992 issue (2): 11,125 shares at 179.77p exercisable between 22 July 1995 and 21 July 1999.
1993 issue: 6,950 shares at 179.77p exercisable between 25 January 1996 and 24 January 2000.
1994 issue: 1,170,000 shares at 80p exercisable between 19 July 1997 and 18 July 2001.

In certain circumstances, options may be exercised earlier than the dates given.

The Ordinary shares in the Company traded during the year between a maximum price of 25.5p and a minimum price of 10.75p.

21 Reserves

Group	Share premium £000	Re-valuation £000	Capital £000	Profit & loss account £000
1 October 1995	31,437	2,454	314	(31,069)
Disposals		(189)		189
Currency translation loss				(115)
Loss for year retained				(12,991)
Accrued preference dividend				1,100
Appropriation of issue costs				141
30 September 1996	31,437	2,265	314	(42,745)
Equity	9,928	2,265	314	(44,945)
Non-equity	21,509	–	–	2,200
30 September 1996	31,437	2,265	314	(42,745)

The currency translation loss on overseas net assets includes losses of £399,000 on related borrowings.

Company	Share premium £000	Re-valuation £000	Capital £000	Profit & loss account £000
1 October 1995	31,437	2,454	275	(30,437)
Disposals		(189)		189
Loss for year retained				(13,699)
Accrued preference dividend				1,100
Appropriation of issue costs				141
30 September 1996	31,437	2,265	275	(42,706)
Equity	9,928	2,265	275	(44,906)
Non-equity	21,509	–	–	2,200
30 September 1996	31,437	2,265	275	(42,706)

Under the terms of the Court Order relating to the Capital Reduction granted on 25 March 1994, certain restrictions over distributable profits were placed on the Company relating to provisions made and subsidiary profits earned prior to the Financial Restructuring. At 30 September 1996 £964,000 of the Company profit and loss account is considered non-distributable.

Preference dividends of £2,200,000 (1995: £1,100,000) have not been paid in respect of the years commencing 1 October 1994 and 1995.

22 Reconciliation of movements in shareholders' funds

Group	1996 £000	1995 £000
1 October	**30,048**	62,232
Loss for the year	**(12,991)**	(33,528)
	17,057	28,704
Net proceeds of share issues	**–**	9
Other movements	**1,126**	1,335
30 September	**18,183**	30,048

23 Capital and leasing commitments

The Group had no capital commitments contracted for in either years.

The Group has net obligations for the year ending 30 September 1997 under operating leases totalling £3,224,000.

Operating lease commitments are analysed:

	Land & buildings £000	Plant, vehicles & equipment £000	Total £000
Under one year	43	275	318
Two to five years	161	779	940
Five or more years	1,966	–	1,966
30 September 1996	2,170	1,054	3,224

24 Contingent liabilities

In addition to those stated in note 11, the Company has given guarantees in respect of banking facilities of subsidiary undertakings as follows:

	1996 £000	1995 £000
Amount of guarantees	**2,249**	6,672
Amount outstanding at 30 September	**1,975**	6,280

Subsidiary undertakings are contingently liable for further loan guarantees of £17,716,000 (1995: £20,664,000) and for performance bonds in the normal course of business.

The Company has guaranteed performance bonds in respect of contracts and leasing arrangements entered into by subsidiary undertakings in the normal course of business.

On 18 October 1991 the Company sold its Scottish housebuilding subsidiary to Ambion Homes Limited. In September 1993 the Company received a summons at the instance of Ambion seeking damages in the sum of £3.8 million plus interest and costs. During the year the Company settled the claim by paying Ambion £200,000.

25 Pension commitments

The Group operates a main pension scheme providing benefits based on the average of the last three years of pensionable salary and a Supplementary scheme for employees and Directors to meet its commitments under contracts of service. In addition, the Group contributes to the operatives 1985 Retirement Benefit scheme. The assets of the schemes are held in separate trustee administered funds.

The total pension cost for the main Group scheme for the year was £2,125,000 (1995: £2,294,000). This cost was assessed in accordance with the advice of a qualified actuary using the 'projected unit' method. In addition the Group made a specific contribution of £217,000 to fund its contractual pension liabilities to a departing Director (see page 19).

A valuation of the main Group scheme was carried out at 31 March 1994 by Watson Wyatt Partners, Consulting Actuaries, but including allowance for events up to 30 September 1994. The most significant long term assumptions were that investment returns would be 9.5% per annum, that general salary increases would average 2.0% per annum above the general level of price inflation and that present and future pensions would increase at the rate of 5.0% per annum.

At the date of the valuation, the market value of the Group scheme was £71,000,000 and there was a shortfall of approximately £100,000. In agreement with the trustees of the scheme and based upon the actuaries valuation the Group commenced a cash contribution of 13.3% per annum on pensionable salaries from 1 October 1994. This contribution rate will amortise the small deficiency over the working lives of the existing members.

The Supplementary pension scheme, which is funded, commenced on 7 February 1992. The actuary assesses the funding position during the financial year and contributions are adjusted accordingly. The Group made contributions, including the related tax, of £98,000 during the year (1995: £342,000).

The Group made contributions of £7,000 (1995: £12,000) to the operatives scheme.

26 Goodwill

Cumulative goodwill of £5,512,000 (1995: £5,512,000) arising on the acquisition of existing subsidiary undertakings has been written off against the profit and loss account reserve.

27 Net cash inflow/(outflow) from operating activities

(a) Reconciliation of operating loss to net cash inflow/(outflow) from operating activities

Group	Notes	1996 £000	1995 £000
Operating loss after exceptional operating items		**(10,228)**	(28,495)
Interest receivable	4	**(248)**	(782)
Depreciation	3	**268**	2,148
Profit on sale of fixed assets	3	**(57)**	(443)
Share in losses of joint ventures	11	**–**	9,316
Decrease/(increase) in debtors less than one year		**5,939**	(3,215)
(Increase)/decrease in debtors more than one year		**(113)**	3,671
Decrease in stocks and work in progress		**47,762**	11,233
Decrease in creditors less than one year		**(13,326)**	(4,030)
Decrease in creditors more than one year		**(2,534)**	(1,082)
(Decrease)/increase in provisions		**(6,743)**	4,187
Net cash inflow/(outflow) from operating activities		**20,720**	(7,492)

(b) Balance sheet movement reconciliation

Group	Movements of funds £000	Non-cash £000	Acquisitions & disposals £000	Currency translation £000	Balance sheet £000
Stocks and work in progress	47,762	–	8,037	(22)	39,747
Debtors less than one year	5,939	(196)	(2,461)	4	8,592
Debtors more than one year	(113)	–	–	–	(113)
Creditors less than one year	(13,326)	(129)	1,436	(88)	(14,545)
Creditors more than one year	(2,534)	–	–	–	(2,534)
Provisions	(6,743)	(3,646)	–	25	(3,122)
Working capital	30,985	(3,971)	7,012	(81)	28,025

28 Cash and cash equivalents

Analysis of balances as shown in the Group balance sheet and changes during the current and previous year

	Cash at bank & in hand		Overdrafts & short term borrowings		Total	
Group	**1996 £000**	1995 £000	**1996 £000**	1995 £000	**1996 £000**	1995 £000
1 October	**(1,138)**	(10,319)	**3,109**	534	**1,971**	(9,785)
Currency translation movements	**–**	(16)	**–**	–	**–**	(16)
Movement in year	**(6,091)**	9,197	**3,556**	2,575	**(2,535)**	11,772
30 September	**(7,229)**	(1,138)	**6,665**	3,109	**(564)**	1,971

Notes to the accounts

29 Assumption of joint venture partner's responsibilities

In 1996, the Group acquired its partner's interests in the Avalon and Kingsbrook Limited Partnerships for a nominal consideration.

The tables below show the net cash and cashflows consolidated for the first time in 1996 in respect of these former joint ventures.

(a) Assets and liabilities consolidated:

	1996 £000
Stocks and work in progress	8,328
Debtors	53
Creditors	(741)
Group loans	(7,518)
Bank overdrafts	(122)
	–

(b) Analysis of the net outflow of cash and cash equivalents in respect of the consolidation of these former joint ventures.

	1996 £000
Bank overdrafts	122

30 Sale of subsidiary undertaking

On 22 November 1995 the Group sold its wholly owned plant hire business, LPH Plant Hire Limited, to Transport Development Group PLC. The net assets sold, based on the balance sheet as at 30 September 1995, and cash proceeds resulting from this transaction were as follows:

	£000
Fixed assets	8,072
Stocks and work in progress	291
Debtors	2,514
Creditors	(2,177)
Finance leases	(4,328)
Net assets sold	4,372
Profit on sale	1,388
Sale proceeds in cash	5,760

In addition to the above cash sale proceeds, consideration of £750,000 is held in escrow payable to the Group in three equal annual instalments dependent upon the Group's performance under a hire agreement entered into on completion.

31 Analysis of changes in financing during the year

Group	Share Capital (including premium) £000	Finance lease obligations £000	Bank loans & long term debt £000
1 October 1995	58,349	4,370	35,885
Finance lease obligations of subsidiary undertaking sold in the year	–	(4,328)	–
Net cash flow from financing	–	(42)	(22,560)
Currency translation on currency loans in the UK	–	–	399
Currency translation movements	–	–	(61)
30 September 1996	58,349	–	13,663

32 Principal subsidiary undertakings and joint venture

The Company acts as the holding company of the Group, the principal activities of which are construction and partnership housing, together with the other businesses of residential and commercial development. The Company has the following principal subsidiary undertakings and joint venture.

Subsidiary undertakings	Registration & principal place of business	Proportion of Ordinary shares held by Company	Proportion of Ordinary shares held by Subsidiary
Core businesses			
Construction			
Lovell Construction (UK) Ltd	England	100%	
Lovell Construction Ltd	England		100%
Bullock Construction Ltd	England		100%
Walter Lilly & Co Ltd	England		100%
Partnership Homes			
Lovell Partnerships (Investments) Ltd	England	100%	
Lovell Partnership Homes Ltd	England		100%
Lovell Partnerships (Northern) Ltd	England		100%
Lovell Partnerships (Southern) Ltd	England		100%
Other businesses			
UK Residential and Commercial Development			
Lovell Homes Ltd	England	100%	
Lovell Developments Ltd	England	100%	
Overseas Residential and Commercial			
Lovell America Inc	USA		100%
Y J Lovell (España) SA	Spain		100%

Joint venture		% Interest
Russett Center	USA	50%

33 Post balance sheet event

On 18 November 1996 the Group sold its interests in Wyvols Court and Swallowfield Office Services Limited. Swallowfield Office Services is a serviced office business operating from Wyvols Court, a property located in Swallowfield near Reading. The sale to HQ Grosvenor Street Limited was made for a cash consideration of £4 million. The proceeds repaid the off balance sheet loan of £2.9 million secured on the property with the balance used to reduce Group on balance sheet borrowings. The sale should not lead to any tax charge.

Five year review

	1996 £000	1995 £000	1994 £000	1993 £000	1992 £000
Fixed assets	**5,286**	13,852	13,163	12,903	19,234
Net current assets	**48,539**	82,804	108,249	17,777	73,492
Long-term liabilities	**(35,642)**	(66,608)	(59,180)	(43,989)	(47,227)
Net assets/(liabilities) employed	**18,183**	30,048	62,232	(13,309)	45,499
Ordinary capital	**3,993**	3,993	3,993	20,798	20,798
Preference capital	**22,919**	22,919	22,919	–	–
Reserves	**(8,729)**	3,136	35,320	(34,107)	24,701
Shareholders' funds	**18,183**	30,048	62,232	(13,309)	45,499
Turnover	**254,311**	300,615	250,577	227,402	270,196
(Loss)/profit before taxation	**(11,756)**	(32,393)	4,164	(59,962)	(26,988)
Taxation recoverable/(payable)	**6**	106	(526)	704	1,709
(Loss)/profit after tax	**(11,750)**	(32,287)	3,638	(59,258)	(25,279)
Preference dividends (including appropriation of issue costs)	**(1,241)**	(1,241)	(828)	–	–
Ordinary dividends	**–**	–	(399)	–	–
(Loss)/profit retained	**(12,991)**	(33,528)	2,411	(59,258)	(25,279)
(Loss)/earnings per Ordinary share (p)	**(32.5)**	(84.0)	9.4	(712.3)	(304.0)
Fully diluted earnings per Ordinary share (p)	**N/A**	N/A	6.6	–	–
Dividend per Ordinary share (p)	**–**	–	1.0	–	–
Net (liabilities)/assets per Ordinary share (p)	**(71.2)**	(38.7)	44.6	(160.0)	547.0

Notes

1. The comparative figures have been restated to comply with FRS5.
2. The amounts per Ordinary share have been adjusted to reflect the capital restructuring and placing and open offer in 1994.
3. Preference dividends are unpaid except for those shown in 1994.

Shareholder information

Annual General Meeting	21 January 1997
Results	Announcement of interim results – June 1997 Preliminary announcement of full year results – December 1997

Ownership of Ordinary shares
25 November 1996

	Number of shareholders	%	Number of Ordinary shares 000	%
Size of shareholding				
1 – 1,000	3,106	64.9	1,158	2.9
1,001 – 5,000	1,109	23.2	2,849	7.1
5,001 – 10,000	237	5.0	1,860	4.7
10,001 – 50,000	256	5.3	5,778	14.5
50,001 – 100,000	37	0.8	2,615	6.5
100,001 – 250,000	24	0.5	4,122	10.3
250,001 – 500,000	4	0.1	1,308	3.3
500,001 – 1,000,000	5	0.1	3,515	8.8
1,000,001 and over	7	0.1	16,728	41.9
	4,785	100.0	39,933	100.0
Category of owner				
Insurance companies	5	0.1	4,055	10.2
Pension funds	2	0.0	524	1.3
Unit Trusts and Investment Companies	9	0.2	9,832	24.6
Other corporate bodies	326	6.8	10,906	27.3
Private	4,443	92.9	14,616	36.6
	4,785	100.0	39,933	100.0

Secretary, registrar, registered office and advisers

Company Secretary
A M A Price

Registrar
D Thom

Company number
650447

Registered office
Marsham House
Gerrards Cross
Bucks SL9 8ER

Auditors
Ernst & Young
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1 Lambeth Palace Road
London SE1 7EU

Stockbrokers
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20 Fenchurch Street
London EC2P 3DB

Merchant Bankers
Lazard Brothers & Co Limited
21 Moorfields
London EC2P 2HT

Principal Bankers
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Watford
Herts WD1 1LD

Solicitors
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Chief Executive D H Heppell

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Managing Director R A J Robertson

and at:
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Telephone 0181 689 6011
Managing Director A D Blyth

Lovell of Bucks
Beaconsfield
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Director A H Whitehead

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MD, Northern R Tyler
MD, Southern I S Davenport

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Director S J Draper

Notice of Annual General Meeting

Notice is hereby given that the thirty-seventh Annual General Meeting of the Company will be held at Stationers' Hall, Ave Maria Lane, London EC4 on 21 January 1997 at 11.00am.

The accounts for the year ended 30 September 1996, together with the reports of the Directors and Auditors thereon will be laid before the members of the Company.

The meeting will then consider the following business.

Ordinary Business

1. To elect or re-elect the following Directors who retire in accordance with the Company's Articles of Association:

   Sir David Hardy **(Resolution 1a)**

   Paul Sellars **(Resolution 1b)**

2. To reappoint Ernst & Young as Auditors of the Company and to authorise the Directors to determine their remuneration. **(Resolution 2)**

Special Business

To consider and, if thought fit, to pass the following Special Resolutions:

3. That the Directors be and they are hereby generally and unconditionally empowered until the conclusion of the Company's Annual General Meeting in 1998 (or, if sooner, until the expiry of the period of fifteen months after the passing of this Resolution) to allot equity securities (as defined in Section 94(2) of the Companies Act 1985) pursuant to the authority conferred by paragraph (4) of the first Special Resolution passed at the Extraordinary General Meeting of the Company held on 17 January 1994 as if Section 89(1) of the said Act did not apply to any such allotment, such power being limited to:

   (i) an allotment made pursuant to the acceptance of a Scrip Dividend Offer as defined in the Company's Articles of Association;

   (ii) the allotment of equity securities in connection with an offer of equity securities open for acceptance for a period fixed by the Directors to holders of equity to their respective holdings of such securities or in accordance with the rights attached thereto (for which purposes the nominal amount of the A Convertible Preference Shares and the B Convertible Preference Shares of the Company shall be taken to be the nominal amount of such shares as would fall to be allotted pursuant to the conversion rights attached thereto and as if such rights had been exercisable and had been exercised immediately prior to the record date for such issue), but including in connection with such an issue the making of such arrangements as the Directors may deem necessary or expedient in relation to legal or practical problems under the laws of any territory or the requirements of any regulatory body or any stock exchange in connection with fractional entitlements or as regards shares held by any approved depositary or otherwise howsoever;

   (iii) the allotment (other than pursuant to the powers referred to in sub-paragraphs (i) and (ii) above) of equity securities up to an aggregate nominal amount of £199,665,

   save that the Directors of the Company shall be entitled under the powers conferred by this Resolution or under any variation or renewal thereof to make at any time prior to the expiry of such power any offer or agreement which would or might require equity securities of the Company to be allotted after the expiry of such powers and the Directors of the Company may allot equity securities in pursuance of such offer or agreement as if the powers conferred hereby had not expired. **(Resolution 3)**

4. That

   (i) the Rules of the Y J Lovell (Holdings) plc Long Term Incentive Plan and the Employee Benefit Trust both as summarised in the Appendix to the circular to shareholders dated 11 December 1996 be and are hereby approved and the Directors of the Company be and are hereby authorised to do all acts and things necessary or expedient to carry the same into effect; and

   (ii) the Directors of the Company be and are hereby authorised to vote, and be counted in a quorum, in any matter connected with the said Plan and said Trust notwithstanding that they may be interested in the same (except that no director may be counted in a quorum or vote in respect of his own participation), and any contrary provisions contained in the Articles of Association of the Company be and are hereby relaxed to that extent accordingly. **(Resolution 4)**

By Order of the Board
A M A Price
Secretary

11 December 1996
Registered Office
Marsham House
Gerrards Cross
Buckinghamshire
SL9 8ER

Notice of Annual General Meeting

NOTES

1. Holders of Ordinary shares are entitled to attend and vote at this meeting. A member entitled to attend and vote 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. The Preference shareholders may attend and vote in the circumstances, as explained on page 36.

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 a member from attending and voting in person at the meeting.

3. In accordance with the Companies Act 1985 and with the requirements of the London 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 from the date of this notice until the date of the Annual General Meeting and will also be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and throughout the Meeting.

4. Resolution 3: As in previous years, your Directors are seeking renewal of their authority to issue shares for cash otherwise than to existing shareholders pro rata to their holdings in certain limited circumstances. Except as set out in paragraphs (i) to (iii) of the resolution, the power is limited to the issue of shares up to an aggregate nominal value of £199,665 (being 5 per cent of the issued Ordinary share capital at 11 December 1996). If given, this authority will expire on 22 April 1998 or, if earlier, on the date of the next Annual General Meeting of the Company.

5. Resolution 4: Please see the accompanying letter from the Chairman dated 11 December 1996.

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