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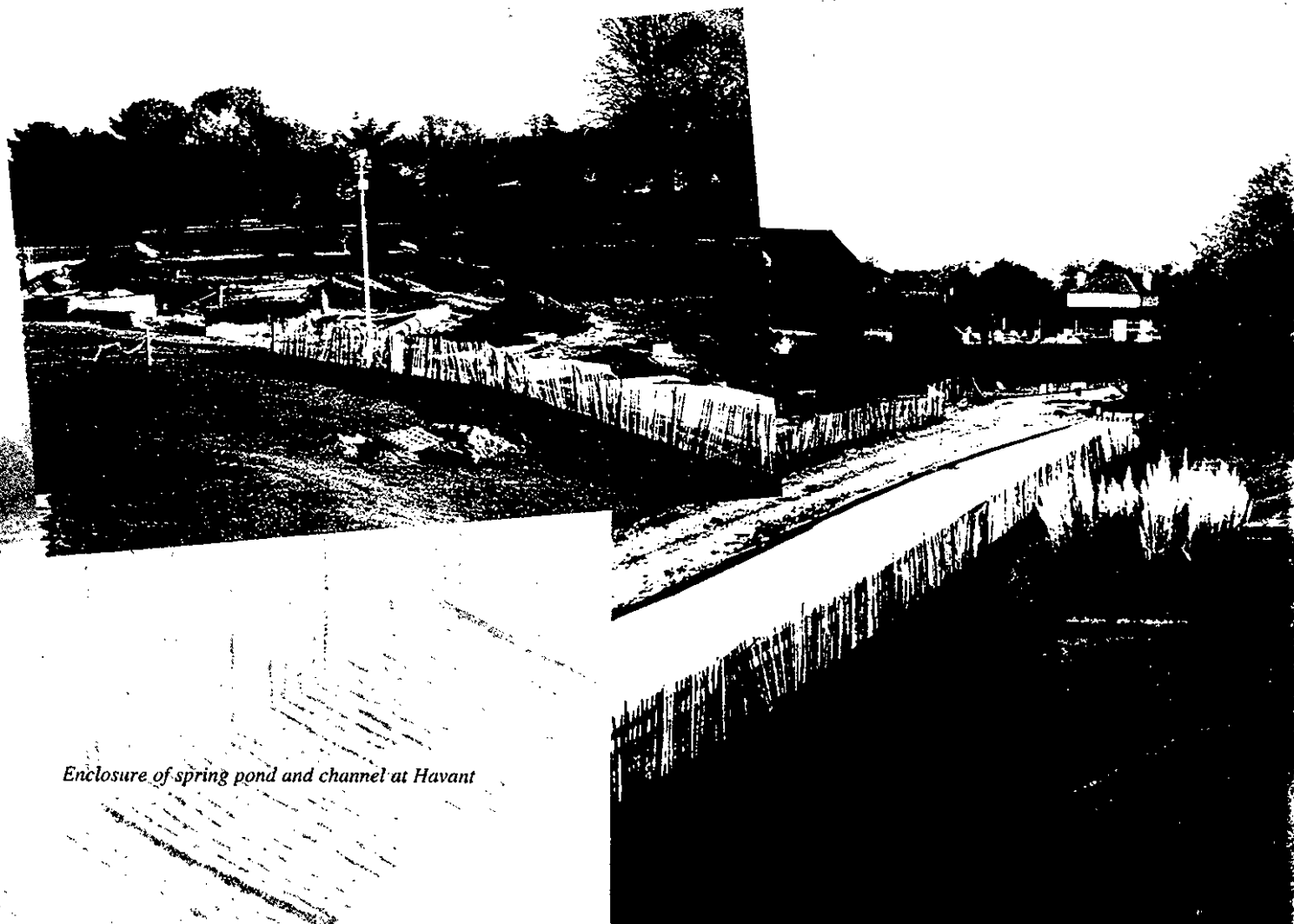
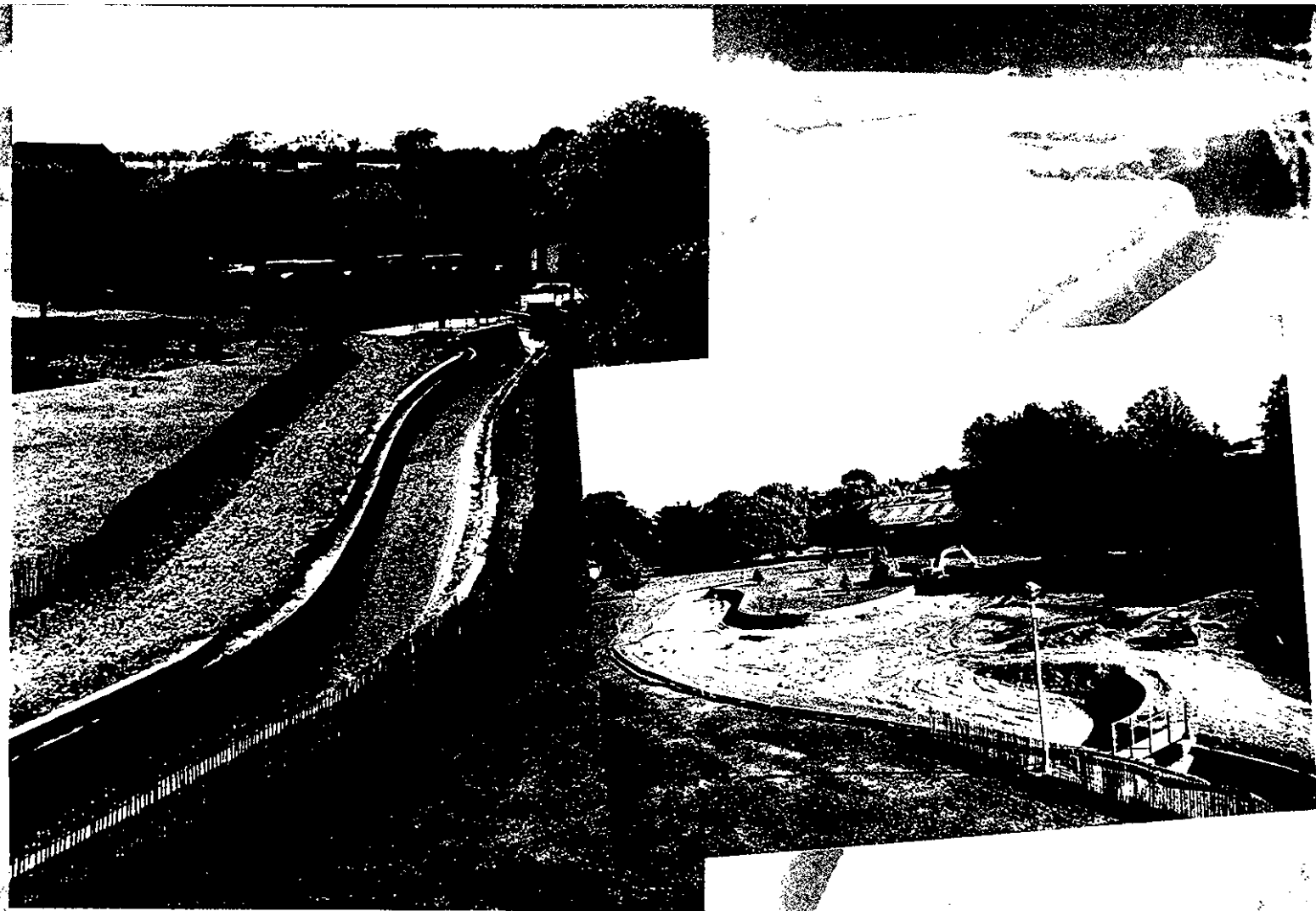
Brockhampton

Holdings plc

19
98



**REPORT AND
ACCOUNTS**

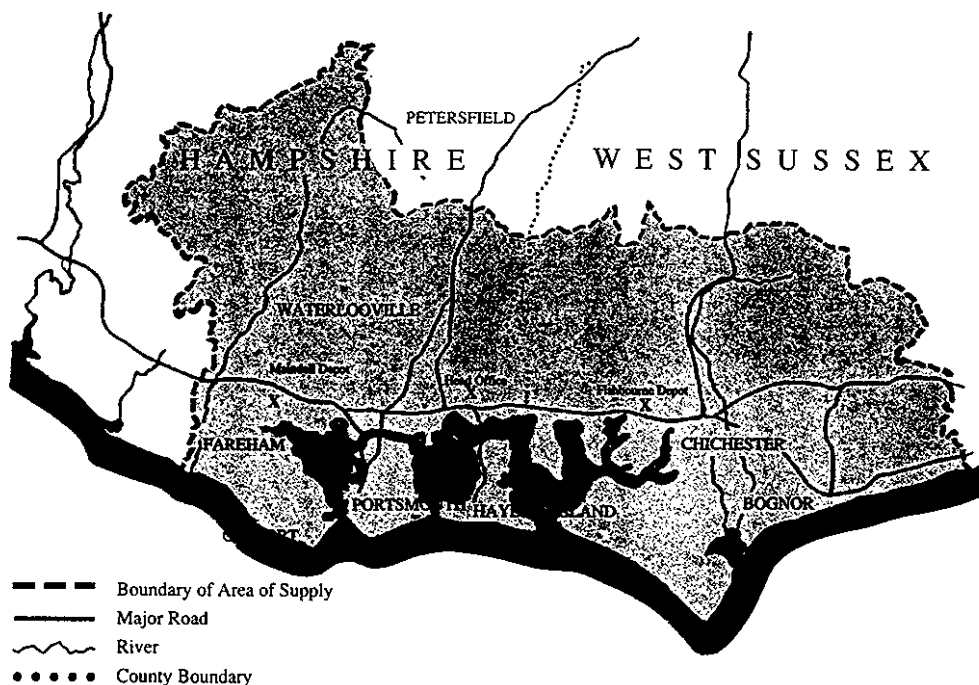


Enclosure of spring pond and channel at Havant

FINANCIAL HIGHLIGHTS

	1998	1997
TURNOVER (£000)	28,115	27,694
OPERATING PROFIT (£000)	9,280	9,018
PROFIT BEFORE TAXATION (£000)	7,947	8,598
DIVIDEND PER SHARE (p)	4.80	4.00
EARNINGS PER SHARE (p)	12.30	11.60
CAPITAL EXPENDITURE INCLUDING INFRASTRUCTURE RENEWALS (£000)	9,342	9,038

AREA OF SUPPLY



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DIRECTORS AND PROFESSIONAL ADVISERS



Standing left to right: M.C. Copp, J.D. King, H.J.Y. Pringle, N. Smith, N.J. Roadnight, F.A. Bailey. Sitting: J.F. Batty.

DIRECTORS

EXECUTIVE

NICHOLAS JOHN ROADNIGHT, F.C.A.
(Managing Director)

NEVILLE SMITH, B.A., A.C.M.A.
(Finance Director)

NON-EXECUTIVE

JOHN FRANCIS BATTY, F.C.A., A.T.I.I.
(Chairman)

Former Managing Director of the Company and Portsmouth Water plc. Chairman of Portsmouth Water plc. Director of Brockhampton Property Investments Limited and Portsmouth Water Superannuation Fund Trustee Limited. Chairman of Emsworth Community Association and a School Governor.

FREDERICK ARTHUR BAILEY, F.C.I.S., F.S.C.A.

Former Secretary of Portsmouth Water Company. Director of Portsmouth Water plc and Portsmouth Water Superannuation Fund Trustee Limited. A School Governor, councillor and panel member of Gas Consumers Southern.

MARTIN CECIL COPP, D.Litt., F.C.I.B.

Director of Portsmouth Water plc, Haydens Bakeries Ltd and other companies. Former Chairman of Bournemouth and West Hampshire Water Companies and merchant banker. A Governor of Portsmouth University and the Southern Theological Training Scheme.

JOHN DAVID KING, B.Sc., F.I.C.E., F.C.I.W.E.M.

Former Chief Engineer of Portsmouth Water plc. Director of Portsmouth Water plc.

HUGH JAMES YOUNG PRINGLE, LL.B.

Solicitor. Director of Portsmouth Water plc, Brockhampton Property Investments Limited and Wessex Solicitors Chambers Limited.

PROFESSIONAL ADVISERS

AUDITORS

GRANT THORNTON,
REGISTERED AUDITORS,
CHARTERED ACCOUNTANTS,
Enterprise House,
Isambard Brunel Road,
Portsmouth,
Hants.
PO1 2RZ.

BANKERS

LLOYDS BANK PLC,
4, West Street,
Havant,
Hants.
PO9 1PE.

FINANCIAL ADVISERS

CLOSE BROTHERS
LIMITED,
12, Appold Street,
London.
EC2A 2AA.

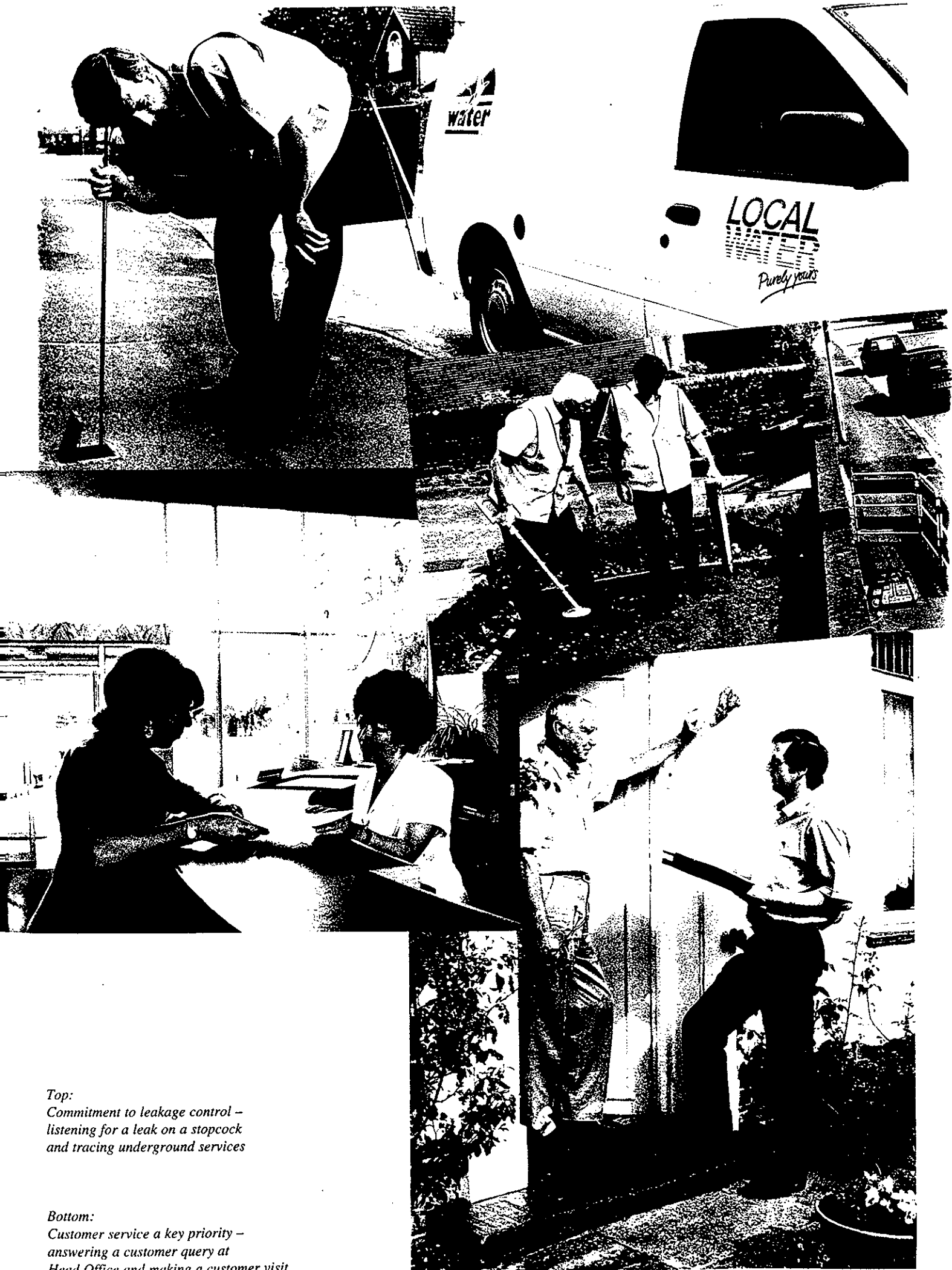
CORPORATE SOLICITORS

BLAKE LAPHORN,
New Court,
1, Barnes Wallis Road,
Segensworth,
Fareham,
Hants.
PO15 5UA.

STOCKBROKERS BT ALEX. BROWN
INTERNATIONAL,
135, Bishopsgate,
London.
EC2M 3XT.

REGISTRARS

LLOYDS BANK
REGISTRARS,
The Causeway,
Worthing,
West Sussex.
BN99 6DA.



Top:
 Commitment to leakage control –
 listening for a leak on a stopcock
 and tracing underground services

Bottom:
 Customer service a key priority –
 answering a customer query at
 Head Office and making a customer visit

CHAIRMAN'S STATEMENT



It gives me great pleasure to report on the performance of the Group in this my first year as Chairman. The year has again been an extremely active one and has seen the maintenance of the high level of financial performance recorded in previous years, the

continued provision of quality levels of service to customers and the achievement of another substantial capital investment programme. The Group has always prided itself in offering customers a reliable supply of high quality drinking water at extremely low cost and our commitment to them is accorded the highest priority. Customers continue to enjoy the lowest charges in the country. Under the regulatory pricing regime, charges were again increased by less than the rate of inflation during the year as a result of a negative 'K' factor and the decision to offer a voluntary abatement of ¼%. In addition, various performance measures used by the Office of Water Services confirm that high levels of service to customers have been maintained.

In terms of water quality, the Group has once again recorded one of the highest levels of compliance with Water Quality Regulations. It has also supplied water to customers without any interruptions as a result of hosepipe bans or other restrictions. It is anticipated that no restrictions will be necessary this summer, following higher rainfall this winter than experienced in the previous two years, but customers will, nevertheless, be encouraged to use water with due economy. Portsmouth Water remains most conscious of the responsibility imposed by the Water Industry Act 1991 to promote the more efficient use of water. Although the level of leakage from the distribution system already compares very favourably with levels elsewhere in the industry, the Group has continued to commit resources to achieving further reductions, at the same time encouraging the introduction of meters by maintaining a subsidised charge for installation. In addition, customers who have a high demand on the system for garden watering by using sprinklers or unattended hoses are now required to pay on the basis of actual consumption. Meters have also been installed in a number of domestic properties in order to understand more fully the pattern and level of usage by households currently billed on the basis of rateable value. These measures undertaken by the Group indicate the emphasis placed on the management of demand, even though there is no immediate problem with water resources.

The financial results for the year ended 31st March

1998 show that the Group has achieved a performance in line with the high level recorded in previous years. Group turnover was 1.5% higher than last year, while operating profit rose by 2.9%. Pre-tax profits were, however, 7.6% lower than last year, which included a profit on the disposal of land of £0.6m. Notwithstanding this, earnings per share improved to 12.3p, compared with 11.6p last year, reflecting the full-year effect of the share repurchase on 31st January 1997. The £2m. 8% Preference Shares were redeemed at par on 30th June 1997. This redemption was financed from existing cash reserves.

In the light of these results, the Directors are recommending a final dividend of 3.2p per Ordinary and 'A' Ordinary Share, which together with the interim dividend, makes a total for the year of 4.8p, an increase of 20% on last year's figure of 4.0p. This will bring dividend cover nearer to the general level for the sector and, at the same time, maintain progressive dividend growth. Subject to approval at the Annual General Meeting, the final dividend will be paid on 13th August 1998 to shareholders on the register at the close of business on 26th June 1998.

The year has again seen intense activity on the capital expenditure front. The programme included the completion of a new pumping station source at Aldingbourne, the refurbishment of existing pumping stations at Funtington and West Street, the laying of link mains to provide security and quality of supply in the Lavant and Littleheath areas and the refurbishment of the River Itchen Treatment Works. In addition, in excess of £3.6m. has been incurred on mains renewal expenditure to enhance the water distribution system. Together with many other projects undertaken during the year, this represents another substantial capital investment programme aimed at maintaining and enhancing the service provided to customers, an objective to which the Group remains committed.

A change in Government has brought with it a fresh approach to the water industry. In May 1997, the Deputy Prime Minister called a 'Water Summit' meeting at which he set out a ten point plan for the industry, to which the Group responded positively. The major issue, leakage control, has been addressed continuously by initiatives over previous years and, as a consequence, the Group maintains its own level well below the industry average.

The new Government also announced two reviews of importance to the industry, one on utility regulation and the other on charging. It is encouraging that the review of utility regulation supported the existing principle of incentives, recognising that the best way of securing long term customer benefits is to ensure that companies are encouraged to innovate and make efficiency gains. In its review of charging, the Government has put

CHAIRMAN'S STATEMENT

emphasis on choice, affordability and protection of vulnerable customers. It acknowledges the case for metering, but also accepts the practical difficulties involved and the impact on affordability. It is essential, therefore, that there remains some form of unmeasured charging and legislation is to be introduced to allow rateable values to be used after the year 2000. The Group will actively participate in the consultation process relating to proposals for both utility regulation and charging. The recommendation, however, to ban disconnection for non-payment of bills is one which will not receive support, as it will clearly send the wrong signal to customers.

Portsmouth Water plc is currently engaged in the Periodic Review process, at the end of which the Director General will set charges limits for the years 2000 to 2005. The information requirements of this process are extensive and are occupying an increasing amount of management time. The Director General would clearly like to impose an initial downward adjustment of prices in the first year of the review period, but has been pressured by the industry, environmentalists and environmental regulators, who argue for quality improvements as a priority. The Periodic Review process will be long and complex, but the proposal to make it transparent involving all interested parties is one which is welcomed. As part of the process, customers will be consulted in a survey to identify preferred options for levels of service over and above those required by current legislation.

The Group has no executive Share Scheme, although many employees, including executives, are now shareholders, following the exercise of options relating to the first two offers under the Employee Share-Save Scheme. During the year, a further offer was extended to employees under this Scheme and the response was again positive. In addition to the

Employee Share-Save Scheme, all employees now participate in a contributory Share Incentive Scheme. Such schemes enable staff to participate more fully in the Group's success. It is a pleasure to acknowledge their hard work at all levels over the past year. They continue to rise to the challenge of each demanding year with skill and commitment.

Mr. G. Slater retired as Chairman following the Annual General Meeting on 24th July 1997. He joined Portsmouth Water Company in 1950 and, therefore, achieved a remarkable 47 years' service. It is most sad that this association has now come to an end, but his outstanding contribution in various roles will long be remembered. On behalf of his Board colleagues and the staff who have come to know him over that long period of service, I would like to wish him a long and very happy retirement. Following my own appointment as Chairman, the Board was pleased to appoint Mr. N. J. Roadnight as Managing Director of both the Company and its subsidiary, Portsmouth Water plc. He already has more than 20 years' experience in the water business. Mr. N. Smith joined the Board of both companies as Finance Director, having previously held financial positions with Roxspur, Smiths Industries and GEC. There has also been further reorganisation of the Board of Portsmouth Water plc. Mr. A. R. Neve was appointed Technical Director to succeed Mr. T. Jackson, while the appointment of Mr. J. E. Cogley to the new post of Customer Services Director reflected the emphasis being placed on meeting customer needs.

Since becoming Chairman, my Board colleagues have given me tremendous support and I am grateful to them for their invaluable contribution. I believe that the water business is well positioned and well equipped to meet the challenges facing the industry over the coming years and that the Group can look forward to the future with confidence.



**J. F. BATTY,
CHAIRMAN.**

OPERATING AND FINANCIAL REVIEW



This has been an active and challenging year which has seen considerable progress and achievement. The Group is proud that it continues to meet its principal objective for the water business of providing a first class service to customers at the lowest price in the

industry in England and Wales. Charges were increased on 1st July 1997 by 1%, which was $\frac{1}{4}\%$ less than the maximum permitted under the regulatory pricing regime due to the decision to offer a voluntary abatement. From 1st July 1998, charges will be increased by 2.2%, which is expected to be below the rate of inflation.

In addition to high levels of service and low charges, customers are offered other benefits. They enjoy free leakage detection and repairs to their underground pipework. Portsmouth Water changes, free of charge, its connection pipes when customers have changed their internal lead plumbing. The Company offers customers the option to have a metered supply at a subsidised cost, although customers using garden watering devices such as sprinklers and unattended hoses must have their supply metered.

Portsmouth Water continues to achieve a high level of performance against the standards of service set by the Office of Water Services relating to matters such as water pressure, interruptions to supply and responses to written complaints. During the year, changes have been implemented in order to improve the response to billing queries from customers. The Company fully expects customers to meet their payment responsibilities and a wide range of payment options are available to them. In his statement, the Chairman has referred to the Government's review of water charging, which includes the proposal to ban disconnection. Through the Company's concerted efforts, the number of customers disconnected during the year for non-payment of water charges has again fallen significantly. It does not seek to disconnect those who cannot pay, but does have a responsibility to all customers to pursue rigorously those who choose not to pay. Customers are only disconnected as a last resort.

The Group turnover this year has risen by 1.5%, principally as a result of the increased contribution from chargeable services. The increase in water charges of 1% produced a lower water revenue increase of 0.5% mainly as a result of a decline in measured industrial consumption, which fell by 4.2% (1997 - 3.2%). The improvement in turnover from chargeable services was attributable to a

greater volume of connections on construction sites and an increase in the number of mains diversions. Operating profit has increased to £9.280m. (1997 - £9.018m.), producing an operating margin of 33.0% (1997 - 32.6%). Profit before taxation has fallen to £7.947m. (1997 - £8.598m.), although the disposal of a former operational site at Gosport boosted last year's figure by £0.6m.

Interest receivable has fallen due to average cash balances being considerably lower following the redemption of the £8m. Debenture Stock and £1.25m. Preference Shares in December 1996, and the repurchase of shares in January 1997. Interest payable has decreased principally as a result of the debenture redemption in December 1996 and the reduced and cheaper finance raised to replace it.

The Group's effective tax charge is 26.3% of pre-tax profits (1997 - 26.8%) and is principally affected by the level of capital and infrastructure renewals expenditure. Earnings per share shows a 6% improvement to 12.3p (1997 - 11.6p) and reflects the full year effect of the repurchase of 8,089,000 shares in January 1997. The proposed increase in dividend to 4.8p (1997 - 4.0p) reduces cover to 2.5 times (1997 - 3.1), which reflects the Board's view that it should fall to a level nearer to the general level for the sector, whilst ensuring that adequate profits are retained for investment. The dividend has been funded by the core water business, as profits generated by non-core activities were minimal.

Cash and short-term deposits are slightly higher at £5.315m. (1997 - £5.124m.). Cashflow in the regulated business is highly seasonal, with peak inflows from unmeasured customers in January, July and August. Revenue expenditure is fairly consistent throughout the year, but capital expenditure can fluctuate dependent upon the timing of major projects. A net current liability position at 31st March is not unusual within the water industry.

Net debt has now fallen to £9.951m. (1997 - £13.145m.) following the redemption of the £2m. Preference Shares and a repayment of £1m. in respect of the revolving credit facility. The gearing ratio has, therefore, fallen to 25.3% (1997 - 37.0%). Interest cover has increased to 6.2 times (1997 - 5.7).

The water resources situation remained satisfactory throughout the summer of 1997, with demand being low as a result of very wet weather in June and August. The rainfall during the winter was above average and, as a result, the resources position for the coming summer looks healthy and the necessity for any restrictions is considered unlikely. In April 1998, the Secretary of State refused the development of a landfill site at Hazleton Farm, Horndean, which could have threatened contamination of the most important source, the

OPERATING AND FINANCIAL REVIEW

Havant and Bedhampton Springs.

The water business fully recognises that there is a need for water resources to be conserved and has accordingly continued to promote its conservation policy throughout the year. All customers received advice on how to save water with their bills, while during the autumn over 600 sprinkler users had meters installed. The policy of metering sprinkler users should ensure that customers are careful in their usage, at the same time enabling them to protect their investment in the garden.

The control of leakage was at the top of the Government's agenda at the 'Water Summit' in May 1997. Portsmouth Water's fresh initiatives have brought a further reduction of 10% in its level of leakage during the year. Improved manpower flexibility and the commissioning of new pressure control schemes have enabled the Company to achieve its total leakage target of less than 16% of water supplied, one of the lowest levels for any company in England and Wales. Throughout the year, no interruptions to supply exceeded 24 hours and only 45 properties were affected for 12 hours or more by unplanned interruptions.

Portsmouth Water continues to supply water of the highest quality. 99.8% of samples taken passed the exacting standards of current regulations, compared with the national average of 99.3%. During the year, a new undertaking in respect of lead in the Worlds End supply zone was submitted and necessary improvement works are expected to be completed during 1998. Schemes aimed at yet further improvement in water quality are expected to be implemented in the coming year.

Portsmouth Water has funded several activities relating to the environment during the year. At Easthamnett, near Chichester, aid was given to provide a year-round haven for wildlife, which is replenished by natural springs each winter. In addition, work has been carried out with the Environment Agency and local groups to improve water features at North Pond, Bishops Waltham, and Swanbourne Lake, Arundel. The Company also intends to investigate the development of alternative sources to replace its long standing Hoe Pumping Station source, which is adjacent to The Moors SSSI. During the course of recent mainlaying, the Company, together with an archaeological survey team, unearthed more of Sussex's previously unknown history. Evidence of a Roman villa and the only 'Woodhenge' in Sussex was revealed and extensive excavation



Laboratory examination of membranes for bacteria

carried out. The results of the investigation are currently on display in the Chichester District Museum.

Expenditure of £9.342m. has been invested in renovating and improving the Company's infrastructure, of which £3.6m. was incurred on mains renewals. A significant proportion of mains renewal expenditure has been incurred under the local renewals programme, which targets those mains where frequent bursts cause damage and disruption to service. Extensive renewals in an area of Bognor Regis are now drawing to a close. This major project has been carried out with minimum inconvenience caused to customers. Both the Chamber of Commerce and the local press have praised staff and contractors for the manner in which the work has been conducted.

The early part of the year saw the completion of the high profile restoration of Havant Pumping Station. The pumping station refurbishment programme has also been continued at Funtington and West Street. The autumn brought the commissioning of the new pumping station source at Aldingbourne, which will now provide a new blending facility to ensure that nitrate levels in water in the Bognor Regis area are maintained below statutory levels. In addition, a new main between Lavant and Littleheath will provide a further alternative source for blending. In order to support such augmentation, a new main between Funtington Pumping Station and Lavant Reservoir is due to be commissioned shortly.

The year has sadly also seen the enclosure in underground chambers of the last of the spring ponds and channels at the Havant site. Two collecting basins, however, which were used for the steam driven pumps earlier this century, remain for ornamental and wildlife purposes. At the River Itchen Treatment Works,



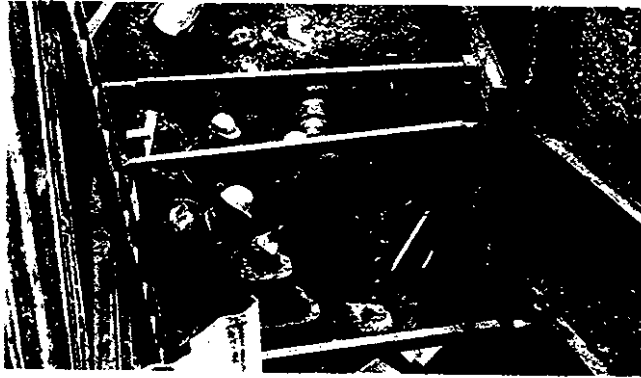
Work in progress on Funtington Pumping Station

OPERATING AND FINANCIAL REVIEW

further stages of treatment improvements have now been completed, while the refurbishment of filter beds and settlement tanks is currently in progress.

The investment over previous years in the development of the corporate database and the personal computer network continues to

provide benefits. During the year, the decision was taken to set up the Group's own disaster recovery site at a remote location and, at the same time, to move to the latest disc technology. This additional investment has been utilised to the full by splitting systems development and live work between the two mainframe capabilities. This will also enable the Company to be confident of dealing with the millennium date change. Desktop facilities have been extended in order to simplify the production of improved management information, while data is now captured directly from pumping station locations to be analysed by the mainframe. The regulatory reporting requirements are now immense, but the maximum utilisation of available



Pipework connections at Littleheath

computing facilities for statistical analysis provides considerable assistance.

The millennium date change is an important business issue. Staff are currently in the process of ensuring that all systems and operational equipment are compliant, at the same time incorporating enhancements to

systems where appropriate.

During the year, staff have once again proved able to respond to the many challenges that present themselves and have achieved a high standard of performance. The conscientious and willing manner in which they are prepared to work is partly responsible for the fact that no restrictions have been imposed on customers. Through the single table Joint Negotiation Committee, an excellent working relationship is maintained with employees. It is also most pleasing that so many of them are already shareholders through the Save As You Earn share option schemes, and thus are participating in the success of the business.

**N. J. ROADNIGHT,
MANAGING DIRECTOR.**

DIRECTORS' REPORT

The Directors have pleasure in submitting their Report and Accounts for the year ended 31st March 1998.

PRINCIPAL ACTIVITY

The principal activity of the Group remains the supply of water to 282,000 domestic and commercial customers. This activity is carried out by a subsidiary undertaking, Portsmouth Water plc, within an area of 868 square kilometres in Hampshire and West Sussex.

The parent company, Brockhampton Holdings plc, operates as a holding company. Comments on the activities of the Group are set out in the Chairman's Statement on page 4.

FINANCIAL RESULTS AND DIVIDENDS

The Group profit before taxation amounts to £7.947m. After deducting £2.094m. for taxation and £2.328m. for dividends paid and proposed, a balance of £3.525m. has been transferred to reserves.

The Directors recommend the payment of a final dividend of 3.2p per Ordinary and 'A' Ordinary Share, payable on 13th August 1998. If approved, the dividend for the year will total 4.8p per Ordinary and 'A' Ordinary Share.

Dividends have been paid on the Redeemable Preference Shares in accordance with the terms of issue.

GROUP PERFORMANCE

The Directors are able to report a pre-tax profit of £7.947m. based on the efficient operation of its water supply function. This achievement represents a satisfactory performance and is a sound

foundation for future development.

A more thorough appraisal of the Group's performance is provided in the Chairman's Statement and the Operating and Financial Review on pages 4 to 8.

FIXED ASSETS

Capital expenditure on tangible fixed assets was £5.695m. (1997 - £5.297m.). The features of this investment programme include pumping station refurbishments at Funtington and West Street, the laying of link mains to provide security of supply in the Lavant and Littleheath areas and the refurbishment of filters and settlement tanks at the River Itchen Treatment Works. Information relating to these and other changes in fixed assets is shown in Note 13 to the accounts on page 25.

In addition, £3.647m. was spent on infrastructure renewals (1997 - £3.741m.) and charged to the profit and loss account.

The Directors are of the opinion that the current market value of the land (excluding holdings considered to be investment properties and therefore carried at open market value) and buildings included in tangible fixed assets is in excess of the value shown in the balance sheet. As they are held for operational purposes, a full professional valuation has not been obtained and the excess has not, therefore, been quantified.

SHARE CAPITAL

The 2,000,000 8% Preference Shares of £1 each were redeemed at par on 30th June 1997, the date of maturity. This represented 29% of the issued share capital of the Company, which is detailed in note 19 to the accounts on page 28.

SUBSTANTIAL INTERESTS

As at 18th May 1998, the Company has been made aware of the following disclosable interests of 3% or more in the voting share capital of the Company:

Shareholder	Ordinary Shares	Per Cent
PORTSMOUTH WATER COMPANY RETIREMENT BENEFITS SCHEME	1,663,795	39.0
BROCKHAMPTON HOLDINGS PLC EMPLOYEE SHARE OWNERSHIP TRUST	770,000	18.1
EAST SURREY HOLDINGS PLC	613,500	14.4
FOREIGN AND COLONIAL SPECIAL UTILITIES INVESTMENT TRUST PLC	384,218	9.0

DIRECTORS' REPORT

DIRECTORS

The Directors who held office at 31st March 1998 are shown on Page 2. Other than Mr. N. J. Roadnight and Mr. N. Smith, all the Directors served throughout the year.

Mr. G. Slater retired as Chairman following the Annual General Meeting on 24th July 1997. He was succeeded by Mr. J. F. Batty, who became executive Chairman until 11th October 1997, when he retired and became non-executive Chairman.

Mr. N. J. Roadnight was appointed a Director on 23rd April 1997, and Managing Director on 24th July 1997 to succeed Mr. J. F. Batty. Mr. N. Smith was appointed Finance Director on 1st February 1998.

Mr. M. C. Copp and Mr. H. J. Y. Pringle, who retire by rotation, and Mr. N. Smith offer themselves for re-election.

The beneficial interests of the Directors in the shares of the Company are detailed in note 4 to the accounts on pages 21 and 22.

CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code of Best Practice contained in the Report of the Cadbury Committee on the Financial Aspects of Corporate Governance, save as referred to below.

The Company does not have a formal procedure for the selection and appointment of non-executive Directors but, in practice, such an appointment would not be made without proper consideration by the Board as a whole. (para. 2.4).

In view of the predominance of non-executive Directors, it is not proposed to set up a separate Audit Committee, as the Auditors will deal with the Board as a whole on all matters which would normally be dealt with by an Audit Committee. (para. 4.3).

The Directors have noted and are considering the contents of the recent report of the Hampel Committee on Corporate Governance.

INTERNAL FINANCIAL CONTROL

The Directors are responsible for the Group's system of internal financial control. This system of

internal financial control is designed to provide reasonable assurance that problems are identified on a timely basis and dealt with appropriately. No such system, however, can provide absolute assurance against material misstatement or loss.

Key procedures that have been established are as follows:

Organisation

The Group's activities are operated through Boards of Directors of subsidiary undertakings with clearly defined reporting lines and delegation of authority. The Directors meet at least monthly to consider a schedule of matters required to be brought to them for decision. A standing sub-committee of the Board meets fortnightly for the purpose of ensuring that full and effective control is maintained over appropriate financial, regulatory and operational issues.

Financial reporting

Each year the Directors approve an annual plan produced from a comprehensive budgeting system. Actual results are reported against the approved plan on a monthly basis to provide a timely and regular monitoring of performance.

Investment appraisal

The Group has a clearly defined framework for assessing capital expenditure needs and options. Board approval is required for any project exceeding a quantified expenditure level.

Functional reporting

The Group assesses the risks facing its business on an ongoing basis and has identified a number of key areas which are subject to regular reporting to the Directors such as regulatory, environmental, legal and insurance matters.

Monitoring of controls

The Directors have delegated the operation of the system of financial control throughout the Group to executive management. This system is monitored and supported by a limited internal audit function reporting to the Managing Director and subsequently, on his appointment, to the Finance Director. The Directors have reviewed the effectiveness of the system of internal financial control for the accounting period and for the period to the date of approval of the financial statements.

DIRECTORS' REPORT

GOING CONCERN

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

REMUNERATION COMMITTEE

The Company has complied throughout the year with Section A of the Best Practice Provisions for remuneration committees as annexed to the Listing Rules.

The remuneration committee comprises three non-executive Directors - Mr. J. F. Batty (Chairman), Mr. F. A. Bailey and Mr. H. J. Y. Pringle. Its role is to consider and approve, on behalf of the Board, the conditions of service of the executive Directors of the Company and its subsidiary undertaking, Portsmouth Water plc.

Fees payable to the non-executive Directors are determined by the Board.

Remuneration policy

In framing their policy, the remuneration committee has given full consideration to the provisions of Section B of the Best Practice Provisions annexed to the Listing Rules.

The objective is to attract, retain and motivate high calibre senior executives through pay arrangements which are competitive and fair and reasonable for the responsibilities involved. In addition to individual performance, reference is made to pay levels in companies of similar size and within the same industry.

Long-term incentive schemes

The Company does not operate any long-term performance linked bonus scheme.

Share options

The Company does not operate an Executive Share Option Scheme.

A Savings-Related Share Option Scheme for employees is in operation and details of share options held by the Directors under this Scheme are shown in note 4 to these accounts on pages 21 and 22. Details of the Scheme are shown in note 19 to the accounts on page 29.

Service contracts

The Managing Director of the Company and its subsidiary undertaking, Portsmouth Water plc, has a fixed two year service contract with that Company, which is subject to termination, without compensation, by that Company giving him not less than 24 months' notice or by him giving that Company not less than 6 months' notice. His employment must, however, terminate in any event at normal retirement age. The remuneration committee considers the terms of this service contract to be appropriate in the interests of both Portsmouth Water plc and the Managing Director.

No other Directors have service contracts.

None of the Directors offering themselves for re-election have service contracts with the Company or its subsidiary undertakings.

Pensions

A subsidiary undertaking, Portsmouth Water plc, participates in the Portsmouth Water Company Retirement Benefits Scheme to provide defined benefits based on final pensionable pay for its employees, including the executive Directors. The maximum pension payable under this Scheme is 2/3rds of final pensionable pay.

Benefits in kind relating to Company cars are considered to be part of pensionable pay under the Scheme.

Directors' remuneration

Information relating to the remuneration of Directors is shown in note 4 to the accounts on pages 20 and 21.

DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are required by law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the profit of the Group for that period. In preparing those financial statements, the Directors are required to:

select suitable accounting policies and then apply them consistently;

make judgements and estimates that are reasonable and prudent;

state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors confirm that the financial statements comply with the above requirements. The Directors are also responsible for maintaining proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CREDITOR PAYMENT POLICY

The Company does not intend to follow any specific code or standard in relation to payment practice. In the absence of dispute, bills will be settled in accordance with the suppliers' terms. Where such terms are considered unreasonable, the Company will seek to agree alternative payment arrangements to suit both parties. At 31st March 1998, the Group's creditor days were 22. The Company has no trade creditors.

EMPLOYEES

Joint Consultative Committees meet regularly and provide opportunities for employee involvement and exchange of information. The introduction of an Employee Share Scheme has further helped to promote a sense of involvement in and support for the Group's success.

The Group has adopted a policy which complies

with The Disability Discrimination Act 1995. This policy deals with the recruitment, retention, training and promotion of disabled persons and is the basis upon which the Group carries out its obligations to those people.

The pension scheme to which the Group's employees belong makes provision for retirement due to ill-health or disablement.

DONATIONS

There were no charitable or political donations during the year.

MILLENNIUM COMPLIANCE

The Directors recognise the millennium date change as a serious business issue. A review of computer systems and computer-controlled processes has been conducted across the Group to identify those which could be affected. Where potential problems have been identified, manufacturers or suppliers have been contacted in order that repair or replacement can be effected. A programme is also in place to assess potential problems with and, where necessary, amend in-house computer systems. Work on the compliance programme is monitored by the Directors on a regular basis.

AUDITORS

The Auditors, Grant Thornton, have expressed their willingness to continue in office and a resolution providing for their re-appointment will be proposed at the Annual General Meeting.

ANNUAL GENERAL MEETING

A special resolution, to be proposed at the Annual General Meeting, would renew, until the earlier of the conclusion of the Annual General Meeting in 1999 and the date fifteen months from the date the resolution is passed, the Director's existing authority to allot equity securities up to an aggregate nominal value of £243,202 for cash, without first being required to offer such securities to existing Shareholders. The Directors consider that they should have such authority in order to take advantage of opportunities as they arise.

BY ORDER OF THE BOARD,
S. G. HALFORD,
SECRETARY.



HAVANT,
18TH JUNE 1998.

AUDITORS' REPORTS

REPORT OF THE AUDITORS TO THE MEMBERS OF BROCKHAMPTON HOLDINGS plc

We have audited the financial statements on pages 14 to 32 which have been prepared under the accounting policies set out on pages 18 and 19.

Respective Responsibilities of Directors and Auditors

As described on page 12, the Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

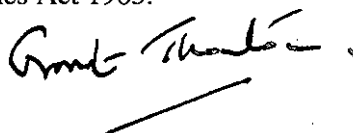
Basis of Opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st March 1998 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



GRANT THORNTON,
REGISTERED AUDITORS,
CHARTERED ACCOUNTANTS,
PORTSMOUTH.
18TH JUNE 1998.

REPORT BY THE AUDITORS TO BROCKHAMPTON HOLDINGS plc ON CORPORATE GOVERNANCE MATTERS

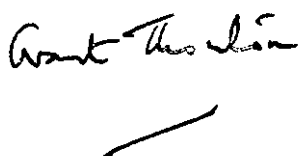
In addition to our audit of the financial statements, we have reviewed the Directors' statement on page 10 on the Company's compliance with paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

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

Opinion

With respect to the Directors' statements on internal financial control on page 10, and going concern on page 11, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and officers of the Company and examination of relevant documents, in our opinion the Directors' statement on page 10 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).



GRANT THORNTON,
REGISTERED AUDITORS,
CHARTERED ACCOUNTANTS,
PORTSMOUTH.
18TH JUNE 1998.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st March 1998

	Notes	1998 £000	1997 £000
TURNOVER	2	28,115	27,694
COST OF SALES		<u>13,111</u>	<u>13,223</u>
GROSS PROFIT		15,004	14,471
Net operating expenses	3	<u>5,724</u>	<u>5,453</u>
OPERATING PROFIT		9,280	9,018
(Loss)/profit on sale of fixed assets	5	<u>(44)</u>	<u>597</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		9,236	9,615
Interest receivable and similar income	6	<u>234</u>	<u>798</u>
		9,470	10,413
Interest payable	7	<u>1,523</u>	<u>1,815</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	8	7,947	8,598
Taxation on profit on ordinary activities	9	<u>2,094</u>	<u>2,307</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	10	5,853	6,291
Dividends paid and proposed on equity and non-equity shares	11	<u>2,328</u>	<u>2,224</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR	20	<u>3,525</u>	<u>4,067</u>
EARNINGS PER SHARE	12	<u>12.3p</u>	<u>11.6p</u>

STATEMENT OF TOTAL RECOGNISED GAINS

For the year ended 31st March 1998

	1998 £000	1997 £000
Profit for the financial year	5,853	6,291
Unrealised surplus on investment properties revaluation	-	504
TOTAL RECOGNISED GAINS FOR THE FINANCIAL YEAR	<u>5,853</u>	<u>6,795</u>

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31st March 1998

	Notes	1998 £000	1997 £000
FIXED ASSETS			
Tangible assets	13	57,571	53,514
Investments	14	<u>1,617</u>	<u>1,617</u>
		59,188	55,131
CURRENT ASSETS			
Stores		874	1,171
Debtors	15	1,589	2,239
Investments	16	69	69
Cash and short-term deposits		<u>5,315</u>	<u>5,124</u>
		7,847	8,603
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	17	12,732	10,163
NET CURRENT (LIABILITIES)		<u>(4,885)</u>	<u>(1,560)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		54,303	53,571
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR	18	<u>15,000</u>	<u>16,000</u>
		<u>39,303</u>	<u>37,571</u>
CAPITAL AND RESERVES			
Called up share capital	19	4,864	6,789
Share premium account	20	435	303
Capital redemption reserve	20	4,059	2,059
Revaluation reserve	20	504	504
Profit and loss account	20	<u>29,441</u>	<u>27,916</u>
SHAREHOLDERS' FUNDS	21	<u>39,303</u>	<u>37,571</u>
Equity shareholders' funds		39,303	35,571
Non-equity shareholders' funds	19	-	2,000
		<u>39,303</u>	<u>37,571</u>

The accounts on pages 14 to 32 were approved by the Board on 18th June 1998.

The accompanying accounting policies and notes form an integral part of these financial statements.


J. F. BATTY CHAIRMAN


COMPANY BALANCE SHEET

As at 31st March 1998

	Notes	1998 £000	1997 £000
FIXED ASSETS			
Tangible assets	13	759	764
Investments	14	<u>5,960</u>	<u>7,960</u>
		6,719	8,724
CURRENT ASSETS			
Debtors	15	2,332	1,851
Investments	16	65	65
Cash and short-term deposits		<u>4,868</u>	<u>4,205</u>
		7,265	6,121
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	17	2,726	1,933
NET CURRENT ASSETS		<u>4,539</u>	<u>4,188</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>11,258</u>	<u>12,912</u>
CAPITAL AND RESERVES			
Called up share capital	19	4,864	6,789
Share premium account	20	435	303
Capital redemption reserve	20	4,059	2,059
Profit and loss account	20	<u>1,900</u>	<u>3,761</u>
SHAREHOLDERS' FUNDS		<u>11,258</u>	<u>12,912</u>
Equity shareholders' funds		11,258	10,912
Non-equity shareholders' funds	19	<u>-</u>	<u>2,000</u>
		<u>11,258</u>	<u>12,912</u>

The accounts on pages 14 to 32 were approved by the Board on 18th June 1998.

The accompanying accounting policies and notes form an integral part of these financial statements.


J. F. BATTY CHAIRMAN

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 1998

	Notes	1998 £000	1997 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	22	11,308	9,665
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		243	925
Interest paid		(1,449)	(1,799)
Preference dividends paid		<u>(40)</u>	<u>(249)</u>
			(1,123)
TAXATION			
UK corporation tax paid		(489)	(3,207)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of tangible fixed assets		(5,135)	(4,805)
Sale of tangible fixed assets		69	640
Capital contributions received		535	523
Purchase of fixed asset investments		<u>-</u>	<u>(1,617)</u>
			(5,259)
EQUITY DIVIDENDS PAID		<u>(2,056)</u>	<u>(1,807)</u>
CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		2,986	(1,731)
MANAGEMENT OF LIQUID RESOURCES			
(Purchase)/sale of short term deposits		(250)	11,450
Purchase of current asset investments		<u>-</u>	<u>(30)</u>
			11,420
FINANCING			
Cancellation of debenture stock		(2)	-
Issue of ordinary share capital		207	508
New loan		-	5,000
Repayment of loan		(1,000)	-
Redemption of debenture stock		-	(8,000)
Redemption of preference shares		(2,000)	(1,250)
Repurchase of shares		<u>-</u>	<u>(5,986)</u>
			(9,728)
(DECREASE) IN CASH IN THE YEAR	24	<u>(59)</u>	<u>(39)</u>

The accompanying accounting policies and notes form an integral part of these financial statements.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention, except for investment properties as detailed in note 1.(e), and in accordance with applicable accounting standards and company law, except for the treatment of capital contributions as detailed in note 1.(d). The principal accounting policies remain unchanged from the previous year and are as follows:

(a) Basis of consolidation

The Group accounts consolidate the accounts of the Company and its subsidiary undertakings up to 31st March 1998. Brockhampton Holdings plc has taken advantage of the dispensation provided by s.230 of the Companies Act 1985, permitting it not to publish a separate profit and loss account. Inter-company balances, transactions and profits/losses are eliminated on consolidation.

(b) Turnover

Turnover, which excludes value added tax, represents the income receivable for goods and services provided to external customers in the ordinary course of business.

(c) Fixed assets

(i) Infrastructure assets - mains

Expenditure relating to increases in capacity or enhancement of the mains network is capitalised and included in tangible fixed assets at cost. Expenditure on maintaining the operating capacity of the network is classified as infrastructure renewals expenditure and charged as an operating cost. No depreciation is charged on infrastructure assets, as shown in note 13 to the accounts on page 25, because the network is required to be maintained in perpetuity and therefore has no finite economic life.

Charges for infrastructure renewals expenditure take account of planned expenditure on maintaining the operating capacity of infrastructure assets in accordance with the operational policies and standards underlying the Group's investment programme. The timing of the investment programme and other operational considerations may result in uneven patterns of infrastructure renewals expenditure. Charges to the profit and loss account are adjusted by way of accruals or deferrals, as appropriate, to take account of any significant

fluctuations between actual and planned expenditure.

(ii) Other assets

Depreciation is provided on all other fixed assets with the exception of freehold land. It is calculated to write off the cost of assets less estimated residual values over their estimated useful lives using the straight line method. Those lives are estimated as follows:

Buildings and Reservoirs	100 years
Pumping Plant	25 years
Vehicles and Mobile Plant	5 - 7 years
Office Equipment	7 years

(d) Capital contributions

(i) Mains contributions

In certain circumstances third parties make non-returnable contributions towards the cost of specific infrastructure assets. They are treated as capital contributions and the Directors consider it appropriate that, in order to present a true and fair view, they should be deducted from fixed assets, as shown in note 13 to the accounts on Page 25. In accordance with the Companies Act 1985 requirement to include fixed assets at cost, such contributions would normally be treated as deferred income and released to the profit and loss account over the useful life of the corresponding assets. However, the assets to which they relate are not depreciated and, accordingly, no basis exists on which to recognise those contributions as deferred income.

(ii) Infrastructure charges

Infrastructure charges are made in respect of new connections in accordance with Condition 'C' of the Instrument of Appointment. These charges are treated as capital contributions and deducted from fixed assets, as more fully explained in note 1.(d)(i) above.

(e) Investment properties

The Directors consider certain holdings of freehold land to be investment properties. In accordance with Statement of Standard Accounting Practice No. 19, they are included in the balance sheet at their open market value. The surplus or deficit on revaluation is transferred to the revaluation reserve. Depreciation is not provided in respect of these holdings of freehold land.

NOTES TO THE ACCOUNTS

(f) Investments

Investments are stated at cost less amounts written off.

(g) Stores

Stores are valued at the lower of cost and net realisable value. In accordance with established practice in the water industry, no value is placed upon the water in reservoirs, mains or in course of treatment.

(h) Deferred taxation

Deferred taxation is provided for under the liability method using the tax rates estimated to arise when the timing differences reverse, and is accounted for to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred taxation is disclosed as a contingent liability in note 26 to the accounts on page 31.

(i) Leases

Operating lease payments are charged to the profit and loss account on a straight line basis over the period of the lease.

(j) Pensions

The Portsmouth Water Company Retirement Benefits Scheme surplus is such that no contributions are likely to be needed from the subsidiary undertaking, Portsmouth Water plc, in the foreseeable future. No other economic benefits are currently expected to flow to this Company from recognising any element of the surplus. In addition, the rules of the Scheme preclude any repayment of the overfunding. Therefore, no part of the surplus has been recognised in the balance sheet as an asset. Detailed information regarding the surplus and the actuarial position of the Scheme is given in note 27 to the accounts on page 32.

2. TURNOVER

	1998 £000	1997 £000
Unmeasured supplies	19,351	19,062
Measured supplies	7,699	7,848
Chargeable work	1,065	784
	<u>28,115</u>	<u>27,694</u>

Turnover is wholly attributable to water supply and related activities in the United Kingdom.

3. NET OPERATING EXPENSES

	1998 £000	1997 £000
Administrative expenses	5,947	5,657
Other operating income	(223)	(204)
	<u>5,724</u>	<u>5,453</u>

NOTES TO THE ACCOUNTS

4. DIRECTORS AND EMPLOYEES	1998	1997
	£000	£000
Employment costs:		
Remuneration	5,206	5,262
Social security costs	427	443
Contribution to employee share incentive scheme	149	-
Other pension costs	-	17
	<u>5,782</u>	<u>5,722</u>
Average numbers employed during year:	Number	Number
Operations	197	202
Administration	73	79
	<u>270</u>	<u>281</u>
Directors' emoluments:	1998	1997
	£000	£000
Emoluments	225	151
Gains on exercise of share options	-	52
	<u>225</u>	<u>203</u>
Highest paid Director	<u>81</u>	<u>139</u>

Emoluments are analysed by Director below:

	Salary/ Fees £000	Benefits £000	Total 1998 £000	Total 1997 £000
Executive:				
J. F. BATTY	49	23	72	87
N. J. ROADNIGHT	71	7	78	-
N. SMITH	10	2	12	-
Non-executive:				
J. F. BATTY (Chairman)	7	2	9	-
G. SLATER (Former Chairman)	4	-	4	16
F. A. BAILEY	11	2	13	12
M. C. COPP	11	1	12	12
J. D. KING	11	2	13	12
H. J. Y. PRINGLE	11	1	12	12

These figures reflect the changes during the year, as detailed in the Directors' Report on page 10.

NOTES TO THE ACCOUNTS

Benefits comprise, in the main, company cars for Mr. J. F. Batty, Mr. N. J. Roadnight and Mr. N. Smith and medical insurance for all of the Directors.

The following Directors have accrued pension benefits under the Portsmouth Water Company Retirement Benefits Scheme, which is a defined benefits scheme, during the year:-

	Accumulated Accrued Pension At 31st March 1998	Increase in Accrued Pension During Year to 31st March 1998	Transfer Value of Increase
	£000	£000	£000
J. F. BATTY	55	2	26
N. J. ROADNIGHT	31	4	48
N. SMITH	-	-	-

Mr. N. Smith did not join the Scheme until 2nd February 1998.

The accumulated accrued pension is that which would be paid annually on retirement based on service to the end of the year, or in the case of Mr. J. F. Batty, to the date of his retirement on 11th October 1997.

The increase in accrued pension excludes any increase for inflation.

The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. No member of the Scheme has paid contributions during the year.

In addition to Mr. J. F. Batty, Mr. F. A. Bailey and Mr. J. D. King also receive pensions under the Scheme.

Directors' interests:

The beneficial interests of the Directors in the shares of the Company are detailed below. The comparative figures for Mr. N. J. Roadnight represent his interests at his date of appointment on 23rd April 1997.

	SHARES				OPTIONS			
	Ordinary		'A' Ordinary		Ordinary		'A' Ordinary	
	1998	1997	1998	1997	1998	1997	1998	1997
N. J. ROADNIGHT	-	-	53,610	72,603	1,472	1,472	19,519	-
N. SMITH	-	-	-	-	-	-	-	-
J. F. BATTY	3,282	3,282	134,894	135,283	346	1,472	-	-
F. A. BAILEY	1,500	1,500	23,500	23,500	-	-	-	-
M. C. COPP	1,000	1,000	4,000	4,000	-	-	-	-
J. D. KING	1,500	1,500	18,000	18,000	-	-	-	-
H. J. Y. PRINGLE	1,500	1,500	23,500	23,500	-	-	-	-

NOTES TO THE ACCOUNTS

Details of options under the Savings-Related Share Option Scheme for employees to subscribe for shares of Brockhampton Holdings plc are as follows:

	AT DATE OF APPOINTMENT	GRANTED	EXERCISED	AT 31ST MARCH 1998	EXERCISE PRICE	EXERCISE DATE
N. J. ROADNIGHT	1,472	-	-	1,472	164p	FROM FEBRUARY 2002 FOR 6 MONTHS
	-	19,519	-	19,519	76p	FROM MARCH 2003 FOR 6 MONTHS

The middle market quotation for an Ordinary Share on 31st March 1998 was 189p, the range having varied during the year between a high of 193p and a low of 178p.

The middle market quotation for an 'A' Ordinary Share on 31st March 1998 was 100p, the range having varied during the year between a high of 105p and a low of 75p.

Mr. J. F. Batty exercised his options for 346 Ordinary Shares of Brockhampton Holdings plc at an option price of 164p on 7th April 1998. The reduction in his options during the year was as a result of his retirement before the earliest exercise date.

No other changes in the above mentioned interests have been notified in the period up to 18th May 1998.

Mr. J. F. Batty and Mr. F. A. Bailey are Trustees of the Portsmouth Water Company Retirement Benefits Scheme. Accordingly, they have a non-beneficial interest in that Scheme's holding, which is set out in the Directors' Report.

5. (LOSS)/PROFIT ON SALE OF FIXED ASSETS	1998	1997
	£000	£000
Land	-	581
Other fixed assets	(44)	16
	<u>(44)</u>	<u>597</u>
6. INTEREST RECEIVABLE AND SIMILAR INCOME		
Interest on short-term deposits	177	735
Other interest receivable	<u>57</u>	<u>53</u>
	234	788
Income from fixed asset investments	-	10
	<u>234</u>	<u>798</u>

NOTES TO THE ACCOUNTS

7. INTEREST PAYABLE	1998	1997
	£000	£000
Debenture stocks	12	649
Bank loans and overdraft	1,464	1,159
Other interest payable	47	7
	<u>1,523</u>	<u>1,815</u>

8. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

After charging:

Infrastructure renewals expenditure	3,647	3,741
Rates	1,793	1,793
Water abstraction charges	1,088	1,057
Depreciation	991	922
Auditors' remuneration:		
Audit services	29	27
Non-audit services	32	29
Hire of plant and machinery	29	25
Other operating leases	456	503

9. TAXATION

Corporation tax at 31% (1997 - 33%)	2,090	2,299
Adjustment for previous years	4	8
	<u>2,094</u>	<u>2,307</u>

No provision is made for tax deferred by capital allowances as the continuing programme of capital expenditure makes it appear unlikely that such timing differences will reverse in the foreseeable future. The full potential liability for deferred taxation in respect of all timing differences is as follows:

	1998	1997
	£000	£000
Accelerated capital allowances	<u>11,805</u>	<u>11,833</u>

NOTES TO THE ACCOUNTS

10. PROFIT OF BROCKHAMPTON HOLDINGS plc

Of the consolidated profit attributable to the shareholders of Brockhampton Holdings plc, £2.467m. (1997 - £9.965m.) has been dealt with in the accounts of that Company.

11. DIVIDENDS PAID AND PROPOSED

	1998 £000	1997 £000
Equity:		
Ordinary/'A' Ordinary Shares - interim paid	756	674
- final proposed	<u>1,532</u>	<u>1,301</u>
	2,288	1,975
Non-equity:		
9.5% Redeemable Preference Shares 1996 - paid	-	89
8% Redeemable Preference Shares 1997 - paid	<u>40</u>	<u>160</u>
	<u>2,328</u>	<u>2,224</u>

12. EARNINGS PER SHARE

Earnings per share has been calculated on the basis of profit on ordinary activities after taxation and preference dividends divided by the weighted average number of Ordinary/'A' Ordinary Shares in issue.

	1998 000	1997 000
Earnings attributable to Ordinary/'A' Ordinary Shares	<u>£5,813</u>	<u>£6,042</u>
Weighted average number of Ordinary/'A' Ordinary Shares in issue	<u>47,327</u>	<u>52,067</u>

The fully diluted earnings per share has not been disclosed as it does not represent a material dilution.

NOTES TO THE ACCOUNTS

13.	The Group					The Company
TANGIBLE FIXED ASSETS	Freehold land, buildings & reservoirs	Mains	Pumping plant	Vehicles, mobile plant & office equipment	TOTAL	Freehold land & buildings
COST AND MARKET VALUE	£000	£000	£000	£000	£000	£000
At 1st April 1997	29,100	29,441	4,840	4,767	68,148	769
Additions	1,219	2,328	1,703	445	5,695	-
Disposals	(59)	-	(48)	(231)	(338)	-
At 31st March 1998	<u>30,260</u>	<u>31,769</u>	<u>6,495</u>	<u>4,981</u>	<u>73,505</u>	<u>769</u>
DEPRECIATION						
At 1st April 1997	3,309	-	1,114	3,085	7,508	5
Charge for year	293	-	250	448	991	5
Disposals during year	(20)	-	(36)	(170)	(226)	-
At 31st March 1998	<u>3,582</u>	<u>-</u>	<u>1,328</u>	<u>3,363</u>	<u>8,273</u>	<u>10</u>
NET BOOK VALUE						
At 31st March 1998	<u>26,678</u>	<u>31,769</u>	<u>5,167</u>	<u>1,618</u>	<u>65,232</u>	<u>759</u>
At 31st March 1997	<u>25,791</u>	<u>29,441</u>	<u>3,726</u>	<u>1,682</u>	<u>60,640</u>	<u>764</u>
CAPITAL CONTRIBUTIONS						
At 1st April 1997	-	7,126	-	-	7,126	-
Received during year	-	535	-	-	535	-
At 31st March 1998	<u>-</u>	<u>7,661</u>	<u>-</u>	<u>-</u>	<u>7,661</u>	<u>-</u>
NET BOOK VALUE AFTER DEDUCTING CAPITAL CONTRIBUTIONS						
At 31st March 1998	<u>26,678</u>	<u>24,108</u>	<u>5,167</u>	<u>1,618</u>	<u>57,571</u>	<u>759</u>
At 31st March 1997	<u>25,791</u>	<u>22,315</u>	<u>3,726</u>	<u>1,682</u>	<u>53,514</u>	<u>764</u>

The Group's freehold land, buildings and reservoirs include holdings of freehold land considered to be investment properties. These holdings have an historical cost of £0.047m. (1997 - £0.047m.), but are now carried at a valuation of £0.551m. The valuation was carried out in March 1997 by Vail Williams and Cluttons, both firms of surveyors, on the basis of open market value for existing or alternative use as appropriate. They have confirmed that there has been no material change during the year.

NOTES TO THE ACCOUNTS

14. FIXED ASSET INVESTMENTS	The Group		The Company		TOTAL
	Own Shares £000	Own Shares £000	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	
At 1st April 1997	1,617	1,617	4,617	1,726	7,960
Redemption of Preference Shares	-	-	(2,000)	-	(2,000)
At 31st March 1998	<u>1,617</u>	<u>1,617</u>	<u>2,617</u>	<u>1,726</u>	<u>5,960</u>

The fixed asset investment in own shares represents shares held in an ESOT. The Trustees are appointed by the Board of Brockhampton Holdings plc, but act independently of that Board. The ESOT holds 770,000 Ordinary Shares of 10p each with a market value at 31st March 1998 of £1.455m. and the dividend for the year has been waived. The Shares are held for the continuing benefit of employees, including the underwriting of certain employee incentive schemes, and the Trustees have no arrangements for the distribution of the Shares at present. None of the Shares are currently under option to employees. Any costs incurred by the ESOT are recognised in the Company's profit and loss account on an accruals basis.

The subsidiary undertakings of the Company, both of which have an accounting reference date of 31st March, are as follows:

	Country of Operation	Business	Interest in Shares
Portsmouth Water plc	England	Water Supply	100% of Ordinary Shares
Brockhampton Property Investments Limited	England	Property	100% of Ordinary Shares

15. DEBTORS	The Group		The Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Trade debtors	1,023	935	-	14
Amounts owed by subsidiary undertaking	-	-	1,918	866
Prepayments and accrued income	165	334	31	40
Advance corporation tax recoverable	383	931	383	931
Other debtors	18	39	-	-
	<u>1,589</u>	<u>2,239</u>	<u>2,332</u>	<u>1,851</u>

All of the above amounts fall due within one year, with the exception of advance corporation tax recoverable

16. INVESTMENTS

Unlisted investments	<u>69</u>	<u>69</u>	<u>65</u>	<u>65</u>
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NOTES TO THE ACCOUNTS

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group		The Company	
	1998 £000	1997 £000	1998 £000	1997 £000
3% Perpetual debenture stock	90	90	-	-
3½% Perpetual debenture stock	198	199	-	-
4% Perpetual debenture stock	47	49	-	-
Payments received on account	548	399	-	-
Trade creditors	1,013	646	-	-
Amounts owed to subsidiary undertaking	-	-	-	3
Corporation tax	1,106	650	29	26
Social security and other taxation	1,280	684	1,114	513
Other creditors	2,054	1,395	-	-
Infrastructure renewals	132	-	-	-
Accruals	456	424	51	90
Water rates in advance	4,276	4,326	-	-
Proposed dividends	1,532	1,301	1,532	1,301
	<u>12,732</u>	<u>10,163</u>	<u>2,726</u>	<u>1,933</u>

18. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

Between one and two years:

Bank loan	6,000	-	-	-
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Between two and five years:

Bank loan	-	6,000	-	-
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In five years or more:

Bank loans	<u>9,000</u>	<u>10,000</u>	<u>-</u>	<u>-</u>
	<u>15,000</u>	<u>16,000</u>	<u>-</u>	<u>-</u>

The £6m. bank loan is unsecured, repayable on 23rd September 1999 and bears interest at 10.3325% per annum.

Two bank loans of £5m. and £4m. respectively are repayable in five years or more. The £5m. bank loan is unsecured, repayable on 29th July 2004 and bears interest at 9.6625% per annum. The £4m. bank loan is part of an unsecured £7m. revolving credit facility, which expires on 25th March 2007, and bears interest based on London Interbank rates. Under this agreement, the loan must not exceed £6m. on 25th March 2004, £5m. on 25th March 2005 and £4m. on 25th March 2006.

In addition to the above, all debenture stocks totalling £0.335m. (1997 - £0.338m.) are repayable within one year, as shown in note 17 to the accounts above.

NOTES TO THE ACCOUNTS

19. CALLED UP SHARE CAPITAL

	The Group		The Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Authorised:				
Equity:				
6,000,000 Ordinary Shares of 10p each	600	600	600	600
70,000,000 'A' Ordinary Shares of 10p each	<u>7,000</u>	<u>7,000</u>	<u>7,000</u>	<u>7,000</u>
	<u>7,600</u>	<u>7,600</u>	<u>7,600</u>	<u>7,600</u>
Non-equity:				
3,250,000 Redeemable Preference Shares of £1 each	<u>3,250</u>	<u>3,250</u>	<u>3,250</u>	<u>3,250</u>
	<u>10,850</u>	<u>10,850</u>	<u>10,850</u>	<u>10,850</u>
Allotted, called up and fully paid:				
Equity:				
4,265,177 Ordinary Shares of 10p each (1997 - 4,265,177)	427	427	427	427
44,375,416 'A' Ordinary Shares of 10p each (1997 - 43,623,373)	<u>4,437</u>	<u>4,362</u>	<u>4,437</u>	<u>4,362</u>
	<u>4,864</u>	<u>4,789</u>	<u>4,864</u>	<u>4,789</u>
Non-equity:				
2,000,000 8% Redeemable Preference Shares 1997 of £1 each	-	2,000	-	2,000
	<u>4,864</u>	<u>6,789</u>	<u>4,864</u>	<u>6,789</u>

The Preference Shares 1997 were redeemed at par on 30th June 1997.

The Ordinary and 'A' Ordinary Shareholders are entitled to receive dividends pari passu according to the amount paid up or credited as paid up on their shares.

The Ordinary Shares are the only class of share to carry voting rights.

In a distribution on the winding up of the Company, the Ordinary and 'A' Ordinary Shareholders are entitled to share the balance of any surplus assets pari passu according to the amount paid up or credited as paid up on their shares.

NOTES TO THE ACCOUNTS

The Group operates a Savings-Related Share Option Scheme for employees. During the year a further offer was extended under this Scheme. Options have been granted to eligible employees to subscribe for Ordinary and 'A' Ordinary Shares of Brockhampton Holdings plc in accordance with the rules of the Scheme, which is based on SAYE contracts, options becoming exercisable at the end of a five year contract.

During the year, 752,043 'A' Ordinary Shares with a nominal value of £75,204 were allotted under the Savings - Related Share Option Scheme for a total consideration of £207,518 (1997 - 2,050,010 'A' Ordinary Shares for £508,403). Options granted and outstanding at 31st March 1998 were:

	1998	1997	1998	1997	1998	1997
Number of 'A' Ordinary Shares	-	175,040	23,295	595,890	281,379	298,110
Price per share	24.8p		28p		59p	
Exercise period	From February 1997 for 6 months		From March 1998 for 6 months		From February 1999 for 6 months	

	1998	1997		1998	1997
Number of 'A' Ordinary Shares	907,168	-	Number of Ordinary Shares	271,666	287,953
Price per share	76p		Price per share	164p	
Exercise period	From March 2003 for 6 months		Exercise period	From February 2002 for 6 months	

20. RESERVES

	The Group				The Company		
	Share Premium	Capital Redemption	Revaluation	Profit and Loss	Share Premium	Capital Redemption	Profit and Loss
	£000	£000	£000	£000	£000	£000	£000
At 1st April 1997	303	2,059	504	27,916	303	2,059	3,761
Premium on share issues	132	-	-	-	132	-	-
Preference Shares redemption	-	2,000	-	(2,000)	-	2,000	(2,000)
Retained profit for the year	-	-	-	3,525	-	-	139
At 31st March 1998	<u>435</u>	<u>4,059</u>	<u>504</u>	<u>29,441</u>	<u>435</u>	<u>4,059</u>	<u>1,900</u>

NOTES TO THE ACCOUNTS

21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	1998 £000	1997 £000
Profit for the financial year	5,853	6,291
Dividends	<u>2,328</u>	<u>2,224</u>
	3,525	4,067
New share capital subscribed	207	508
Surplus on investment properties revaluation	-	504
Preference Shares redemption	(2,000)	(1,250)
Purchase of own shares	<u>-</u>	<u>(5,986)</u>
Net increase/(decrease) in shareholders' funds	1,732	(2,157)
Shareholders' funds at 31st March 1997	<u>37,571</u>	<u>39,728</u>
Shareholders' funds at 31st March 1998	<u><u>39,303</u></u>	<u><u>37,571</u></u>
22. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
Operating profit	9,280	9,018
Depreciation charge	991	922
Profit on cancellation of debenture stock	(1)	-
Decrease/(increase) in stores	297	(134)
Decrease/(increase) in debtors	94	(147)
Increase in creditors	<u>647</u>	<u>6</u>
Net cash inflow from operating activities	<u><u>11,308</u></u>	<u><u>9,665</u></u>
23. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT		
(Decrease) in cash in the year	(59)	(39)
Cash outflow from decrease in debt	1,003	3,000
Cash outflow/(inflow) from increase/(decrease) in liquid resources	<u>250</u>	<u>(11,420)</u>
Movement in net debt in the year	1,194	(8,459)
Net debt at 1st April 1997	<u>(11,145)</u>	<u>(2,686)</u>
Net debt at 31st March 1998	<u><u>(9,951)</u></u>	<u><u>(11,145)</u></u>

The Group includes as liquid resources term deposits of less than one year and current asset equity investments.

NOTES TO THE ACCOUNTS

24. ANALYSIS OF CHANGES IN NET DEBT

	At 1st April 1997 £000	Cash Flow £000	At 31st March 1998 £000
Cash at bank and in hand	<u>1,124</u>	<u>(59)</u>	<u>1,065</u>
Debt falling due within one year	(338)	3	(335)
Debt falling due after one year	<u>(16,000)</u>	<u>1,000</u>	<u>(15,000)</u>
	<u>(16,338)</u>	<u>1,003</u>	<u>(15,335)</u>
Short term deposits	4,000	250	4,250
Current asset equity investments	<u>69</u>	<u>-</u>	<u>69</u>
	<u>4,069</u>	<u>250</u>	<u>4,319</u>
TOTAL	<u><u>(11,145)</u></u>	<u><u>1,194</u></u>	<u><u>(9,951)</u></u>

25. CAPITAL COMMITMENTS

	The Group	
	1998 £000	1997 £000
Contracted for but not provided in these financial statements	<u>974</u>	<u>3,629</u>

The Group has a further commitment under operating leases relating to computer hardware and associated software of £0.461m. per annum (1997 - £0.429m.) which expire as set out below. The Company has no such commitments (1997 - NIL).

	1998 £000	1997 £000
Within one year	14	17
Within two to five years	447	412

26. CONTINGENT LIABILITIES

At 31st March 1998 and 31st March 1997, neither the Group nor the Company had any contingent liabilities, with the exception of unprovided deferred taxation, as shown in note 9 to the accounts on page 23.

NOTES TO THE ACCOUNTS

27. PENSIONS

A subsidiary undertaking, Portsmouth Water plc, participates in the Portsmouth Water Company Retirement Benefits Scheme to provide defined benefits based on final pensionable pay for its employees. The assets of the Scheme are held in a separate trustee administered fund.

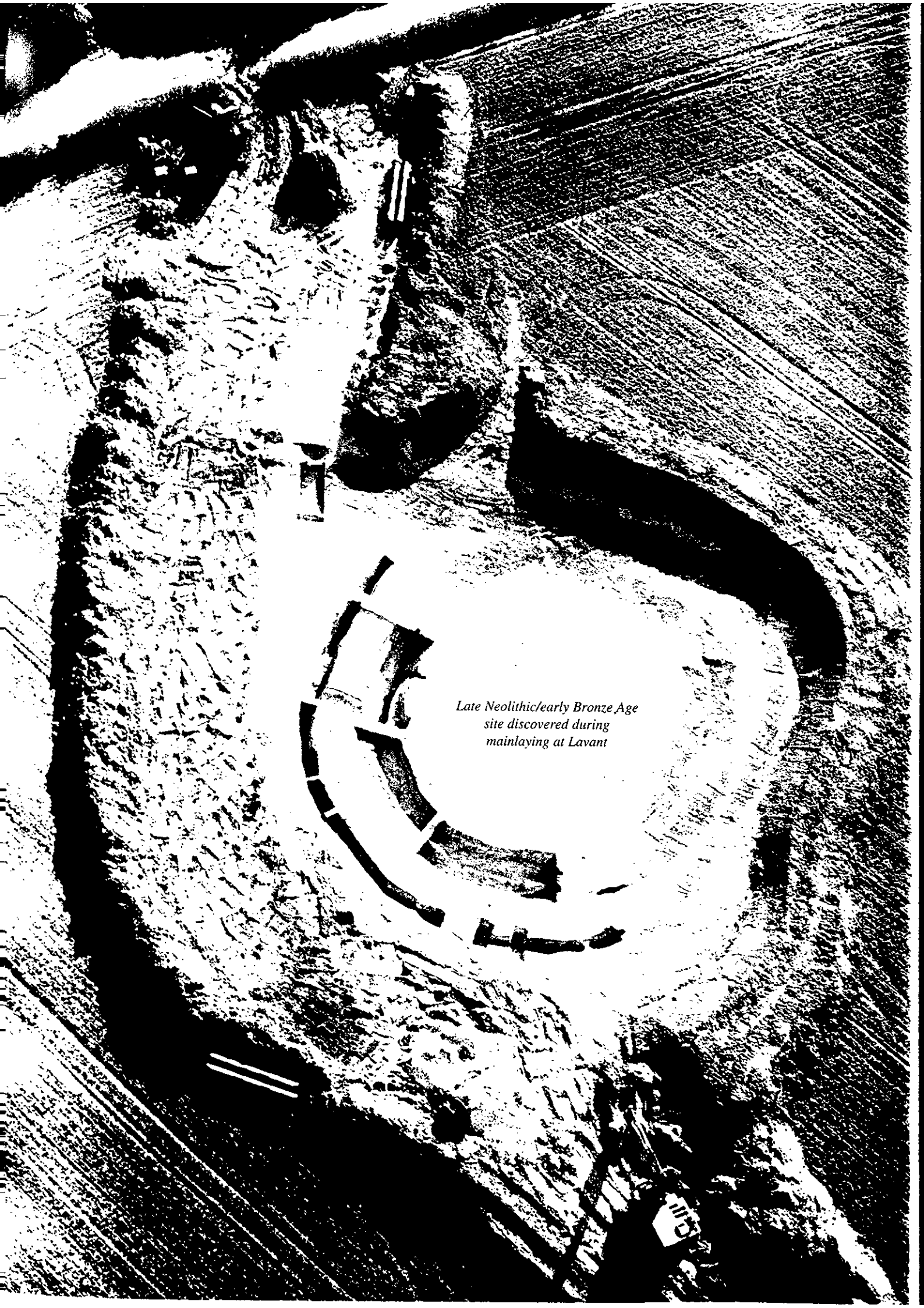
Contributions are determined by qualified actuaries on the basis of periodic investigations. Portsmouth Water plc, on the advice of its actuaries, has not made contributions to the Scheme since 1st April 1990. The latest actuarial investigation of the Scheme was made as at 30th September 1996, and the most significant actuarial assumptions were as follows:

Valuation Method	Projected Unit
Rate of Return on Investment	8¼% per annum
Rate of Increase in Pay	6½% per annum
Rate of Increase in Pensions in Payment	4½% per annum
Early Retirement	50% of members in service to retire at the earliest age at which an unreduced pension can be taken and 50% at normal pension age
Valuation of Assets	Market value notionally reinvested in the Financial Times - Stock Exchange - Actuaries' All-Share Index, allowing for growth in dividends (taken net to reflect the loss of ACT credits) at 4½% per annum

The market value of the Scheme's assets at 30th September 1996 was £73.050m. and the actuarial value of those assets represented 182% of the value of benefits accrued to members, allowing for expected future increases in earnings and pensions.

The actuarial investigation of the Scheme as at 30th September 1996 revealed a surplus of £30.002m. However, as stated in the accounting policy on pensions on page 19, the rules of the Scheme preclude any repayment of the overfunding. Consequently, no part of the surplus has been recognised as an asset and a nil pension cost has been charged to the profit and loss account.

There were no contributions to the West Sussex County Council Superannuation Fund for the year to 31st March 1998 (1997 - £17,000).



*Late Neolithic/early Bronze Age
site discovered during
mainlaying at Lavant*

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Brockhampton Holdings plc will be held at the Company's Registered Office, Brockhampton Springs, West Street, Havant, Hants., at 12.30p.m. on Thursday, the 23rd day of July 1998, on the following business:

1. To receive and consider the Directors' Report and Accounts for the year ended 31st March 1998 and the Auditors' Report thereon.
2. To declare a final dividend of 3.2p per Ordinary and 'A' Ordinary Share.
3. To re-elect Mr. M. C. Copp a Director of the Company.
4. To re-elect Mr. H. J. Y. Pringle a Director of the Company.
5. To elect Mr. N. Smith a Director of the Company.
6. To re-appoint Grant Thornton as Company Auditors and to authorise the Directors to fix their remuneration.
7. To consider and, if thought fit, to pass the following as a Special Resolution:

"**THAT** the Directors be and they are hereby empowered, pursuant to Section 95 of the Companies Act 1985, to allot equity securities (as defined in Section 94 of that Act) for cash, pursuant to the general authority conferred by resolution number 6., passed at the Annual General Meeting of the Company held on 24th August 1995, as if Section 89(1) of that Act did not apply to such allotment, provided that this power shall be limited to:

- (i) the allotment of equity securities in connection with any rights issue in favour of the holders of shares on the register of members at such record date or dates as the Directors may determine for the purpose of the issue where the equity securities respectively attributable to the interests of such shareholders are proportionate (as nearly as may be) to the respective numbers of shares held by them on any such record date or dates, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory or by virtue of the requirements of any regulatory body or stock exchange or any other matter whatsoever; and
- (ii) the allotment (otherwise than pursuant to (i) above) of equity securities up to an aggregate nominal value of £243,202, being five per cent of the nominal value of the Company's issued ordinary share capital on the date hereof, provided that any equity securities issued pursuant to this authority shall be in the form of Ordinary Shares and 'A' Ordinary Shares in the capital of the Company in proportion to the number of shares in each of those two classes in issue at the relevant time and, unless renewed, varied or revoked by the Company in General Meeting, shall expire at the earlier of the conclusion of the Company's Annual General Meeting in 1999 and the date fifteen months from the date this Resolution is passed, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement notwithstanding that this power has expired."

NOTICE OF MEETING

8. To consider and, if thought fit, to pass the following as an Ordinary Resolution:

"THAT the Company be and is hereby generally and unconditionally authorised to make market purchases (as defined by Section 163 of the Companies Act 1985) on the London Stock Exchange of up to an aggregate of 4,800,000 Ordinary Shares or non-voting 'A' Ordinary Shares of 10p each in the capital of the Company at prices being not more than 5 per cent above the average of the middle market quotation for the shares taken from the London Stock Exchange Daily Official List for the five business days before any such purchase is made and not less than 10p per share (in each case exclusive of expenses). The authority conferred by this Resolution shall expire at the earlier of the conclusion of the Company's Annual General Meeting in 1999 and the date eighteen months from the date this Resolution is passed (except that the authority shall not exclude any purchase of shares made pursuant to any contract concluded before the expiry date and which would or may be executed wholly or partly after the expiry date)."

This authority is intended as a general authority and the Directors have no specific plans at present to make any such market purchases.

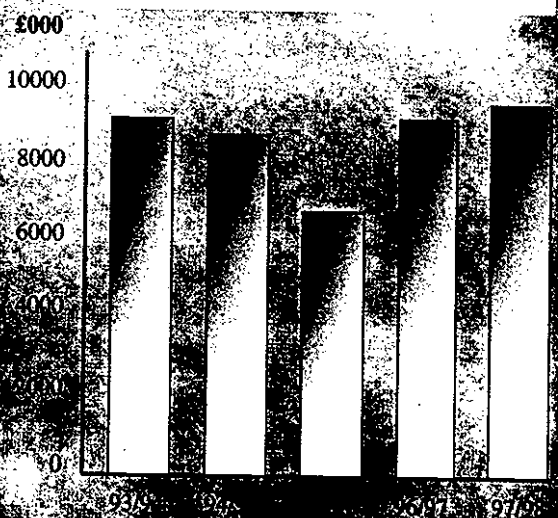
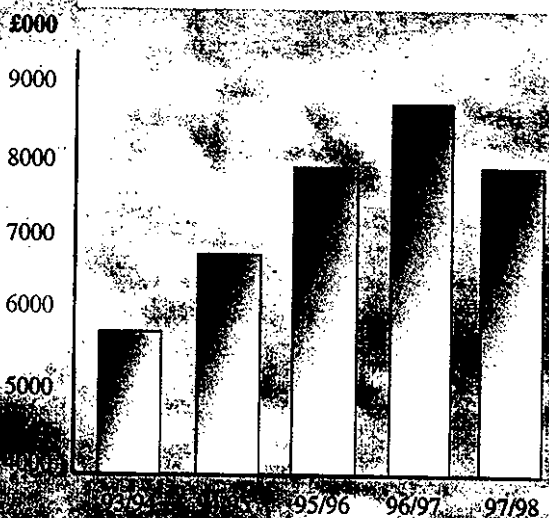
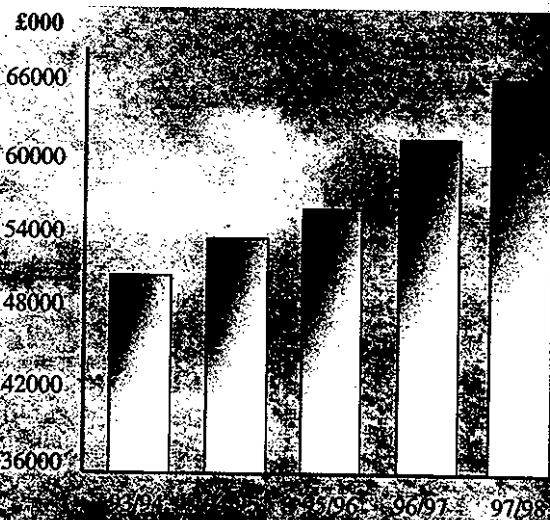
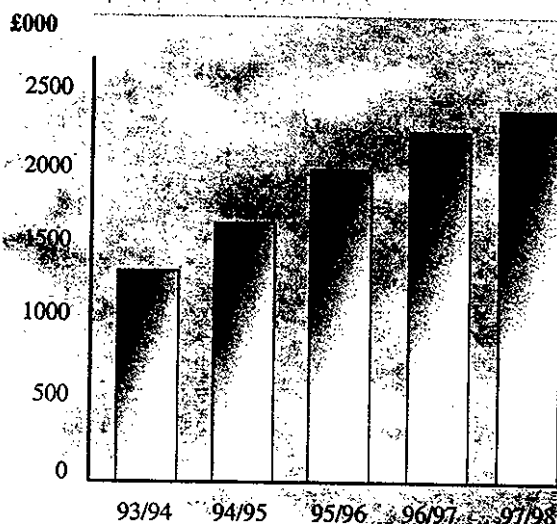
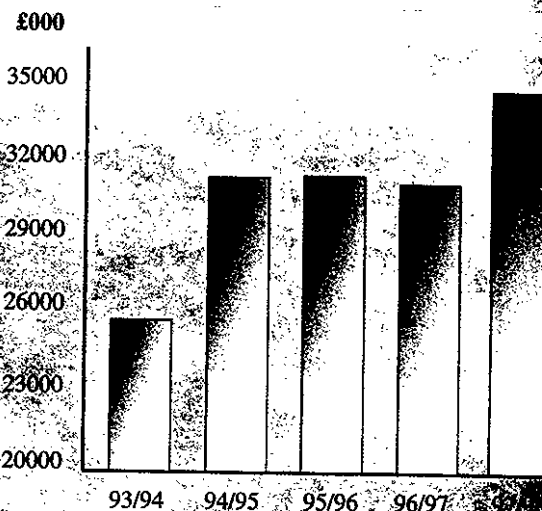
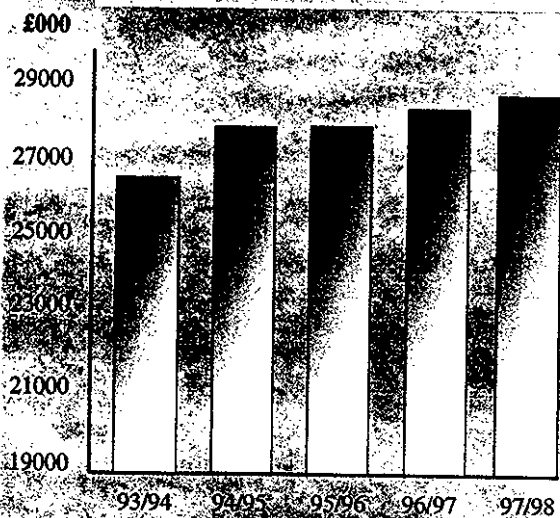
**REGISTERED OFFICE,
BROCKHAMPTON SPRINGS,
WEST STREET, HAVANT,
HANTS. PO9 1LG.
18TH JUNE 1998.**

**BY ORDER OF THE BOARD,
S. G. HALFORD,
SECRETARY.**

Notes:

- i) Shareholders are reminded that no voting rights attach to the 'A' Ordinary Shares. 'A' Ordinary Shareholders are not entitled to attend the meeting.
- ii) The Company, pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those Shareholders registered in the register of members of the Company as at 6p.m. on 21st July 1998 shall be entitled to attend or vote at the aforesaid Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6p.m. on 21st July 1998 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- iii) A proxy form is enclosed for use by Shareholders entitled to vote at the meeting. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not also be a member of the Company.
- iv) To be valid, proxy forms (together with any power of attorney or other written authority under which it is executed or an office or notarially certified copy or a copy certified in accordance with the Power of Attorney Act 1971 of such power or written authority) must reach the Company Registrars' Office not later than forty-eight hours before the time fixed for the meeting. Completion of proxy forms will not preclude members from attending and voting at the meeting should they wish to do so.
- v) Final ordinary dividend payable on 13th August 1998 to Shareholders registered at close of business on 26th June 1998.

FINANCIAL INFORMATION



FINANCIAL CALENDAR

1998

27	May	Preliminary announcement of results
22	June	Ex-dividend date for final dividend
26	June	Registration qualifying date for final dividend
23	July	Annual General Meeting
13	August	Payment of final dividend



Gaters Mill near the River Ichen Treatment Works