

MEARS GROUP PLC  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2002

Company no. 3232863



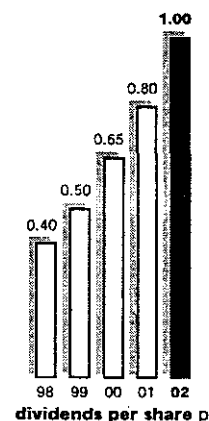
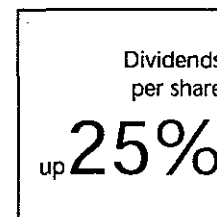
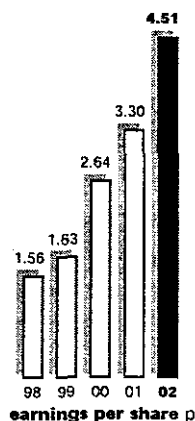
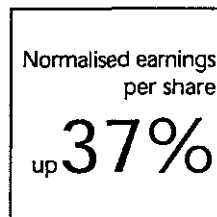
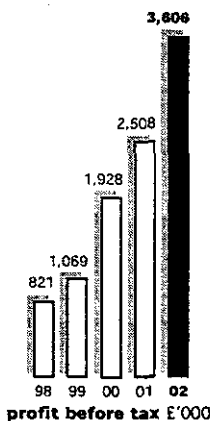
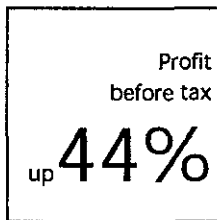
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Corporate Statement & Financial Highlights

Our mission is to become the leading Company providing a range of support services profitably to a wide range of customers in the public and private sector.



## Mears at a Glance



Type of service

### public sector services

Service description

The majority of the Group's business continues to be in the provision of a range of maintenance services in the social housing sector on a national basis.

Our work involves forging long-term relationships and developing the business through partnership arrangements.

Brand providing service

**Mears Social  
Housing**



### mechanical and electrical services

The business operates in the housing, education and healthcare sectors providing primarily fast-track mechanical and electrical fit-out services to private and public sector customers.

**Haydon and  
Company**



## vehicle collection and delivery

United Fleet Distribution (UFD) provides a vehicle collection and delivery service for commercial customers who typically own a large vehicle fleet. The customers who comprise leasing companies, utility companies and fleet managers require that their end of lease vehicles be collected and delivered to either auction houses or motor retailers. UFD operates in excess of 500 trade plated drivers who collect and deliver vehicles on a national basis.

**United Fleet  
Distribution**



## facility management

The business provides a total building management service to its customers where we manage a large range of services.

**Mears Facility  
Management**

Type of service

Service description

Brand providing service

## Chairman's Statement

I am again pleased to announce record profits for the year ended 31 December 2002.

Profits before tax and amortisation were up 43.1% at £3,764,507 (2001: £2,631,153) on turnover up 15.0% at £78,833,997 (2001: £68,579,597).

Earnings per share before amortisation increased by 35.7% to 4.79p (2001: 3.53p assuming a full tax charge). Net profit margins rose to 4.57% up from 3.66% in the previous year and have increased in each of the last three years. The Board recommends a final dividend of 0.75p per share making a total dividend for the year of 1.0p per share, an increase of 25% from the previous year (2001: 0.8p per share). The final dividend is payable on 1 July 2003 to shareholders on the register on 6 June 2003.

### Trading review

The Group has enjoyed significant opportunities for growth at improved rates where customers have bought a quality 'value for money' service. We continue to develop long-term partnership strategies with our customers and have strengthened further our relationships in all the core markets in which we operate. Each of the divisions of the Group traded ahead of expectations, and the non-cyclical nature of the core business is underpinned by long-term contracts which provide highly visible and robust revenues and earnings. The order book currently stands at £300 million which includes £165 million of future revenues at fixed net margins.

The Group continues to enjoy buoyant trading conditions in most areas. In the public sector from where the majority of turnover derives, the central government initiatives to improve the condition of the social housing stock continue

to bring significant opportunities. During the year the Group was awarded contracts by Wigan and Leigh Housing, Elmbridge Housing Trust, Warwickshire County Council and Stonebridge Housing Action Trust demonstrating our ability to win long-term partnership arrangements where the quality of the service provided is paramount. It should be remembered that the Group provides 'essential support services' and is not subject in the core business to any aspect of discretionary spending from its customers.

Cash continued to be managed well with the generation of £3.0 million of net cash inflow in the period. The Group has no borrowings and had cash in the bank of £5.6 million at the end of the year.

### Operations

The Group operates principally in four sectors.

#### Public sector services

By far the largest part of the Group is the provision of a range of maintenance services to the social housing and central government sectors. The sector provides us with significant long-term contracts with local authorities, registered social landlords, housing associations and government. The Group provides a mixture of both rapid response and planned maintenance services on long-term contracts, to deliver a total quality outsourced building maintenance service. The contracts are let on a basis where the Group does not compete with any other service provider and the customer simply utilises a growing amount of services throughout the contract period. As the contracts near the end of their duration the Group has demonstrated an excellent record of contract retention and renewal. The Government has committed significant resources to improve the country's social housing stock and the Group is in

"Order book stands at £300 million"

negotiations with a number of local authorities regarding service provision.

#### **Mechanical and electrical services**

The business provides mechanical and electrical services in the housing, education and healthcare sectors. The business operates as Haydon and Company Limited and has been in existence for 120 years building on excellent relationships with its customers. The expansion of the business into school and hospital works has broadened the sector involvement away from the reliance upon housing. Whilst the London based housing business has performed excellently, we are confident that any downturn in the housing market would be compensated by the ability of Haydon to expand into the other sectors in which it operates.

#### **Facility management**

The business provides a total building management service to its customers where we manage a large range of services.

The Company which was a start up in September 2001 has performed in line with expectations in the year. The Company was loss making but was successful in building a solid customer base from where to develop a robust profitable contribution to the Group. The Company is expected to break-even in the current year.

#### **Vehicle collection and delivery**

United Fleet Distribution (UFD) provides a vehicle collection and delivery service for commercial customers who typically own a large vehicle fleet. The customers who comprise leasing companies, utility companies and fleet managers require that their end of lease vehicles be collected and delivered to either auction houses or motor retailers. UFD operates in excess of 500 trade plated drivers who collect

and deliver vehicles on a national basis. UFD holds some of the largest contracts in the UK for these services and operates from eight locations which provide storage and vehicle inspection services. The business is the market leader for trade plated driver services in the UK and has enjoyed significant growth in 2002.

#### **Strategy and expansion**

In the year the Group invested in FITE IT Limited (FITE) an Information Technology (IT) maintenance business buying 49% of FITE, a central London based Company who provide IT response maintenance to small businesses. Nick Lawrence and the team are to be congratulated for their excellent start to life as part of the Mears Group. I look forward to bringing you news of the progress of FITE in the future.

In December the Group acquired M&T Group Limited (M&T) and in turn welcomed back into the business Mike Turl, one of the founders of Mears. Those who know the history of the Group will be aware that Mike left the Group in 1998 to pursue other interests.

In April 1999 M&T acquired FWA (Southern) Limited and later certain contracts from Mears following our purchase of Haydon in September 1999. We have acquired Mike's business on an earn-out basis, with the consideration linked to future levels of profitability. In addition Mike is to help build a national painting and decorating services business where the Group has identified significant growth opportunities. I look forward to bringing you news in the future of the regional acquisition strategy we have planned.

Throughout the Group we operate a reward based culture with bonus and incentive arrangements in place at all levels. Every employee is encouraged to contribute to a better and

**“Net cash inflow of £3 million”**

## Chairman's Statement (continued)

more cost effective way of working. In the year we increased greatly our commitment to wider social responsibility, sponsoring in excess of 30 local sports clubs, teams and or individuals, living in those communities in which we operate or intend operating in the future. It is our intention to extend our community involvement and in conjunction with the organisation Business in the Community we commenced a paired reading scheme where employees of the Group visit a local school and are paired with a schoolchild spending up to an hour a week with a child to improve that child's reading skills. This is the first of a number of initiatives to extend our community based social involvement. In a joint venture with a local based national charity we have committed to send each year six of our junior managers on a sponsored walk of the Great Wall of China to both raise much needed funding whilst at the same time giving the managers a once in a lifetime experience. This initiative is seen as a vital part of the Mears management development program.

Through the success of our Group wide accreditation for both Investors in People and the ISO 9002 Quality Management system, there have been national training and development initiatives for all employees. Again, the number of training days recorded in the year exceeded previous years.

The Group has a proven, robust and sustainable business model upon which to expand both the size of the Group and the range of services provided. The demand for our services has never been stronger and we continue to seek out those customers who are looking to forge long-term relationships.

Our future earnings are highly visible whilst the excellent generation of cash from our operations continues.

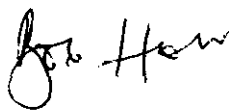
The record order book demonstrates a commitment to building a long-term business in stable market sectors.

This commitment would not be possible without the positive approach to business that our team ethos engenders and all levels of staff are to be commended.

Again I should like to express publicly my most sincere congratulations to all those involved in the progress of the Group to date and to applaud those employees who have invested in our third Save As You Earn Share Option Scheme, and given their firm commitment to the future success of the Group - well done.

The Board remains optimistic about the future and continues to create an environment where there is good investor interest in the Group. The strategy is simple, we have a business where the attention to detail is paramount. We have demonstrated each and every year that the Group has a robust business model with a conservative and prudent management team who are very capable of growing the earnings year on year. The Group's biggest assets are its employees and its customers. We are committed to creating a long-term partnership ethos with them. Our Business in the Community initiative and our recent long-term reward schemes for staff demonstrate this commitment.

I commend the commitment of staff at all levels and I look forward to being able to report another excellent year of progress in twelve months time.



**Bob Holt**  
Chairman and Chief Executive  
1 April 2003

“The demand for our services has never been stronger”

## Financial Review

Turnover in the year to 31 December 2002 was up 15%. The growth was spread throughout the Group. It was pleasing to note that both the gross and net margins improved, particularly net margin which increased from 3.7% to 4.6%. This was achieved having absorbed the loss of £0.4 million in Mears Facility Management Ltd. We look forward to further increasing this element of our business and have targeted it to break-even in 2003. The net margin improvement reflects our continued investment in financial control with a greater internal audit presence and a large spend on computer hardware and software. Both these elements are essential tools to control a high volume, low value business. Margins have benefited from the greater incidence of open book contracts with guaranteed margins.

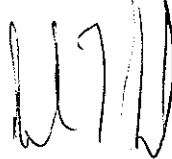
The Group's focus on cash continues unabated. The Group maintained a positive cash position from the end of January 2002 rising to a net funds position at the year end of £5.6 million. This reflects in the interest credit in 2002 and I am pleased to report that the Group still holds a healthy positive cash position. The Group is now paying corporation tax at the full rate of 30% as the losses which were generated by Haydon and Company Limited in 1999 and early 2000 have now been fully utilised.

The net assets of the Group now stand at £9.5 million with the net current assets rising by £1.3 million to £4.6 million.

The acquisition of M&T Group Limited resulted in a net cash outflow of £0.4 million within an overall Group inflow in 2002 of £3.0 million. The integration of M&T Group is progressing extremely well with new market opportunities being explored.

The profit targets which have been set for M&T Group are achievable with effort and the Group is confident that the acquisition will prove to be earnings enhancing.

During 2002 the Group established an Enterprise Management Incentive scheme for the benefit of employees across the Group and the continued contribution by key staff employees remains a cornerstone of the Group's financial performance.



**David J Robertson**  
Finance Director  
1 April 2003

“Margins have benefited from the greater incidence of open book contracts with guaranteed margin”

## Report of the Directors

The Directors present their report together with consolidated financial statements for the year ended 31 December 2002.

### Principal activities

The principal activities of the Group are the provision of maintenance, mechanical and electrical services and motor vehicle distribution. The principal activity of the Company is to act as a holding company.

### Business review

An overall review of the business is given in the Chairman's statement and Financial review.

The consolidated profit for the year after taxation and minority interests amounted to £2,529,268 (2001: £2,140,055). The Directors recommend dividends absorbing £565,325 (2001: £444,131), leaving £1,963,943 (2001: £1,695,924) retained.

### Directors

The present membership of the Board is set out below. R B Pomphrett and D J Robertson retire by rotation and, being eligible, offer themselves for re-election.

The base salaries and beneficial interests of the Directors in the shares of the Company at 31 December 2002 and at 1 January 2002 were as follows:

	Salary		Ordinary shares	
	31 December 2002 £	31 December 2001 £	31 December 2002 Number	1 January 2002 Number
R Holt	125,000	110,000	5,200,000	5,200,000
D J Robertson	95,000	85,000	300,000	200,000
P L Molloy	130,000	123,600	4,400,000	4,722,615
M A Macario	15,000	12,000	200,000	200,000
R B Pomphrett	15,000	12,000	200,000	200,000

R Holt and D J Robertson participate in a bonus scheme based on the inflation adjusted growth in earnings per share. The percentage growth is applied to their base salaries.

P L Molloy participates in a bonus scheme based on individual performance against budget. The maximum bonus potential is set at 50% of base salary.

No Director had, during or at the end of the year, a material interest in any contract which was significant in relation to the Group's business.

The Company has granted options to Directors. Details of these options are given in note 15 to the financial statements.

### Directors' responsibilities for the financial statements

United Kingdom company law requires the Directors 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 and of the profit or loss 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are 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.

The Directors are responsible for ensuring that the Directors' report and other information included in the annual report is prepared in accordance with company law in the United Kingdom.

## Report of the Directors

### Directors' responsibilities for the financial statements (continued)

The maintenance and integrity of the web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

### Payment policy

The Company acts purely as a holding company and as such is non-trading. Accordingly no payment policy has been defined. However, the policy for Group trading companies is to set the terms of payment with suppliers when agreeing the terms of the transaction, to ensure suppliers are aware of these terms so that they abide by them. Group trade creditors during the year amounted to 48 days (2001: 54 days) of average supplies for the year.

### Substantial shareholdings

On 21 March 2003 the following shareholders held 3% or more of the issued share capital of the Company:

	Number of ordinary shares	Percentage of issued ordinary shares
Unicorn Asset Management Limited	7,127,370	12.6%
R Holt	5,200,000	9.2%
P L Molloy	4,400,000	7.8%
Newton Investment Management Limited	4,101,651	7.3%
Close Investment Limited	2,352,575	4.2%
Gartmore Investment Management	2,329,018	4.1%
Rathbone Brothers & Company Limited	2,317,180	4.1%
Standard Life Investments Limited	2,300,000	4.1%
Orbis Trustees Guernsey Limited	1,750,000	3.1%

In addition to the above shareholdings, a total of 2,223,267 ordinary 1p shares representing 3.9% of the issued share capital are held by other employees of the Group. The Group actively encourages wider share ownership by its employees and the Group's Save As You Earn (SAYE) share scheme share option plans have been well received.

### Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

### Employee consultation

The Group has received recognition under the Investors in People Award. The Group continues to involve its staff in the future development of the business. The Group operates a Stakeholder Pension Plan available to all employees. The Group operates a SAYE scheme, an Executive Share Option scheme and an Enterprise Management Incentive scheme, details of which are given in note 15 to the financial statements.

### CREST

Mears Group PLC share dealings have been settled on CREST since 1997. CREST is the computerised system for the settlement of share dealings on the London Stock Exchange. CREST reduces the amount of documentation required and also makes the trading of shares faster and more secure. CREST enables shares to be held in an electronic form instead of the traditional share certificates. CREST is voluntary and shareholders can keep their share certificates if they wish, this may be preferable for shareholders who do not trade in shares on a frequent basis.

### Auditors

Grant Thornton, who have been the Group's auditors since 1994, offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.



**R B Pomphrett**

Director and Secretary

1 April 2003

## Corporate Governance

### Introduction

The Board of Mears Group PLC is committed to achieving good standards of corporate governance, integrity and business ethics for all activities. Under the rules of the Alternative Investment Market, the Group is not required to comply with the Combined Code. However, the Group has taken steps to comply with the Combined Code in so far as it can be applied practically, given the size of the Group and the nature of its operations.

### Board of Directors

The Board of Directors, comprising three Executive Directors and two independent Non-Executive Directors, meets regularly throughout the year. They also meet on a regular basis with Directors of the subsidiary companies. This forum provides the principal format for directing the business of the Group.

It is the opinion of the Board that the Non-Executive Directors are independent of management and free from any business or other relationships which could materially interfere with the exercise of their independent judgement. The Non-Executive Directors provide a strong independent element to the Board and bring experience at a senior level of business operations and strategy.

All Directors have access to the Company Secretary, who is responsible for ensuring that Board procedures and applicable rules and regulations are observed.

### Board Committees

The Board has delegated authority to two Committees. The Chairman of each Committee provides a report of any meeting of that Committee at the next Board meeting, and the Chairmen of each Committee are present at the Annual General Meeting to answer questions from shareholders. Brief details are set out below.

#### Audit Committee

The Audit Committee comprises R Holt and D J Robertson and is chaired by M A Macario. The purpose of the Committee is to ensure the preservation of good financial practices throughout the Group; to monitor that controls are in force to ensure integrity of financial information; to review the interim and annual financial statements; and to ensure compliance with accounting standards and generally accepted accounting principles. In addition, the fees and objectivity of the Group's auditors are considered by the Committee. Detailed presentations to the Committee are made by the Group's auditors. The presence of other senior Executives from the Group may be requested.

#### Remuneration Committee

The Remuneration Committee comprises both Non-Executive Directors and is chaired by R B Pomphrett. The Committee is responsible for the Executive Directors' remuneration and other benefits and terms of employment, including performance related bonuses and share options.

### The Company and its shareholders

The Board remains committed to ongoing dialogue with its shareholders. The Group has continued to increase its awareness to the investing public at large and was represented at a series of Investor Relations exhibitions, where shareholders welcomed the opportunity to both meet the management team and improve their understanding of the Group.

The principal methods of communication with private investors remain the Annual Report and Accounts, the Interim Statement, the Annual General Meeting, the quarterly newsletter and the Group's web site.

### Internal control and risk management

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate risks, and can only provide reasonable and not absolute assurance against misstatement or loss.

The Group has established procedures for all business units to operate appropriate and effective risk management. They place clear responsibility for risk management and the Company endeavours to ensure that the appropriate controls, systems and training are in place.

A comprehensive budgetary process is completed once a year and is reviewed and approved by the Board. The Group's results as compared to the budget and prior year are reported to the Board on a monthly basis, with remedial action taken when appropriate.

The Board routinely reviews the effectiveness of the system of internal control and risk management to ensure controls react to changes in the Group's overall risk profile.

The Group maintains appropriate insurance cover and reviews the adequacy of the cover regularly.

There are clearly defined procedures for reviewing and approving all bids, acquisitions and capital expenditure within the Group.

## Corporate Governance

### Social responsibility

The Group recognises the importance of supporting the communities around its branches together with its environmental responsibilities. In the year, the Group increased greatly its commitment to local communities, sponsoring in excess of thirty local sports clubs and or individuals.

### Remuneration policy

The remuneration policy is set by the Remuneration Committee and is described below. Individual remuneration packages are determined by the Board within the framework of the following policy.

The Directors' remuneration packages comprise the following components:

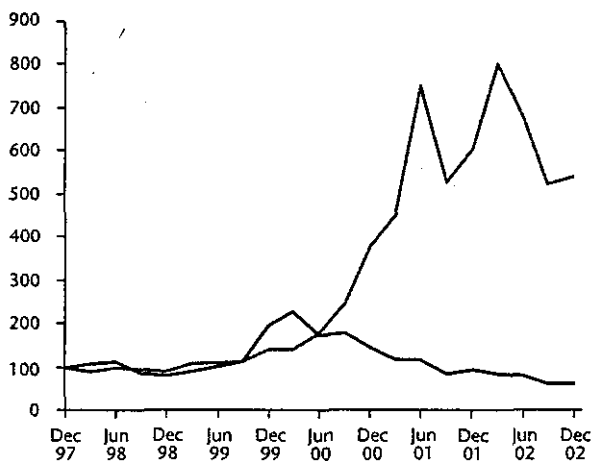
- Annual salary – the actual salary for each of the Executive Directors is determined by the Remuneration Committee; these salaries reflect experience and sustained performance of the individuals to whom they apply, also taking into account market competitiveness.
- Annual bonus – the Chairman and Finance Director are entitled to bonuses related solely to the achievement of the targeted performance of earnings per share. The other Executive Director is entitled to an annual bonus related to achievement of targeted measures relevant to his particular area of responsibility. In addition the grant of share options is supervised by the Remuneration Committee which also determines whether any performance targets will apply to the grant and/or exercise of options.
- Defined contribution pension schemes.
- Benefits in kind – such as car and health benefits.

The Directors emoluments in 2002 are disclosed within the Directors' report and note 3 of the financial statements.

The UK Directors' Remuneration Report regulations 2002 require the inclusion in the Annual Review of a graph showing Total Shareholder Return (TSR) over a five year period in respect of a holding of the Company's shares, plotted against the total shareholder return in respect of a hypothetical holding of shares of a similar kind. The graph set out below uses the AIM index as the benchmark. The Group is not required to comply with the regulations, however the Group has taken steps to comply where possible.

### Historical TSR performance

**Growth in value of a hypothetical £100 holding in Mears Group PLC shares over five years**



## Report of the Auditors

We have audited the financial statements of Mears Group PLC for the year ended 31 December 2002 which comprise the principal accounting policies, the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

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

### **Respective responsibilities of the Directors and auditors**

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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

We read other information contained in the Annual Report including the corporate governance statement and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' report, the Chairman's statement, the Financial review and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion as to the effectiveness of the Group's corporate governance procedures or its risks and control procedures. Our responsibilities do not extend to any other information.

### **Basis of opinion**

We conducted our audit in accordance with United Kingdom 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 the affairs of the Company and the Group as at 31 December 2002 and of the profit for the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Grant Thornton*

**Grant Thornton**

Registered Auditors

Chartered Accountants

Cheltenham

1 April 2003

## Principal Accounting Policies

### Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention.

The principal accounting policies of the Group are set out below. They remain unchanged from the previous year.

### Basis of consolidation

The Group financial statements consolidate those of the Company and its subsidiary undertakings (see note 10) drawn up to 31 December 2002. Acquisitions of subsidiaries are dealt with by the acquisition method of accounting.

The Company is entitled to merger relief offered by section 131 of the Companies Act 1985 in respect of the consideration received in excess of the nominal value of the equity shares issued in connection with the acquisition of Mears Building Contractors Limited, an acquisition made in the year ended 31 December 1996.

### Associates

The Group financial statements incorporate the associate under the equity method of accounting. In the consolidated balance sheet the investment in associate is stated at the Group's share of net assets including goodwill less amounts written off. The Company balance sheet shows the investment in the associate at cost.

### Goodwill

Goodwill arising on consolidation and purchased goodwill, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life of 20 years.

### Tangible fixed assets and depreciation

Tangible fixed assets are included at cost, net of depreciation. Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets, other than freehold land, over their estimated useful economic lives. The rates generally applicable are:

Freehold buildings	- 2% per annum, straight line
Leasehold improvements	- over the period of the lease, straight line
Plant and machinery	- 25% per annum, reducing balance
Fixtures, fittings and equipment	- 25% per annum, reducing balance
Motor vehicles	- 25% per annum, reducing balance

### Investments

Investments are included at cost.

### Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes materials and direct labour.

### Long-term contracts

The attributable profit on long-term contracts is recognised once their outcome can be assessed with reasonable certainty. The profit recognised reflects the proportion of work completed to date on the project.

Costs associated with long-term contracts are included within stock to the extent that they cannot be matched with contract work accounted for as turnover.

Full provision is made for losses on any contracts or work in progress in a period that a loss is first foreseen.

**Deferred taxation**

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised where it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

**Turnover**

Turnover is the total amount receivable by the Group for goods supplied and services provided, and contract work completed during the year, excluding VAT and trade discounts.

**Retirement benefits**

The pension costs charged against profits are the contributions payable to individual policies in respect of the accounting period.

**Leased assets**

All leases are operating leases and the total payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

**Financial instruments**

Income and expenditure arising on financial instruments is recognised on an accruals basis, and credited or charged to the profit and loss account in the financial period to which it relates.

Interest differentials, under which the amounts and periods for which interest rates on borrowings are varied, are reflected as adjustments to interest payable.

## Consolidated Profit & Loss Account

for the year ended 31 December 2002

	Note	2002 £	2002 £	2001 £	2001 £
<b>Turnover</b>					
Continuing operations	1	78,535,297		68,579,597	
Acquisitions		298,700		—	
			<b>78,833,997</b>		68,579,597
Cost of sales			<b>(58,758,960)</b>		(51,638,639)
<b>Gross profit</b>					
Continuing operations		20,028,667		16,940,958	
Acquisitions		46,370		—	
			<b>20,075,037</b>		16,940,958
Administrative expenses			<b>(16,562,778)</b>		(14,362,652)
<b>Operating profit</b>					
Continuing operations		3,512,259		2,578,306	
Acquisitions		—		—	
			<b>3,512,259</b>		2,578,306
Share of operating profit in associate			<b>7,609</b>		—
			<b>3,519,868</b>		2,578,306
Net interest	2		<b>86,321</b>		(69,908)
<b>Profit on ordinary activities before taxation</b>	1		<b>3,606,189</b>		2,508,398
Tax on profit on ordinary activities	4		<b>(1,112,007)</b>		(378,500)
<b>Profit on ordinary activities after taxation</b>			<b>2,494,182</b>		2,129,898
Equity minority interests			<b>35,086</b>		10,157
<b>Profit for the financial year</b>	5		<b>2,529,268</b>		2,140,055
Dividends	6		<b>(565,325)</b>		(444,131)
<b>Profit retained</b>	16		<b>1,963,943</b>		1,695,924
<b>Earnings per share</b>					
Basic	7		<b>4.51p</b>		4.00p
Basic – normalised	7		<b>4.51p</b>		3.30p
Diluted	7		<b>4.36p</b>		3.61p

There were no recognised gains or losses other than the profit for the financial year.

All activities are continuing.

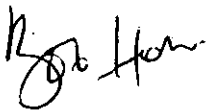
The accompanying accounting policies and notes form an integral part of these financial statements.

## Consolidated Balance Sheet

at 31 December 2002

	Note	2002 £	2002 £	2001 £	2001 £
<b>Fixed assets</b>					
Intangible assets	8	<b>5,433,006</b>		2,243,136	
Tangible assets	9	<b>1,641,095</b>		1,360,633	
Investments – associates	10	<b>36,944</b>		—	
Investments – other	10	<b>61,927</b>		55,677	
			<b>7,172,972</b>		3,659,446
<b>Current assets</b>					
Stocks	11	<b>1,266,334</b>		1,232,170	
Debtors	12	<b>15,919,547</b>		15,739,056	
Cash at bank and in hand		<b>5,565,728</b>		4,576,203	
		<b>22,751,609</b>		21,547,429	
<b>Creditors: amounts falling due within one year</b>	13	<b>(18,129,054)</b>		(18,194,870)	
<b>Net current assets</b>			<b>4,622,555</b>		3,352,559
<b>Total assets less current liabilities</b>			<b>11,795,527</b>		7,012,005
<b>Creditors: amounts falling due after more than one year</b>	14		<b>(2,260,000)</b>		—
			<b>9,535,527</b>		7,012,005
<b>Capital and reserves</b>					
Called up share capital	15		<b>565,405</b>		537,352
Share premium account	16		<b>2,969,684</b>		2,397,851
Profit and loss account	16		<b>6,023,673</b>		4,059,730
<b>Equity shareholders' funds</b>	17		<b>9,558,762</b>		6,994,933
Equity minority interests			<b>(23,235)</b>		17,072
			<b>9,535,527</b>		7,012,005

The financial statements were approved by the Board of Directors on 1 April 2003.



**R Holt**  
Director



**D J Robertson**  
Director

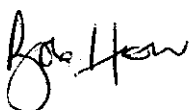
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## Company Balance Sheet

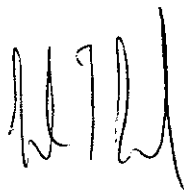
at 31 December 2002

	Note	2002 £	2002 £	2001 £	2001 £
<b>Fixed assets</b>					
Investments	10		<b>9,181,903</b>		5,286,513
<b>Current assets</b>					
Debtors	12	<b>2,368,558</b>		3,347,618	
		<b>2,368,558</b>		3,347,618	
<b>Creditors: amounts falling due within one year</b>	13	<b>(4,393,005)</b>		(5,215,046)	
<b>Net current liabilities</b>			<b>(2,024,447)</b>		(1,867,428)
<b>Total assets less current liabilities</b>			<b>7,157,456</b>		3,419,085
<b>Creditors: amounts falling due after more than one year</b>	14		<b>(2,260,000)</b>		—
			<b>4,897,456</b>		3,419,085
<b>Capital and reserves</b>					
Called up share capital	15		<b>565,405</b>		537,352
Share premium account	16		<b>2,969,684</b>		2,397,851
Profit and loss account	16		<b>1,362,367</b>		483,882
<b>Equity shareholders' funds</b>			<b>4,897,456</b>		3,419,085

The financial statements were approved by the Board of Directors on 1 April 2003.



**R Holt**  
Director



**D J Robertson**  
Director

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

## Consolidated Cash Flow Statement

for the year ended 31 December 2002

	Note	2002 £	2001 £
<b>Net cash inflow from operating activities</b>	18	<b>4,743,346</b>	4,288,850
<b>Returns on investments and servicing of finance</b>			
Interest received		<b>86,109</b>	3,112
Interest paid		<b>(3,158)</b>	(76,617)
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>		<b>82,951</b>	(73,505)
<b>Taxation paid</b>		<b>(537,920)</b>	(104,912)
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		<b>(730,616)</b>	(665,169)
Sale of tangible fixed assets		<b>17,000</b>	38,373
Purchase of investment		<b>(36,250)</b>	—
<b>Net cash outflow from capital expenditure</b>		<b>(749,866)</b>	(626,796)
<b>Acquisitions</b>			
Purchase of subsidiary undertakings		<b>(836,780)</b>	—
Net cash acquired with subsidiary undertakings		<b>478,657</b>	—
<b>Net cash outflow from acquisitions</b>		<b>(358,123)</b>	—
<b>Equity dividends paid</b>		<b>(478,683)</b>	(373,771)
<b>Financing</b>			
Issue of shares		<b>251,276</b>	111,275
Repayment of borrowings		—	(1,100,040)
<b>Net cash inflow/(outflow) from financing</b>		<b>251,276</b>	(988,765)
<b>Increase in cash</b>	19	<b>2,952,981</b>	2,121,101

The financial statements were approved by the Board of Directors on 1 April 2003.

## Notes to the Financial Statements

for the year ended 31 December 2002

### 1. Turnover and profit on ordinary activities before taxation

Turnover and profit on ordinary activities before taxation are attributable to the following activities carried out entirely within the UK.

	Turnover		Profit before taxation		Net assets	
	2002 £	2001 £	2002 £	2001 £	2002 £	2001 £
Maintenance, mechanical and electrical services	<b>62,915,818</b>	59,775,925	<b>2,530,601</b>	1,914,434	<b>8,207,580</b>	5,925,985
Vehicle collection and delivery	<b>15,918,179</b>	8,803,672	<b>1,075,588</b>	593,964	<b>1,327,947</b>	1,086,020
	<b>78,833,997</b>	68,579,597	<b>3,606,189</b>	2,508,398	<b>9,535,527</b>	7,012,005

Profit on ordinary activities is stated after:

	2002 £	2001 £
Auditors' remuneration		
– audit services	<b>47,900</b>	40,800
– non-audit services	<b>22,560</b>	11,800
Amortisation of goodwill	<b>158,318</b>	122,755
Depreciation	<b>451,669</b>	328,643
Hire of plant and machinery	<b>467,735</b>	403,707
Other operating lease rentals	<b>2,496,121</b>	2,033,570

### 2. Net interest

	2002 £	2001 £
On bank loans and overdrafts	<b>(788)</b>	(73,334)
Other interest receivable and similar income	<b>87,109</b>	3,426
	<b>86,321</b>	(69,908)

### 3. Directors and employees

Staff costs during the year were as follows:

	2002 £	2001 £
Wages and salaries	<b>18,021,462</b>	16,312,189
Social security costs	<b>1,688,754</b>	1,448,627
Other pension costs	<b>366,728</b>	212,904
	<b>20,076,944</b>	17,973,720

The average number of employees of the Group during the year was:

	2002	2001
Site workers	<b>580</b>	539
Office & management	<b>318</b>	286
	<b>898</b>	825

**3. Directors and employees (continued)**

Remuneration in respect of Directors was as follows:

	2002 £	2001 £
Emoluments	<b>513,054</b>	458,755
Gains made on the exercise of share options	<b>1,222,250</b>	114,500
Pension contributions to personal pension schemes	<b>67,825</b>	65,561
	<b>1,803,129</b>	638,816

The amounts set out above include remuneration in respect of the highest paid Director as follows:

	2002 £	2001 £
Emoluments	<b>161,070</b>	157,747
Gains made on the exercise of share options	<b>1,134,000</b>	—
Pension contributions to personal pension schemes	<b>37,950</b>	33,396

During the year contributions were paid to personal pension schemes for three Directors (2001: three).

During the year two Directors (2001: one) exercised share options.

**4. Tax on profit on ordinary activities**

The tax charge represents:

	2002 £	2001 £
United Kingdom corporation tax at 30% (2001: 15.9%)	<b>1,111,007</b>	405,000
Share of tax charge of associate	<b>1,000</b>	—
Adjustments in respect of prior years	—	(20,000)
Total current tax	<b>1,112,007</b>	385,000
Origination and reversal of timing differences	—	(6,500)
Tax on profit on ordinary activities	<b>1,112,007</b>	378,500

The tax assessed for the year is higher than the standard rate of corporation tax in the United Kingdom of 30% (2001: 30%).

The differences are explained as follows:

	2002 £	2001 £
Profit on ordinary activities before tax	<b>3,606,189</b>	2,508,398
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 30% (2001: 30%)	<b>1,081,857</b>	752,519
Effect of:		
Expenses not deductible for tax purposes	<b>77,295</b>	46,826
Capital allowances in excess of depreciation	<b>(47,145)</b>	(22,360)
Utilisation of tax losses	—	(371,985)
Adjustments in respect of prior periods	—	(20,000)
Current tax for the year	<b>1,112,007</b>	385,000

## Notes to the Financial Statements

for the year ended 31 December 2002

### 5. Profit for the financial year

The Parent Company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The Group profit for the year includes a profit of £1,443,810 (2001: £512,699) which is dealt with in the financial statements of the Company.

### 6. Dividends

	2002 £	2001 £
Ordinary shares		
– interim dividend of 0.25p (2001: 0.20p) per share paid	<b>141,272</b>	106,720
– proposed final dividend of 0.75p (2001: 0.60p) per share	<b>424,053</b>	337,411
	<b>565,325</b>	444,131

### 7. Earnings per share

Basic earnings per share is based on equity earnings of £2,529,268 (2001: £2,140,055) and 56,132,881 (2001: 53,538,267) ordinary shares at 1p each, being the average number of shares in issue during the year.

For diluted earnings per share the average number of shares in issue is increased to 58,030,209 (2001: 59,232,325) to reflect the potential dilution effect of employee share schemes.

The earnings in 2001 had benefited from the utilisation of tax losses generated by Haydon and Company Limited in 1999 and 2000. A full tax earnings per share, shown as normalised, is disclosed in order to show performance undistorted by this effect. The normalised earnings per share in 2001 was based on equity earnings of £1,766,036, which had been subjected to a notional corporation tax charge of 30%.

	Basic		Diluted	
	2002 P	2001 P	2002 P	2001 P
Earnings per share	<b>4.51</b>	4.00	<b>4.36</b>	3.61
Effect of full tax adjustment	—	(0.70)	—	(0.63)
Normalised earnings per share	<b>4.51</b>	3.30	<b>4.36</b>	2.98

### 8. Intangible fixed assets

The Group	Goodwill arising on consolidation £	Purchased goodwill £	Total £
<b>Cost</b>			
At 1 January 2002	2,347,872	280,000	2,627,872
Additions	3,347,523	—	3,347,523
<b>At 31 December 2002</b>	<b>5,695,395</b>	<b>280,000</b>	<b>5,975,395</b>
<b>Amortisation</b>			
At 1 January 2002	343,903	40,833	384,736
Provided in the year	143,653	14,000	157,653
<b>At 31 December 2002</b>	<b>487,556</b>	<b>54,833</b>	<b>542,389</b>
Net book amount			
<b>At 31 December 2002</b>	<b>5,207,839</b>	<b>225,167</b>	<b>5,433,006</b>
At 31 December 2001	2,003,969	239,167	2,243,136

Additions to goodwill arising on consolidation relate to acquisitions as detailed in note 21.

**9. Tangible fixed assets**

The Group	Freehold land and buildings £	Leasehold improvements £	Plant and machinery £	Fixtures, fittings and equipment £	Motor vehicles £	Total £
<b>Cost</b>						
At 1 January 2002	59,995	401,206	692,953	1,750,683	169,610	3,074,447
Additions	—	1,870	31,658	635,670	61,418	730,616
Acquisition of subsidiary undertaking	—	—	4,177	24,884	40,290	69,351
Disposals	—	—	—	(10,820)	(43,500)	(54,320)
<b>At 31 December 2002</b>	<b>59,995</b>	<b>403,076</b>	<b>728,788</b>	<b>2,400,417</b>	<b>227,818</b>	<b>3,820,094</b>
<b>Depreciation</b>						
At 1 January 2002	3,600	213,418	559,716	840,381	96,699	1,713,814
Provided in the year	2,755	41,507	25,375	363,859	18,173	451,669
Acquisition of subsidiary undertaking	—	—	3,000	21,574	20,000	44,574
Eliminated on disposals	—	—	—	(7,274)	(23,784)	(31,058)
<b>At 31 December 2002</b>	<b>6,355</b>	<b>254,925</b>	<b>588,091</b>	<b>1,218,540</b>	<b>111,088</b>	<b>2,178,999</b>
<b>Net book amount</b>						
<b>At 31 December 2002</b>	<b>53,640</b>	<b>148,151</b>	<b>140,697</b>	<b>1,181,877</b>	<b>116,730</b>	<b>1,641,095</b>
At 31 December 2001	56,395	187,788	133,237	910,302	72,911	1,360,633

**10. Fixed asset investments**

The Group	Associated undertakings			Other investments £
	Share of net assets £	Goodwill £	Total £	
<b>Cost</b>				
At 1 January 2002	—	—	—	55,677
Additions	10,061	19,939	30,000	6,250
Share of profits of associates	7,609	—	7,609	—
<b>At 31 December 2002</b>	<b>17,670</b>	<b>19,939</b>	<b>37,609</b>	<b>61,927</b>
<b>Amounts written off</b>				
At 1 January 2002	—	—	—	—
Provided in the year	—	665	665	—
<b>At 31 December 2002</b>	<b>—</b>	<b>665</b>	<b>665</b>	<b>—</b>
<b>Net book amount</b>				
<b>At 31 December 2002</b>	<b>17,670</b>	<b>19,274</b>	<b>36,944</b>	<b>61,927</b>
At 31 December 2001	—	—	—	55,677

The investment in associated undertaking relates to a holding of 49% in the ordinary share capital of FITE IT Limited.

**The Company**

Investment in subsidiary undertakings		£
<b>Cost</b>		
At 1 January 2002		5,286,513
Additions		3,895,390
<b>At 31 December 2002</b>		<b>9,181,903</b>

## Notes to the Financial Statements

for the year ended 31 December 2002

### 10. Fixed asset investments (continued)

Additions relate to the purchase of 100% of the equity share capital of M&T Group Limited and the purchase of the remaining 0.6% of Mears Building Services Limited.

At 31 December 2002 the Group held 20% or more of the equity share capital of the following undertakings:

	Proportion held		Nature of business
	The Group	The Company	
<b>Subsidiaries:</b>			
Mears Building Contractors Limited	—	100%	Provision of maintenance services
Electrical Contracting Services (UK) Limited	—	76%	Dormant
Mears Design Services Limited	—	100%	Dormant
ARV Services Limited	—	100%	Dormant
United Fleet Distribution Limited	—	100%	Vehicle collection and delivery
Transbureau Limited	100%	—	Provision of facilities management services
Mears Facility Management Limited	—	90%	Provision of facilities management services
Mears Social Housing Limited	—	100%	Provision of maintenance services
Mears Building Services Limited	—	100%	Provision of maintenance services
Haydon and Company Limited	—	100%	Provision of maintenance, mechanical and electrical services
M&T Group Limited	—	100%	Dormant
FWA (Southern) Limited	100%	—	Provision of maintenance, mechanical and electrical services
Haydon Building Contractors Limited	100%	—	Provision of maintenance, mechanical and electrical services
<b>Associate:</b>			
FITE IT Limited	49%	—	Provision of IT support services

### 11. Stocks

The Group	2002 £	2001 £
Materials and consumables	<b>329,926</b>	387,496
Work in progress	<b>936,408</b>	844,674
	<b>1,266,334</b>	1,232,170

### 12. Debtors

	The Group		The Company	
	2002 £	2001 £	2002 £	2001 £
Trade debtors	<b>12,962,200</b>	12,127,444	—	—
Amounts owed by Group undertakings	—	—	<b>2,368,558</b>	3,321,026
Amounts recoverable on contracts	<b>2,475,903</b>	3,114,206	—	—
Other debtors	<b>78,695</b>	177,656	—	26,592
Prepayments and accrued income	<b>402,749</b>	319,750	—	—
	<b>15,919,547</b>	15,739,056	<b>2,368,558</b>	3,347,618

Included in Trade Debtors is an amount of £910,295 (2001: £720,575) which is due after more than one year.

**13. Creditors: amounts falling due within one year**

	The Group		The Company	
	2002 £	2001 £	2002 £	2001 £
Bank overdraft	—	1,963,456	<b>1,198,520</b>	1,907,557
Payments received on account	<b>3,796,506</b>	4,208,530	—	—
Trade creditors	<b>7,634,255</b>	8,081,717	—	—
Amounts owed to Group undertakings	—	—	<b>1,980,051</b>	2,696,171
Corporation tax	<b>1,032,156</b>	367,817	<b>335,007</b>	85,000
Social security and other taxes	<b>1,830,422</b>	1,835,611	—	—
Proposed dividend	<b>424,053</b>	337,411	<b>424,053</b>	337,411
Other creditors	<b>425,000</b>	7,945	<b>425,000</b>	188,907
Accruals and deferred income	<b>2,986,662</b>	1,392,383	<b>30,374</b>	—
	<b>18,129,054</b>	18,194,870	<b>4,393,005</b>	5,215,046

**14. Creditors: amounts falling due after more than one year**

	The Group		The Company	
	2002 £	2001 £	2002 £	2001 £
Other creditors	<b>2,260,000</b>	—	<b>2,260,000</b>	—

Included in other creditors for the Company and Group is £2,685,000, of which £425,000 falls due within one year, that relates to deferred consideration on the acquisition of M&T Group Limited. This is payable by instalments over a four year period as detailed in note 21.

The bank overdraft facility is secured by a fixed and floating charge over the Company and Group's assets.

The bank balances of the individual subsidiaries have been set off within the consolidated balance sheet. The net funds position at the year end is disclosed within current assets. Interest receivable/(payable) is calculated daily on the balance of net funds.

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

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

**Short-term debtors and creditors**

Short-term debtors and creditors have been excluded from all the following disclosures.

**Interest rate risk**

The Group finances its operations through a mixture of retained profits and bank borrowings.

The fair value of the financial instruments is not materially different to the book value.

## Notes to the Financial Statements

for the year ended 31 December 2002

### 14. Creditors: amounts falling due after more than one year (continued)

The interest rate exposure of the financial liabilities of the Group as at 31 December 2002 was:

	Interest rate			Total
	Fixed	Floating	Zero	
<b>Financial liabilities – 2002</b>	—	—	<b>2,260,000</b>	—
Financial liabilities – 2001	—	1,963,456	—	1,963,456

The floating rate borrowings bear interest at rates based on LIBOR.

### Liquidity risk

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet the identifiable needs of the Group and to invest cash assets safely and profitably. Short-term flexibility is achieved through the use of the bank overdraft facilities.

### 15. Share capital

	2002 £	2001 £
Authorised		
100,000,000 ordinary shares of 1p each	<b>1,000,000</b>	1,000,000
Allotted, called up and fully paid		
56,540,515 (2001: 53,735,199) ordinary shares of 1p each	<b>565,405</b>	537,352

During the year, 2,444,062 ordinary shares of 1p each were issued for consideration of £251,276, as a result of share options being exercised. A further 361,254 ordinary shares of 1p each were issued in consideration for the remaining 0.6% of the share capital of Mears Building Services Limited. The difference between the nominal value of £28,053 and the total consideration of £599,886 has been credited to the share premium account.

At 31 December 2002, the following ordinary shares were subject to options:

	Date of grant	Number	Exercise price	Exercise dates
Executive Share Option scheme	1998	50,000	12.25p	2001–2008
	1998	25,000	11.75p	2001–2008
	1999	300,000	14.25p	2002–2009
	2000	585,000	19.25p	2003–2010
	2001	407,250	50p	2004–2011
Unapproved Options	2001	110,000	50p	2004–2011
	2002	922,000	67.5p	2005–2012
Enterprise Management Incentive scheme	2001	1,415,000	50p	2004–2011
	2002	870,316	67.5p	2005–2012
Save As You Earn scheme	1998	35,526	9.50p	2004
	2001	453,891	50p	2004/2006
	2002	328,514	82.5p	2005/2007

**15. Share capital (continued)**

Included above are the following options granted to Directors:

Director	1 January 2002	Number of options during the year		31 December 2002	Exercise price	Market price at the date of exercise	Exercise dates
		Granted	Exercised				
D J Robertson	100,000	—	100,000	—	11.75p	100p	—
	100,000	—	—	<b>100,000</b>	14.25p	—	2002–2009
	9,687	—	—	<b>9,687</b>	50p	—	2004
	208,000	—	—	<b>208,000</b>	50p	—	2004–2011
	—	200,000	—	<b>200,000</b>	67.5p	—	2005–2012
P L Molloy	9,687	—	—	<b>9,687</b>	50p	—	2004
	—	5,757	—	<b>5,757</b>	82.5p	—	2005
	—	142,857	—	<b>142,857</b>	67.5p	—	2005–2012
R Holt	1,800,000	—	1,800,000	—	10p	73p	—
	—	9,687	—	<b>9,687</b>	50p	—	2004

No options lapsed during the year. The market price at 31 December 2002 was 70p and the range during 2002 was 58p to 104p.

**16. Share premium account and reserves**

The Group	Share premium account £	Profit and loss account £
At 1 January 2002	2,397,851	4,059,730
Issue of shares	571,833	—
Retained profit for the year	—	1,963,943
<b>At 31 December 2002</b>	<b>2,969,684</b>	<b>6,023,673</b>

The Company	Share premium account £	Profit and loss account £
At 1 January 2002	2,397,851	483,882
Issue of shares	571,833	—
Retained profit for the year	—	878,485
<b>At 31 December 2002</b>	<b>2,969,684</b>	<b>1,362,367</b>

The balance on the share premium account may not be legally distributed under section 264 of the Companies Act 1985.

**17. Reconciliation of movements in equity shareholders' funds**

The Group	2002 £	2001 £
Profit for the financial year	<b>2,529,268</b>	2,140,055
Dividends	<b>(565,325)</b>	(444,131)
	<b>1,963,943</b>	1,695,924
Issue of shares	<b>599,886</b>	246,900
<b>Net increase in equity shareholders' funds</b>	<b>2,563,829</b>	1,942,824
Equity shareholders' funds at 1 January 2002	<b>6,994,933</b>	5,052,109
<b>Equity shareholders' funds at 31 December 2002</b>	<b>9,558,762</b>	6,994,933

## Notes to the Financial Statements

for the year ended 31 December 2002

### 18. Net cash inflow from operating activities

	2002 £	2001 £
Operating profit	3,512,259	2,578,306
Depreciation and amortisation	609,987	451,398
Loss/(profit) on disposal of fixed assets	6,262	(2,178)
(Increase)/ decrease in stocks	(29,164)	504,983
Decrease in debtors	574,931	473,620
Increase in creditors	69,071	282,721
<b>Net cash inflow from operating activities</b>	<b>4,743,346</b>	<b>4,288,850</b>

### 19. Reconciliation of net cash flow to movement in net funds

	2002 £	2001 £
Increase in cash in the year	2,952,981	2,121,101
Cash outflow from financing	—	1,100,040
Change in net funds resulting from cash flows	2,952,981	3,221,141
Net funds at 1 January 2002	2,612,747	(608,394)
<b>Net funds at 31 December 2002</b>	<b>5,565,728</b>	<b>2,612,747</b>

### 20. Analysis of changes in net funds

	At 1 January 2002 £	Cash flow £	At 31 December 2002 £
Cash at bank and in hand	4,576,203	989,525	5,565,728
Overdrafts	(1,963,456)	1,963,456	—
	2,612,747	2,952,981	5,565,728

### 21. Acquisitions

On 27 May 2002 the Company and Group acquired the remaining six ordinary shares of £1 each, being 0.6% of the equity share capital of Mears Building Services Limited for £348,610, settled by 361,254 ordinary 1p shares in the Company. The shares were valued at 96.5p at the time of the transaction, being the fair value of the shares on that day.

On 11 December 2002 the Company and Group acquired 350,004 ordinary shares of £1 each, being the entire issued share capital of M&T Group Limited (M&T) for £3,546,780 (including acquisition costs), satisfied by £861,780 in cash and deferred consideration of £2,685,000. The deferred consideration is payable by annual instalments over a four year period commencing in April 2003. The consideration has been agreed on the basis of targeted levels of post tax profits for the financial years ending 31 December 2002 to 31 December 2005. The consideration is subject to claw back if the target profits for the four year period are not achieved. In addition each instalment is subject to a claw back on a proportionate basis if annual post tax profit targets for each of the relevant financial years are not met. The maximum total consideration payable, including acquisition costs, is £3,546,780. Goodwill arising on the acquisition of M&T has been capitalised. The purchase has been accounted for by the acquisition method of accounting.

The profit after taxation of M&T for the period from 1 January 2002, the beginning of the subsidiary's financial year to the date of acquisition was £218,561. The profit after taxation for the year ended 31 December 2001 was £32,848.

**21. Acquisitions (continued)**

The assets and liabilities of M&amp;T acquired were as follows:

	Book and fair value £
<b>Fixed assets</b>	
Tangible assets	24,777
<b>Current assets</b>	
Stocks and work in progress	5,000
Debtors	754,422
Bank and cash	478,657
<b>Total assets</b>	<b>1,262,856</b>
<b>Creditors</b>	
Trade creditors	498,060
Other creditors	59,427
Accruals	72,470
Corporation tax	90,252
<b>Total liabilities</b>	<b>720,209</b>
Fair value of net assets acquired	542,647
Goodwill capitalised	3,004,133
	<b>3,546,780</b>
Satisfied by:	
Cash	861,780
Deferred consideration	2,685,000
	<b>3,546,780</b>

The subsidiary undertakings acquired during the year made the following contribution to, and utilisation of, Group cash flow.

	2002 £
Net cash outflow from operating activities	(101,455)
Returns on investment and servicing of finance	1,011
Capital expenditure	(9,250)
<b>Decrease in cash</b>	<b>(109,694)</b>

Analysis of net outflow in respect of the purchase of the subsidiary undertakings:

	2002 £
Cash at bank and in hand acquired	478,657
Cash consideration	(836,780)
	<b>(358,123)</b>

## Notes to the Financial Statements

for the year ended 31 December 2002

### 22. Capital commitments

Neither the Group nor Company had any capital commitments at 31 December 2002 or at 31 December 2001.

### 23. Contingent liabilities

The Group has guaranteed that it will complete the contracts it has commenced with 23 (2001: 24) Local Authorities. At 31 December 2002 these guarantees amounted to £2,387,693 (2001: £2,070,162).

The Group and Company had no other contingent liabilities at 31 December 2002 or at 31 December 2001.

### 24. Pensions

The Company operates a defined contribution Group personal pension scheme for the benefit of certain Directors and employees. The Group operates a stakeholder pension plan available to all employees.

### 25. Leasing commitments

#### The Group

Operating lease payments amounting to £1,308,341 (2001: £1,142,153) are due within one year. The leases to which these relate expire as follows:

	2002		2001	
	Land and buildings £	Other £	Land and buildings £	Other £
In one year or less	<b>43,156</b>	<b>112,226</b>	84,284	70,246
Between one and five years	<b>103,497</b>	<b>884,275</b>	209,415	693,019
In five years or more	<b>165,188</b>	—	85,189	—
	<b>311,841</b>	<b>996,501</b>	378,888	763,265