

MORGAN SINDALL

ANNUAL REPORT & ACCOUNTS 1998

MORGAN SINDALL

Morgan Sindall plc

77 Newman Street, London W1P 3LA Tel: 0171 307 9200 Fax: 0171 307 9201

Visit our website at www.morgansindall.co.uk

Morgan Sindall is a specialist construction group whose principal activities are fit out, regional construction and property investment.

The fit out companies operate primarily in the South of England, whilst the regional construction business comprises a network of branded companies covering the whole of England. Together these businesses form the basis of a balanced construction group.

Morgan Sindall has pace and continues to challenge the status quo in this traditional industry. The full year results show significant progress towards achieving the objective of long term enhancement of shareholder value through organic growth, careful acquisition and the active management of a property portfolio.

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Directors

Sir D P Hornby (Chairman)
 J C Morgan (Chief Executive)
 J M Bishop
 J J C Lovell
 A M Stoddart
 B H Asher (Non-Executive)
 G Gallacher (Non-Executive)

Secretary

W R Johnston

Registered Office

77 Newman Street, London W1P 3LA
 Tel: 0171 307 9200
 Fax: 0171 307 9201

Solicitors

Charles Russell, 8-10 New Fetter Lane, London EC4 1RS

Auditors

Deloitte & Touche,
 Leda House, Station Road, Cambridge CB1 2RN

Merchant Bankers

Close Brothers Corporate Finance Limited,
 12 Appold Street, London EC2A 2AW

Brokers

Peel, Hunt & Company Limited,
 62 Threadneedle Street, London EC2R 8HP

Registrars

Connaught St Michaels Limited,
 PO Box 30, CSM House, Victoria Street, Luton LU1 2PZ

Financial Calendar

Annual General Meeting: 13 April 1999

Ordinary shares

Final dividend:
 Ex-dividend date: 22 March 1999
 Record date: 26 March 1999
 Payment date: 14 April 1999

Interim results announcement: August 1999

Preference shares

Dividend payment dates: 15 April 1999
 15 October 1999
 Next conversion date: 30 June 1999

Shareholder communication

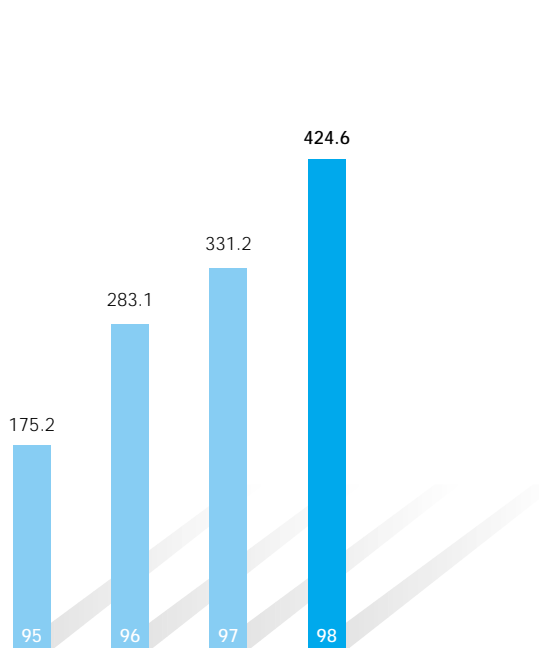
Contact with existing and prospective shareholders is welcomed by the Company. If you have any questions or enquiries about the Company or the activities of the Group, please contact: Jack Lovell, Client Director, at the registered office shown above.

Share prices (FT Cityline)

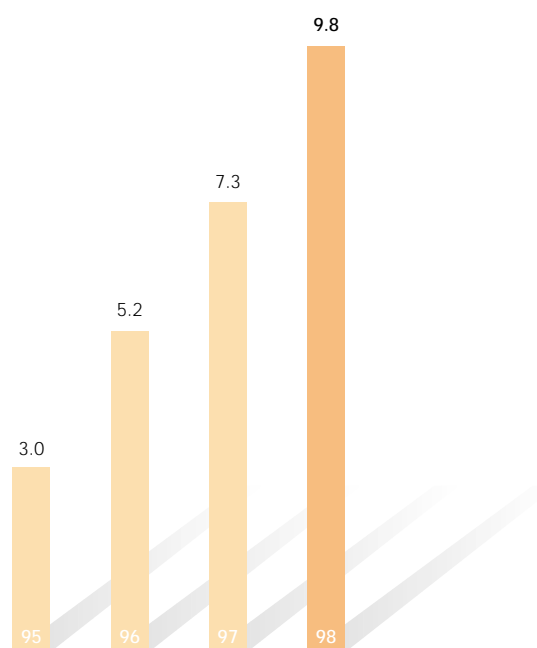
Current buying and selling prices of the Company's shares, together with recorded information on key dates, can be obtained by dialling 0336 434027.

Financial Highlights

	1998	1997	INCREASE %
Turnover	£425m	£331m	+ 28
Profit on ordinary activities before taxation	£9.760m	£7.260m	+ 34
Profit on ordinary activities after taxation	£7.714m	£5.848m	+ 32
Earnings per ordinary share	22.15p	16.38p	+ 35
Dividends per ordinary share	6.50p	5.25p	+ 24
Net assets	£23.2m	£17.5m	+ 33
Net cash funds	£28.4m	£18.4m	+ 54



Turnover £m



Profit before tax £m

Making a difference - together

I am pleased to report another excellent year for the Group with profit before tax up 34% to £9.760m from both increased turnover and margin. Earnings per share has risen 35% to 22.15p and the Board is recommending a final ordinary dividend of 4.45p making 6.50p for the year (1997: 5.25p).

Our fit out business has performed well despite increased competition and reflects the strength of our brands Morgan Lovell and Overbury, both long established and well recognised in their sector. The managers of these two companies, both of whom were promoted in recent years, have refocused their companies on proven business strengths and have achieved profit growth from margin rather than volume.

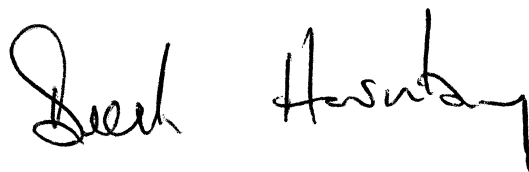
The regional construction business has continued to make progress with turnover up nearly 40%, albeit this growth in turnover has not been reflected yet in bottom line profit. However there is no doubt that much of the hard work has been done and this business will be the major driver to the Group's earnings over the coming years.

Returns from investment of our asset base in property and cash have again contributed significantly, aided by a trading profit on property as reported at the half year. We must ensure that the

balance sheet remains sufficiently strong to support the level of turnover and as such we will have funds to invest. Our approach will continue to be cautious but our track record demonstrates that above average returns may still be achieved by selective acquisition and proactive management.

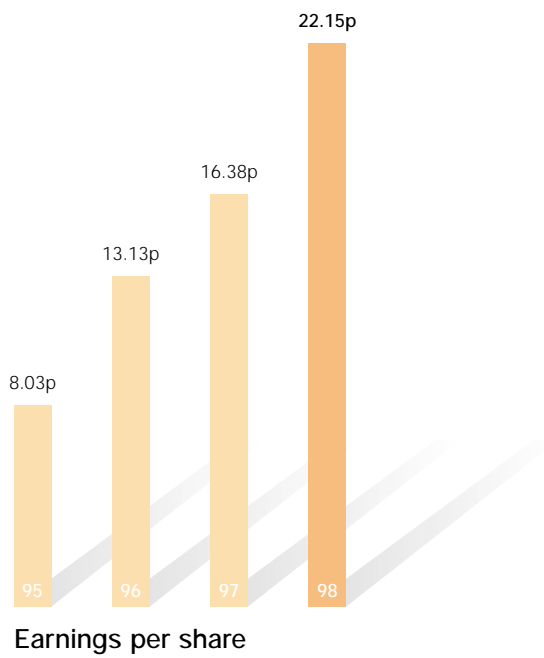
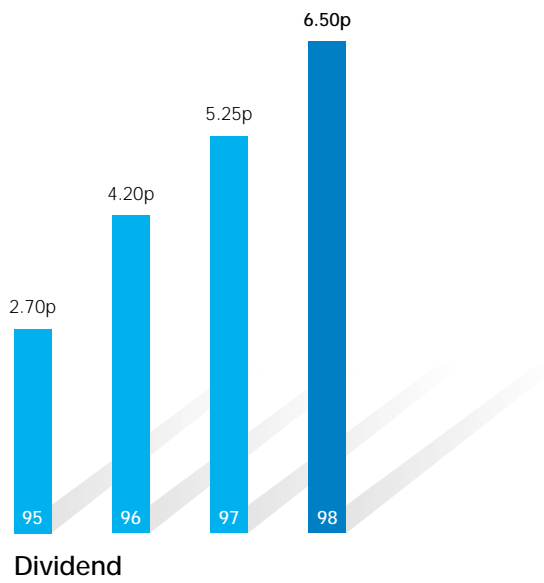
Trading conditions overall, in the markets in which we operate, show little sign of the much publicised slowdown in the economy. Although there are marked reductions in work volumes in certain sectors, this is being compensated by increased spending in other areas. We closely monitor the order inflow and have contingency plans ready should the trading environment deteriorate. For the present however, we are pleased to have entered 1999 with an order book giving us similar percentage cover of our budgeted turnover to previous years.

Profit has grown at an average of 48% per annum compound over the last three years and I believe this momentum is a powerful driving force. The economy for 1999 and beyond remains difficult to forecast but with a strong balance sheet and net cash of £28.4m we are well prepared for both the challenges and opportunities that will arise.



Sir Derek Hornby
Chairman

Earnings per share has grown at an average of 40% per annum compound over the last three years



Taking the business forward

1998 has seen Morgan Sindall make further progress. Turnover and operating profits from our construction activities are up 29% and 30% respectively on the previous year. In broad terms turnover growth arose from our regional construction business and profit growth from fit out. The spread of our client base is proving to be a strength. With nine brands comprising distinct profit centres it is always possible for one or two of these to have disappointing results without hindering the Group overall performance. Last year fit out had a poor first six months, this year one of the regional construction brands suffered growing pains. Remedial action has been taken and 1999 will I believe see regional construction make a significantly stronger contribution. With a good return from our property, a strong cash position and central overheads reduced, the Group earnings per share has increased from 16.38p to 22.15p.

We remain committed to our policy of branded construction companies empowered to make their own decisions within an agreed marketing strategy. Each brand management team develop their own company and are rewarded well for the success they achieve. There are benefits to each brand from being within the Group, sound financial backing, ability to benchmark, cross-fertilisation of skills and common clients. However, the real power of the Group is the strength of our people motivated by running their own company and the knowledge that they can make a difference.

The only non-negotiable is the Morgan Sindall culture. A commitment to the client, talented people who challenge the status quo and conservatism in financial matters are the ground rules that I and my colleagues have for

years repeatedly stressed as we go round the companies. This year several of them have started small torch groups comprising a mixture of site and office staff from different disciplines to debate how the culture affects them and how it will make the company stronger than the competition. With commitment at every level I believe we can continue to have an edge and keep ahead of our competitors.

Future prospects

As we approach the end of this millennium it is not surprising that we reflect on past experiences and consider what the future may offer. Morgan Sindall has established itself as a top twenty UK construction group and the 1998 results show another year of above average growth. Our balance sheet is strong and I believe our real assets, the management and staff, have never been better. However, rather than satisfaction in what has been achieved I feel excited by the opportunity and challenge ahead of us. The economic future is uncertain, the construction industry is quite correctly being pressed to improve and many of the major historic names in the industry are questioning whether they wish to continue in construction. Nevertheless the construction industry will continue to be a major sector of the economy in the next millennium and only those companies that are structured to accept change will flourish. I believe that Morgan Sindall has the passion to win and that the next few years will be very exciting and rewarding for us all.


MORGAN LOVELL

OVERBURY

Sindall

HINKINS & FREWIN

■ Barnes & Elliott


STANSELL

SNAPE

 **Roberts**
refreshingly constructive

WHEATLEY



Improved environment enhances performance

Our fit out business had another record year with all parts of the business performing strongly. Both Morgan Lovell and Overbury are recognised as brand leaders in their niche speciality. It is this specialisation – or as they explain it “they only do what they know they do well” – that enables them to perform to a level that consistently brings clients back to them.

Overbury offers fit out and light refurbishment in commercial premises, mainly offices, in London, the Home Counties and the Thames Valley. Each year Overbury completes more than 200 office fit outs covering 2 million square feet of space. Experience is vital if client expectations are to be exceeded against the stringent demands of fast track fit out and is confirmed by the fact that 75% of projects are won on factors other than price.

Whereas Overbury work for clients who purchase in the traditional way through a team of independent consultants, Morgan Lovell, work direct for clients to provide a complete fit out solution. As the workplace specialist, Morgan Lovell offers the client consultancy, design, construction and support. This “one stop shop” facility brings significant benefits to organisations who may not have in-house construction expertise and reflects Morgan Lovell’s “client for life” philosophy.

Morgan Lovell’s clients are largely in the South East and the Midlands and are serviced from offices in London, Wokingham and Heathrow. They are well known for providing property users and professionals with informative seminars and lectures on matters affecting the workplace, whether from changing technology, furniture design or working practices.

Current order levels are similar to last year. Whilst in the London market some sectors are facing uncertainty, the fit out business has an inherent element of protection against recession. Where clients are hesitant to take new space, downsizing or refurbishment, either to improve current conditions or for reletting of surplus space, still provides opportunity for fit out work.

**Thomas
Cook**

The new Thomas Cook call centre, Peterborough



Satisfying clients
for over 20 years
proves experience
is vital with fast
track fit out

Understanding clients

Turnover for regional construction has again significantly increased, this year by nearly 40% of which acquisitions account for less than 10%. Whilst obtaining market share and bringing the newly acquired companies up to a critical mass was the first priority the profit performance was disappointing. Several factors combined to reduce margin all of which have been addressed although none have changed our view of the potential of this business. Indeed the performance of certain brands has been very satisfying and clearly prove that a realistic margin can be achieved if we listen and respond to the needs of our clients.

It is in the Morgan Sindall tradition to be open when mistakes are made so that lessons can be learnt. One of the brands had a bad year, where contracts were taken on without sufficient margin and whilst clients were not let down, losses were incurred. Changes have been made and 1999 should see this brand restored to profitability.

Our order book, and importantly our enquiry levels are satisfactory with regard to our budgets for this year. Whilst our market share in the individual regions is still small it is our ability to delight our clients rather than the rate of the growth in the economy that will provide the opportunity for our success. Turnover growth of between 20% and 30% is an achievable target for these brands for the foreseeable future.

We have been noticing an increasing demand for response maintenance from housing associations and experimenting with ways as to how to respond to this market need. It is our belief that mixing this work with traditional small works or general maintenance operations does not work effectively. We are now in the process of developing a specialist unit with individual communication and control techniques and the initial response is encouraging. In 1998 these start up costs impacted profits adversely, but we will pursue this activity to see whether it is capable of expansion.

Our subsidiary Sotham Engineering Services Limited was not a business of long term strategic value to the Group and after exploring the possible exit routes we agreed to sell the company to its management in December 1998 for a consideration that is likely to equate to net assets. I believe it is as important to divest activities that are not core as it is to expand in the areas of our expertise.

Our regional construction network of companies is now substantially complete. Of the seven brands two are well on their way to establishing a significant presence, two have achieved critical mass and three are still relatively new and growing. There remains enormous potential.

Our construction companies meet a range of client needs including maintenance, new build, refurbishment and design and build.



Our regional construction business is capable of turnover growth of 20-30% annually

Working investments

Our policy for investment of our reserves in either cash or property on a proactive but conservative basis remains unchanged. As a result we took advantage of a strong property market between late 1997 to mid 1998 to realise properties worth £14.4m of which we have only reinvested £3.25m. This net inflow has been invested on the treasury market and accounts for the significant increase in bank interest received.

The freehold office investment we own in Jockeys Field, London is currently subject to rent reviews. We anticipate increases that will either add £100,000 to our rent roll or offer us an opportunity to realise the gain on this property.

Our building in Wigmore Street, London purchased for £3.2m earlier this year comprises four office units which we will either refurbish or sell in their present condition and a site where we have now achieved planning permission for greater lettable space. It will be at least a year before this property will be income producing. We continue to enhance the value of our mixed office industrial estate in Cambridge, and with additional lettings having commenced in January 1999 the net rental income on this property has increased to over £600,000.

Our joint venture, Primary Medical Property, which commenced trading in 1994, had its best year to date. Not only did it make a small trading profit but it has now recouped its start up costs. It owns some 14 doctors surgeries including a multi-tenanted cottage hospital in Yorkshire. This venture is now fast becoming accepted as a market leader in development and investment in primary care health centres.



John Morgan
Chief Executive



Property activities
again returned over
15% on capital
in 1998.

Committed to brands



London Tel 0171 734 4466



London Tel 0171 307 9000



Cambridge Tel 01223 836611



Oxford Tel 01865 723221



Farnborough Tel 01252 893900



Taunton Tel 01823 444406



Manchester Tel 0161 872 1166



Leeds Tel 0113 287 3131



Birmingham Tel 0121 329 1500



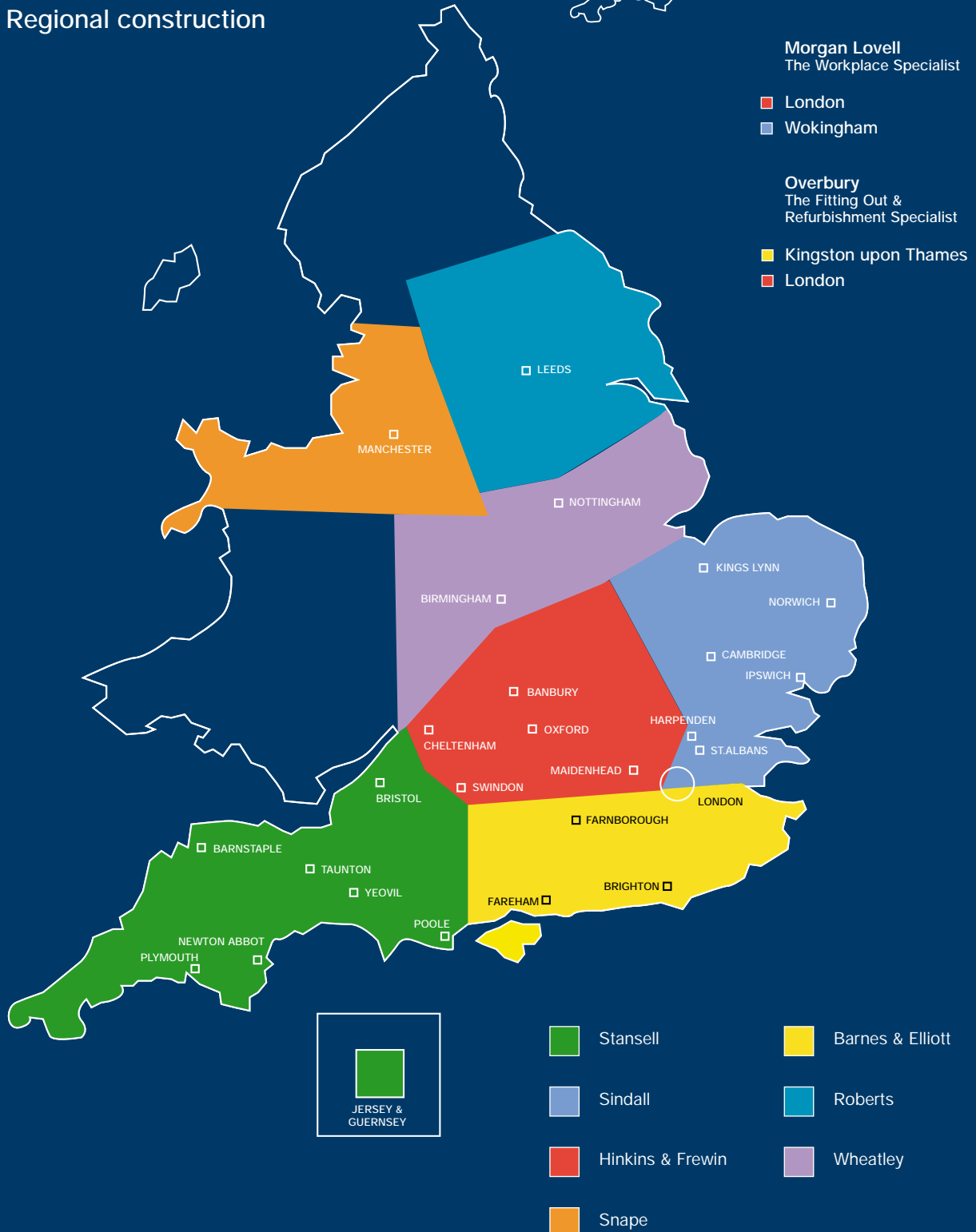
London Tel 0171 307 8350

- A top 20 UK construction company
- 1900 employees
- 40 offices throughout England

Fit out



Regional construction





From left to right

1
Jack Lovell (43)
Client Director

2
John Bishop (53)
Finance Director

3
Geraldine Gallacher (39)
Non-executive
Founder and managing director of The Executive Coaching Consultancy having formerly been head of Group Management Development for Burton Group plc.

4
Andy Stoddart (52)
Operations Director

5
Sir Derek Hornby (69)
Chairman
Chairman of Independent Registrars Group Limited and a non-executive director of a number of other companies and charitable trusts. Formerly Chairman of London & Continental Railways, Rank Xerox (UK) Limited and the British Overseas Trade Board.

6
John Morgan (43)
Chief Executive

7
Bernard Asher (62)
Non-executive
Chairman of Lonrho Africa plc. Vice-Chairman of the Court of Governors of The London School of Economics, Non executive director of Legal & General Group Plc, Remy Cointreau and Randgold Resources. Formerly Chairman of HSBC Investment Bank Plc and a director of HSBC Holdings Plc and Midland Bank Plc.

The directors have pleasure in submitting their report to the members together with the audited accounts for the year ended 31 December 1998.

Principal activities

Morgan Sindall is a specialist construction group with activities including fit out, regional construction and property investment. The principal subsidiary companies are shown on page 40. All activities are carried out in the United Kingdom and the Channel Islands.

Results and dividends

The Group made a profit for the year, after taxation, of £7.714 million.

The final dividend for the year recommended by the directors is 4.45p per ordinary share, which together with the interim dividend of 2.05p per share gives a total dividend for the year of 6.50p per ordinary share. Preference dividends paid or accrued amounted to £0.278 million.

Review of business and future developments

A general review of the Group's activities, development and future prospects are included in the Chairman's Statement on page 2 and the Chief Executive's Review on pages 4 to 11.

Fixed assets

External professional valuations of the majority of the Group's properties were carried out in 1994. The directors have considered the carrying value of the Group's interests in property and consider that there is no substantial difference between market and balance sheet value. The properties comprising the investment property portfolio will be revalued during the current year.

Directors

The directors at the date of this report are as set out on page 45. Details of the changes to Board membership are given in the statement on corporate governance on pages 19 and 20.

Further information on the Group Board's constitution, policies and procedures is set out under corporate governance on pages 19 and 20.

Sir D P Hornby and Mr A M Stoddart are the directors to retire by rotation, and being eligible offer themselves for re-election as directors. Mr Stoddart joined the Board in December 1996 after being a consultant to the Group since 1994. He is widely experienced in the construction industry and previously spent fourteen years with Norwest Holst, latterly as its Group Operations Director. Biographical details of Sir D P Hornby are shown on the opposite page.

Non-executive directors

A short biographical note on each independent non-executive director is shown on page 14. The role and responsibilities of the non-executive directors has been formally established by the Board. Further information on these matters may be found under corporate governance on pages 19 and 20.

Directors' interests

The interests of the directors and their families in the shares of the company are shown in Note 31 in the financial statements.

Corporate governance

The statement on corporate governance appears this year on pages 19 and 20.

Substantial shareholdings

Excluding directors, on 12 February 1999, the following shareholdings representing 3% or more of the issued ordinary share capital have been notified to the Company:

	Number of Shares	Percentage Holding
Jupiter Asset Management Limited	1,660,000	4.93
Hermes Asset Management Limited	1,641,000	4.88
Mercury Asset Management Limited	1,628,000	4.84
HSBC Asset Management Limited	1,360,000	4.04

Employment policies

The Company insists that a policy of equal opportunity employment is demonstrably evident throughout the Group at all times. Selection criteria and procedures and training opportunities are designed to ensure that all individuals are selected, treated and promoted on the basis of their merits, abilities and potential. Subject to the nature of its businesses in the construction industry, the policy of the Company is to ensure that there are fair opportunities in the Group for the employment, training and career development of disabled persons, including continuity of employment with re-training where appropriate.

The Group recognises the need to ensure effective communication with employees. Policies and procedures, including in-house newsletters, have been developed, taking account of factors such as numbers employed and location.

Environmental policy

Consistent with the Group's policy of autonomous operation and responsibility, each of the brand businesses has developed its own Environmental Policy tailored to the particular nature of its own activities.

Each policy statement is, however, consistent with the principles contained in the Group Environmental Policy copies of which are available on request.

Creditor payment policy

The Company does not adhere to any formal Code regarding payments to its trade creditors. Its current policy in this respect, which the Company endeavours to have its subsidiary and joint venture companies also follow, is to:

1. use unamended terms of Standard Forms of Contract widely recognised in, and drawn up by bodies representing the industry
2. clearly agree and set down the terms of payment with suppliers and subcontractors
3. make payments in accordance with its obligations.

Calculated in accordance with Regulations made under the Companies Act 1985, as at 31 December 1998, the Company's number of creditor days outstanding was thirty-one.

Year 2000 issues

Following earlier investigative work in January 1998 the Board gave authority to a committee co-ordinated by the Group IT Manager to identify and subject to approval introduce standardised IT financial management systems throughout the Group. The committee, which reports to a Main Board director was also charged with identifying and assessing the risks associated with the year 2000.

The committee has addressed the year 2000 problem in two main areas:

- i) Internal operations – to ensure that all Group IT systems are or will be year 2000 compliant by 1 June 1999.
- ii) External – to assess any impact on the Group as a result of contract works carried out for clients. In a review of a sample of contracts carried out from 1 January 1995, in no cases so far have chips been identified which are not year 2000 compliant. Guidelines have been issued to ensure that all future contracts or projects take full account of all year 2000 issues.

In view of the nature of the Group's activities and the implementation of new IT systems as a part of the Group's developing control requirements, the Board's assessment of the external costs attributable solely to year 2000 issues is limited to £100,000.

Annual General Meeting

The Annual General Meeting will be held on 13 April 1999. The notice of the meeting is set out in pages 42 to 44 of this Annual Report. The notice contains items which are special business including the authority to the Board to allot equity securities. Explanatory notes on the special business items are shown on pages 43 and 44.

Political and charitable contributions

During the year charitable contributions amounted to £6,000. No contributions were made to any political parties during the year.

Auditors

A resolution for the reappointment of Deloitte & Touche as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Remuneration report

The remuneration committee is comprised of:

Ms G Gallacher (Chairman)
Mr B H Asher
Sir D P Hornby

Policy on executive directors' remuneration

The remuneration of the executive directors is determined by the remuneration committee ("the committee").

The committee seeks to develop remuneration packages which satisfy the following principles:

- to attract, retain and motivate the best possible person for each position.
- to recognise the importance of achieving the expectations of performance in short and long term.
- to align the interests of executives with those of the shareholders.

The committee reviews salaries annually and seeks independent professional advice when appropriate.

Remuneration details

Details of the remuneration of all directors who have held office during the year are shown in Note 11 to the Accounts.

Bonus arrangements

The cash bonuses shown in Note 11 to the Accounts arise from a cash bonus scheme for executive directors calculated from an annually agreed scale that compares pre-tax profits to previous years' performance and external expectations of results, of which the major factor of reference is the profit forecasts published by the Company's own broker.

Long term incentive plan

Following shareholders' approval in 1997 a long term incentive plan was introduced for the executive directors of the Company and certain key senior management employees in the Group recommended by the remuneration committee to the Trustees of the plan.

Shares will be allocated to participants after three years provided certain performance criteria are satisfied. Once shares have been allocated, a participant will be entitled to dividends paid in respect of those shares and to exercise voting rights. The participant will not, however, be entitled to transfer, sell or otherwise deal in the shares until a further two years have elapsed.

Performance will be measured over three years by comparing the increase in total shareholder value over those years with the corresponding increase in relation to those fourteen of the companies listed in the Financial Times as construction companies and which are considered by the remuneration committee as having a comparable business to the Morgan Sindall Group. The increase in total shareholder value is measured by reference to the increase in share price plus gross dividend income.

All shares awarded to a participant will be allocated if the Company is ranked first of those companies referred to above and no shares will be allocated if the Company is ranked in the middle of the group or lower. Shares will be allocated on a graduated level between these two positions.

Conditional awards to executive directors of the Company

	Year to 31 December 1998	Cumulative to 31 December 1997
J C Morgan	35,329	25,019
J M Bishop	32,805	21,607
J J C Lovell	26,497	21,607
A M Stoddart	32,805	22,744

Share option schemes

It is the Company's present policy not to grant share options to the directors.

Details of options granted to employees in the Group are shown in Note 23 to the Accounts. The total number of options which may be granted at any time is fixed by the remuneration committee acting with the advice of the Operations Director and the Finance Director, and the recommendations of subsidiary company Managing Directors.

No further options can now be granted under the Company's 1988 Scheme. The exercise of options granted under the 1995 Scheme will be subject to performance targets and will normally be exercisable only if the percentage growth in earnings per share of the Company over a five year period has at least been equal to the percentage growth in earnings per share of at least three-fourths of the constituent companies in the FTSE 100 index over the same period.

Service contracts

Executive directors' contracts are terminable on one year's notice.

Of the directors who are seeking re-election at the Annual General Meeting, the service contracts of Sir D P Hornby and Mr A M Stoddart do not have a notice period for termination which is in excess of one year's duration.

Directors' interests

The shareholdings of all directors are shown in Note 31 to the Accounts.

Pensions

The Company contributes 10% of base salary to defined contribution schemes of the individual director's choice. There are no arrangements for the provision of benefits in excess of the Inland Revenue cap.

By order of the Board

W R Johnston
Company Secretary

16 February 1999

Policy statement

Morgan Sindall plc fully supports the Principles of Good Governance and the Code of Best Practice ('the Combined Code'). Accordingly, this report will also deal with the requirements of paragraphs (a) and (b) of the new Stock Exchange Listing Rule 12.43A relating to Section 1 of the Combined Code.

This report sets out how the principles of the Combined Code have been applied.

The Company has throughout the year been in compliance with the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange except as regards (i) the nominations committee and the recognition of a senior independent director and (ii) the period to 1 March 1998 when the appointment of Mr B H Asher brought the number of non-executives to not less than one third of the Board. The appointment followed a careful search for a suitable candidate to ensure that non-executives would also continue to be of sufficient calibre as well as number to carry significant weight in the Board's decisions.

As permitted by the London Stock Exchange, the Company has complied with Code provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance for directors on internal control and financial reporting that was issued in December 1994.

Board constitution and procedures

Miss B J Moorhouse resigned as Group Finance Director with effect from 31 May 1998 with her responsibilities having been taken over by Mr J M Bishop, FCA, Corporate Planning Director. His appointment as Group Finance Director was formally confirmed on 24 June 1998.

Mr B H Asher was appointed as a non-executive director with effect from 1 March 1998. Short biographical details of Mr Asher are shown on page 14.

Consequent to these changes, the Board is comprised of seven directors of whom three are non-executive and four executive directors. The roles of Chairman and Chief Executive are clearly defined and separate.

All of the non-executive directors are considered to be independent of management and free from any business or other relationship which could materially affect their independent judgement. As the number of individuals concerned is only two the Board do not feel that any positive benefit would arise from following the Combined

Code provision that one of the non-executive directors other than the Chairman should be recognised and identified as being the senior independent director.

The composition of the Board satisfies the Code Principles and provisions that the Board should have a balance of executive and non-executive directors in terms of number and relevant experience to enable it to have effective leadership and control of the Company and its subsidiaries. It also ensures that the decision making process cannot be dominated by any individual or small group of individuals.

The Board met on ten scheduled occasions during the year in addition to ad hoc meetings convened for particular purposes. For each of the scheduled meetings, a comprehensive information pack is provided in advance of the meeting to allow for proper detailed consideration. The key purposes of these meetings were to review all significant aspects of the Group's activities, supervise the executive management and to make decisions in relation to those matters which are in the formal schedule specifically reserved to the Board for decision.

There are agreed procedures by which Directors are able to take independent professional advice on matters relating to their duties, if necessary, at the expense of the Company. For certain purposes the Company Secretary is regarded as falling within that category of advisers and has been instructed by the Board to act accordingly in those circumstances. The Board has also resolved that any question of the removal from office of the Company Secretary is a matter to be considered by the Board as a whole.

The Board considers that because of its small size and the manner in which it conducts its business, a nominations committee would not be appropriate. The Board's policy on appointments to it is that every Board member should have the opportunity of individual meetings with prospective candidates following which there should be a unanimous view in favour of the appointment. Care is taken to ensure that new appointees are given a thorough understanding of the Group's activities and are able to meet its senior management personnel.

As regards the periodic re-election of all Directors (including non-executives) the practices of the Board comply with the Combined Code. Where a non-executive is appointed for a specified period, the appointment is in any case subject to Companies Act provisions regarding the removal of a director.

Board committees

The Board has established an audit committee and a remuneration committee. Membership is comprised of all of the non-executive directors, Sir D P Hornby, Mr B M Asher and Ms G Gallacher. Where appropriate specialist members of staff may also participate.

Audit committee

The audit committee was established by resolution of the Board which set out its written terms of reference. These included a duty to keep under review the scope and results of the audit, its cost effectiveness and the objectivity of the auditors. Meetings of the committee may be attended by the Finance Director and by a representative of the external auditors. The committee meets at least twice yearly and in addition, the external auditors may request a meeting at any time they consider it necessary.

Remuneration committee

Remuneration committee meetings are normally expected to be attended by the Chief Executive. Meetings will normally be held twice in each year to cover all elements of the directors' remuneration. A remuneration report is included in the Directors Report on pages 17 and 18.

Internal financial control

The Board have formally acknowledged that they are responsible for the Group's system of internal financial control. They are designed and operated so as to provide reasonable, but not absolute, assurance that the Group's assets are correctly stated and are safeguarded against loss. The main features of the system are as follows:

Financial reporting systems

The Board recognises that an essential part of the responsibility for running a business is the effective safeguarding of assets, the proper recognition of liabilities and the accurate reporting of profits.

The Group has a comprehensive system for monthly reporting to the Board of financial results with budget comparisons and the Board is represented at all subsidiary board meetings. Subsidiary companies prepare rolling three year business plans which are reviewed by the Board and are followed by detailed annual budgets.

Quality and integrity of personnel

The Board has established a set of core values for the Group. These are set out in its Business Plan and are actively communicated to Group personnel at all levels. Quality and integrity are key components of those values and are regarded as central to the maintenance of the effectiveness of the Group's system of internal financial control.

Risk management

Formulation of risk management strategy is a matter specifically reserved for decision by the Board. The Board also reserves to itself the evaluation of any risk arising from the acquisition or development of any new activities. Particular care is taken to ensure that appropriate and adequate insurance arrangements are in place.

Investment and capital expenditure appraisal

There are clear policies, detailed procedures and defined levels of authority in relation to investment, capital expenditure, significant cost commitments and asset disposals.

Board reviews

The Board has reviewed the effectiveness of the system of internal financial control for the accounting year and for the period up to the date of approval of the financial statements.

Going concern

After making enquiries, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt a going concern basis in preparing the financial statements.

Relations with shareholders

The Company actively seeks to enter into dialogue with institutional shareholders whenever possible. It also endorses the Combined Code principles generally on the conduct of Annual General Meetings including that it be used as an opportunity for effective communication with private shareholders whose participation in the proceedings should be encouraged.

Directors' Responsibilities

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 as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

1. Select suitable accounting policies and then apply them consistently
2. Make judgements and estimates that are reasonable and prudent

3. State whether applicable accounting standards have been followed

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Group, for the Group systems of internal financial control and for the prevention and detection of fraud and other irregularities.

Auditors' Report to the Members of Morgan Sindall plc

We have audited the financial statements on pages 22 to 41 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 27 and 28.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, as described on this page of the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. 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 or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on pages 19 and 20 reflects the company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

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

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 company's and 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 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 31 December 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.

Deloitte & Touche

Chartered Accountants and Registered Auditors

Leda House
Station Road
Cambridge

16 February 1999

Group Profit and Loss Account

for the year ended 31 December 1998

	Notes	1998		1997	
		£'000s	£'000s	£'000s	£'000s
Turnover	1				
Continuing operations			405,156		328,233
Acquisitions			17,005		–
Discontinued operations			2,406		3,003
			<u>424,567</u>		<u>331,236</u>
Cost of sales			(379,084)		(293,085)
Gross profit	1		45,483		38,151
Administrative expenses			(38,081)		(32,218)
Other operating income	2		1,045		1,613
Operating profit					
Continuing operations		8,531		7,476	
Acquisitions		(91)		–	
Discontinued operations		7		70	
		<u>8,531</u>		<u>7,476</u>	
Total operating profit	1,3		8,447		7,546
Share of profits/(losses) of joint venture			67		(250)
Net interest receivable/(payable)	4		1,246		(36)
			<u>9,760</u>		<u>7,260</u>
Profit on ordinary activities before taxation					
Tax charge on profit on ordinary activities	5		(2,046)		(1,412)
			<u>7,714</u>		<u>5,848</u>
Profit on ordinary activities after taxation					
Equity minority interest			–		(88)
			<u>7,714</u>		<u>5,760</u>
Profit for the year attributable to members of the parent company					
Dividends on equity and non-equity shares	6		(2,464)		(2,038)
			<u>5,250</u>		<u>3,722</u>
Retained profit for the year					
Earnings per ordinary share	8		22.15p		16.38p
Diluted earnings per ordinary share	8		21.11p		15.97p

Combined Balance Sheets

at 31 December 1998

	Notes	Group		Company	
		1998 £'000s	1997 £'000s	1998 £'000s	1997 £'000s
Fixed assets					
Intangible assets	12	3,970	–	–	–
Tangible assets	13	11,384	17,035	7,503	13,537
Investment in joint venture	14	184	4	–	–
Investments	14	690	500	35,302	31,911
		<u>16,228</u>	<u>17,539</u>	<u>42,805</u>	<u>45,448</u>
Current assets					
Stocks	15	7,155	6,464	6,992	5,981
Debtors	16	67,828	54,937	3,655	1,926
Cash at bank and in hand		28,386	22,720	3,289	1,045
		<u>103,369</u>	<u>84,121</u>	<u>13,936</u>	<u>8,952</u>
Creditors: amounts falling due within one year	17	(96,415)	(80,468)	(16,162)	(12,824)
Net current assets/(liabilities)		6,954	3,653	(2,226)	(3,872)
Total assets less current liabilities		23,182	21,192	40,579	41,576
Creditors: amounts falling due after more than one year	18	–	(3,458)	–	(3,458)
Provisions for liabilities and charges	19	–	(218)	(80)	(173)
Net assets		23,182	17,516	40,499	37,945
Capital and reserves					
Called up share capital	23	6,619	6,616	6,619	6,616
Share premium account		3,419	3,219	3,419	3,219
Revaluation reserve	28	2,620	6,321	2,289	6,321
Special reserve		–	–	13,644	13,644
Profit and loss account		10,524	1,242	14,528	8,145
Total shareholders' funds		23,182	17,398	40,499	37,945
Equity minority interests		–	118	–	–
Total capital employed		23,182	17,516	40,499	37,945
Shareholders' funds are attributable to:					
Equity shareholders' funds		18,247	12,460	35,564	33,007
Non-equity shareholders' funds		4,935	4,938	4,935	4,938
		<u>23,182</u>	<u>17,398</u>	<u>40,499</u>	<u>37,945</u>

Approved by the Board on 16 February 1999

J C Morgan
J M Bishop

Group Cash Flow Statement

for the year ended 31 December 1998

	Notes	1998 £'000s	1997 £'000s
Net cash inflow from operating activities	26	<u>9,276</u>	<u>11,584</u>
Returns on investments and servicing of finance			
Interest received		1,358	711
Interest paid		(412)	(1,083)
Dividends paid to preference shareholders		(278)	(278)
		<u>668</u>	<u>(650)</u>
Taxation			
Corporation tax paid		<u>(1,264)</u>	<u>(999)</u>
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(2,000)	(2,628)
Receipts from sale of tangible fixed assets		6,687	7,176
Repayment of loans from associated undertakings		-	450
Payments to acquire fixed asset investments		(190)	(500)
		<u>4,497</u>	<u>4,498</u>
Acquisitions and disposals			
Purchase of subsidiary undertakings		(424)	(916)
Net overdrafts acquired with subsidiary undertakings		(888)	(467)
Sale of subsidiary undertaking		35	390
Net cash disposed of with subsidiary undertaking		(90)	(32)
		<u>(1,367)</u>	<u>(1,025)</u>
Equity dividends paid		<u>(1,889)</u>	<u>(1,510)</u>
Net cash inflow before financing		<u>9,921</u>	<u>11,898</u>
Financing			
Issue of shares, net of expenses		79	126
New loans acquired		-	4,500
Loans repaid		(4,334)	(9,111)
Net cash outflow from financing activities		<u>(4,255)</u>	<u>(4,485)</u>
Increase in cash	27	<u>5,666</u>	<u>7,413</u>

Combined Statement of Movements in Reserves and Shareholders' Funds
for the year ended 31 December 1998

Group	Share premium account £'000s	Goodwill reserve £'000s	Revaluation reserve £'000s	Profit and loss account £'000s	Total reserves £'000s	Share capital £'000s	1998 Share- holders' funds £'000s	1997 Share- holders' funds £'000s
Balance at 1 January	3,219	(7,102)	6,321	8,344	10,782	6,616	17,398	14,468
Retained profit for year	-	-	-	5,250	5,250	-	5,250	3,722
New shares issued	122	-	-	-	122	2	124	-
Options exercised	78	-	-	-	78	1	79	126
Transfer of realised revaluation reserve	-	-	(4,032)	4,032	-	-	-	-
Elimination of goodwill reserve	-	7,102	-	(7,102)	-	-	-	-
Surplus on revaluation	-	-	331	-	331	-	331	1,461
Acquisition of subsidiary undertakings	-	-	-	-	-	-	-	(2,379)
Balance at 31 December	3,419	-	2,620	10,524	16,563	6,619	23,182	17,398

Included within the profit and loss account balance at 31 December 1998 is an amount for unrealised goodwill totalling £7,102,000.

Company	Share premium account £'000s	Special reserve £'000s	Revaluation reserve £'000s	Profit and loss account £'000s	Total reserves £'000s	Share capital £'000s	1998 Share- holders' funds £'000s	1997 Share- holders' funds £'000s
Balance at 1 January	3,219	13,644	6,321	8,145	31,329	6,616	37,945	31,753
Retained profit for year	-	-	-	2,351	2,351	-	2,351	4,605
New shares issued	122	-	-	-	122	2	124	-
Options exercised	78	-	-	-	78	1	79	126
Transfer of realised revaluation reserve	-	-	(4,032)	4,032	-	-	-	-
Surplus on revaluation	-	-	-	-	-	-	-	1,461
Balance at 31 December	3,419	13,644	2,289	14,528	33,880	6,619	40,499	37,945

Statement of Total Recognised Gains and Losses

for the year ended 31 December 1998

	1998	1997
	£'000s	£'000s
Profit for the financial year before dividends	7,714	5,848
Share of joint venture's surplus on revaluation of investment property	331	–
Surplus on revaluation of investment property	–	1,461
Total recognised gains and losses	8,045	7,309

Note of Historical Cost Profits and Losses

for the year ended 31 December 1998

	1998	1997
	£'000s	£'000s
Profit on ordinary activities before taxation	9,760	7,260
Realisation of property valuation gains of prior years	4,032	328
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	19	22
Historical cost profit on ordinary activities before taxation	13,811	7,610
Historical cost profit on ordinary activities after taxation, minority interests and dividends	9,301	4,072

Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed asset properties, and in accordance with applicable accounting standards. Compliance with SSAP19 accounting for investment properties requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation is given below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiary undertakings.

Acquisitions and disposals

Change in accounting policy

The results of subsidiaries acquired during the year are included in the consolidated profit and loss account from the date of acquisition. Goodwill is the difference between the fair value of consideration given on acquisition of a business and the aggregate fair value of its separable net assets. From 1 January 1998 goodwill arising on consolidation is capitalised and is being written off in equal instalments over its useful economic life of 20 years.

In accordance with the transitional rules of Financial Reporting Standard 10 the accounting policy for goodwill arising on acquisition, in previous years held in the goodwill reserve, is to eliminate it against the profit and loss reserve. Amounts will be charged or credited to the profit and loss account on subsequent disposal of the business to which it relates.

Turnover

Turnover is defined as the value of goods and services rendered excluding VAT.

Fixed asset investments

Except as stated below, investments held as fixed assets are stated at cost less provision for any impairment in value. In the consolidated accounts the Group's share of the results of the joint ventures is shown each year in the profit and loss account and the Group's share of retained profits and reserves is added to the cost of the investment in the balance sheet.

Fixed assets and depreciation

No depreciation is provided on freehold land. On other assets depreciation is provided in equal annual instalments at rates calculated to write off the cost or valuation of fixed assets over their estimated useful lives as follows:

Freehold buildings	–	50 years
Leasehold property	–	period of the lease
Plant, machinery, motor vehicles and equipment	–	between 3 and 10 years

No depreciation is provided in respect of freehold investment properties which are revalued annually and the aggregate surplus or deficit is transferred to revaluation reserve. The Companies Act 1985 requires all properties to be depreciated. However, this requirement conflicts with the generally held accounting principle set out in SSAP 19. The Directors consider that, as these properties are not held for consumption, but for their investment potential, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP 19 in order to give a true and fair view.

If this departure from the Act had not been made, the profit for the financial year would have been reduced by depreciation. However, the amount of depreciation cannot reasonably be quantified because depreciation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Stocks

Stocks are valued at the lower of cost and net realisable value. Interest incurred on borrowings to finance specific developments is capitalised.

Contract accounting

Contracts are accounted for as long term contracts. Anticipated net sales value of contracts include a proportion of attributable profit where a profitable outcome can be foreseen, provision being made for foreseeable losses. Turnover less progress payments is recorded in "amounts recoverable on contracts", within debtors. Where progress payments exceed turnover and other contract balances the excess is shown as "payments on account on contracts" in creditors.

Deferred taxation

Provision under the liability method is made for deferred taxation at the current rate of corporation tax on all timing differences, to the extent that they are expected to crystallise.

Leases

Rental costs under operating leases are charged to the profit and loss account in equal amounts over the period of the leases.

Pensions

The Group contributes to The Morgan Sindall Retirement Benefits Plan and to other employees' personal pension arrangements which are of a defined contribution type. Subject to the circumstances referred to in Note 25, the annual costs are charged to the profit and loss account.

1 Analysis of turnover, gross profit, operating profit and net assets

	1998			1997		
	Turnover	Profits/ (losses)	Net assets	Turnover	Profits/ (losses)	Net assets
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Regional construction	254,600	2,102	(8)	184,027	2,870	(3,896)
Fit out	162,967	6,306	(11,005)	139,539	3,575	(6,622)
Construction activities	417,567	8,408	(11,013)	323,566	6,445	(10,518)
Property	7,000	1,548	14,404	7,670	2,279	17,777
Group activities	-	(1,509)	(8,595)	-	(1,178)	(8,129)
	424,567	8,447	(5,204)	331,236	7,546	(870)
Net cash balances			28,386			18,386
			23,182			17,516

Net assets are stated after deducting interest bearing net cash balances.

	Continuing operations	Acquisitions	Discontinued operations	1998 Total	1997 Total
	£'000s	£'000s	£'000s	£'000s	£'000s
Turnover	405,156	17,005	2,406	424,567	331,236
Cost of sales	(361,173)	(15,896)	(2,015)	(379,084)	(293,085)
Gross profit	43,983	1,109	391	45,483	38,151
Administrative expenses	(36,497)	(1,200)	(384)	(38,081)	(32,218)
Other operating income	1,045	-	-	1,045	1,613
Operating profit	8,531	(91)	7	8,447	7,546

2 Other operating income

	1998	1997
	£'000s	£'000s
Rent receivable	1,045	1,613

3 Operating profit

Operating profit is stated after charging		1998	1997
		£'000s	£'000s
Depreciation		1,507	1,554
Amortisation of goodwill		191	-
Hire of plant and machinery		4,584	4,809
Operating lease costs	Land and buildings	1,026	826
	Other	1,269	1,007
Auditors' remuneration	Audit – Morgan Sindall plc	11	11
	Audit – Subsidiary undertakings	139	138
	Other	34	4

4 Net interest receivable/(payable)	1998	1997
	£'000s	£'000s
Interest receivable	1,358	789
Interest payable on bank loans and overdrafts	(394)	(1,123)
Interest payable on other loans	(18)	-
	946	(334)
Add: Interest capitalised	300	298
	1,246	(36)

5 Tax charge on profit on ordinary activities	1998	1997
	£'000s	£'000s
Corporation tax payable at 31% (1997: 33%)	1,773	1,237
Under provision in prior years	273	158
Share of tax of joint venture	-	17
	2,046	1,412

The tax charge for the year is lower than the standard rate due to the availability of tax losses brought forward and the utilisation of advance corporation tax previously written off.

6 Dividends on equity and non-equity shares	1998	1997
	£'000s	£'000s
Non-equity dividends on preference shares		
Paid	219	219
Accrued	59	59
	278	278
Equity dividends on ordinary shares		
Interim paid 2.05p (1997: 1.67p)	688	559
Final proposed 4.45p (1997: 3.58p)	1,498	1,201
	2,186	1,760
	2,464	2,038

7 Profit of parent company

The Company has taken advantage of s230 of the Companies Act 1985 and consequently the profit and loss account of the parent company is not presented as part of these accounts. The parent's profit for the financial year amounted to £4,815,000 (1997: £6,643,000).

8 Earnings per ordinary share

The calculation of the earnings per share is based on the weighted average number of 33,575,000 ordinary shares in issue during the year (1997: 33,461,000) and on the profits for the year attributable to ordinary shareholders of £7,436,000 (1997: £5,482,000).

In calculating the diluted earnings per share, earnings are adjusted for the preference dividend of £278,000 (1997: £278,000) making adjusted earnings of £7,158,000. The weighted average number of ordinary shares are adjusted for the dilutive effect of the convertible preference shares by 1,974,000 (1997: 1,975,000) and share options by 999,000 (1997: 624,000) giving an adjusted number of ordinary shares of 36,548,000 (1997: 36,060,000).

9 Employees	1998	1997
	No.	No.
The average number of people employed by the Group during the period was:	1,869	1,237

10 Staff costs	1998	1997
	£'000s	£'000s
Wages and salaries	46,461	30,395
Social security costs	4,284	2,905
Pension costs	1,051	769
	51,796	34,069

11 Directors' remuneration

	Salary and fees £'000s	Bonus £'000s	Benefits £'000s	Pension £'000s	Compensation for loss of office £'000s	1998 Totals £'000s	1997 Totals £'000s
J C Morgan (Highest paid director)	140	105	16	14	-	275	207
A M Stoddart	130	98	18	13	-	259	188
J M Bishop	130	98	13	13	-	254	178
J J C Lovell	105	77	13	11	-	206	176
B J Moorhouse	41	-	6	4	180	231	172
A T Sloan*	-	-	-	-	-	-	73
Executive directors	546	378	66	55	180	1,225	994
Sir D P Hornby (Chairman)	36	-	-	-	-	36	36
G Gallacher	20	-	-	-	-	20	20
B Asher	17	-	-	-	-	17	-
Non executive directors	73	-	-	-	-	73	56
Totals	619	378	66	55	180	1,298	1,050

The totals of directors' remuneration shown above include fees of £73,000 (1997: £56,000). Pension contributions made on behalf of the five executive directors are made to money purchase pension schemes. Further details of the directors' remuneration are contained in the Directors' Report on pages 17 and 18.

* Includes £30,000 compensation for loss of office in 1997.

Long term incentive plan

A long term incentive plan has been established as explained in detail in the long term incentive plan section of the Directors' Report on page 17. Conditional awards of shares which have been made are shown therein. An amount of £126,000 has been accrued for potential future awards relating to 1998 which will be calculated based on the three year period ending 31 December 2000.

12 Intangible fixed assets

Group	Goodwill £'000s
Cost or valuation	
At 1 January 1998	–
Additions	4,161
At 31 December 1998	4,161
Amortisation	
At 1 January 1998	–
Provided in the year	191
At 31 December 1998	191
Net book value at 31 December 1998	3,970
Net book value at 31 December 1997	–

13 Tangible fixed assets

(a) Group	Plant, machinery & equipment £'000s	Motor vehicles £'000s	Freehold property £'000s	Leasehold property £'000s	Total £'000s
Cost or valuation					
At 1 January 1998	5,563	1,687	12,023	2,321	21,594
Additions	1,565	111	170	154	2,000
Acquisition of subsidiary undertaking	305	134	–	–	439
Reclassification	(654)	–	–	654	–
Disposals	(1,031)	(613)	(5,826)	–	(7,470)
Disposal of subsidiary undertaking	(93)	(70)	–	–	(163)
At 31 December 1998	5,655	1,249	6,367	3,129	16,400
Depreciation					
At 1 January 1998	2,867	1,322	131	239	4,559
Provided in the year	1,141	163	46	157	1,507
Acquisition of subsidiary undertaking	211	119	–	–	330
Disposals	(730)	(547)	–	–	(1,277)
Disposal of subsidiary undertaking	(76)	(27)	–	–	(103)
At 31 December 1998	3,413	1,030	177	396	5,016
Net book value at 31 December 1998	2,242	219	6,190	2,733	11,384
Net book value at 31 December 1997	2,696	365	11,892	2,082	17,035

13 Tangible fixed assets (continued)**(b) Company**

	Plant, machinery & equipment £'000s	Freehold property £'000s	Leasehold property £'000s	Total £'000s
Cost or valuation				
At 1 January 1998	299	11,658	1,888	13,845
Additions	183	–	–	183
Disposals	(314)	(5,826)	–	(6,140)
At 31 December 1998	168	5,832	1,888	7,888
Depreciation				
At 1 January 1998	66	129	113	308
Provided in the year	41	44	38	123
Disposals	(46)	–	–	(46)
At 31 December 1998	61	173	151	385
Net book value at 31 December 1998	107	5,659	1,737	7,503
Net book value at 31 December 1997	233	11,529	1,775	13,537

The net book value of land and buildings comprises:

	Group		Company	
	1998 £'000s	1997 £'000s	1998 £'000s	1997 £'000s
Investment properties				
Freehold	3,072	8,572	2,767	8,267
Short leasehold	1,466	1,499	1,466	1,499
	4,538	10,071	4,233	9,766
Other properties				
Freehold	3,118	3,320	2,892	3,262
Short leasehold	1,267	583	271	276
	4,385	3,903	3,163	3,538
	8,923	13,974	7,396	13,304

Land and buildings at cost or valuation are stated:

	Group		Company	
	1998 £'000s	1997 £'000s	1998 £'000s	1997 £'000s
At valuation				
1994	1,626	1,973	1,626	1,973
1997	–	10,134	–	9,829
1998	4,668	–	4,363	–
At cost	3,202	2,237	1,731	1,744
	9,496	14,344	7,720	13,546

Comparable amounts determined according to the historical cost convention:

	Cost 1998 £'000s	Accumulated depreciation 1998 £'000s	Net book value 1998 £'000s	Net book value 1997 £'000s
Land and buildings	7,841	881	6,960	8,023

The directors have revalued the Group's investment properties on 31 December 1998 at open market value. They consider that the carrying value is equivalent to current market value.

14 Investments**(a) Group**

	Investment in joint venture £'000s	Own shares at cost £'000s
At 1 January 1998	4	500
Additions	-	190
Share of results for the year	67	-
Share of revaluation reserve	331	-
Reclassification from provisions for liabilities and charges	(218)	-
At 31 December 1998	184	690
Investment in joint venture	1998	1997
	£'000s	£'000s
Group share of gross assets	6,754	3,646
Group share of gross liabilities	(6,570)	(3,860)
Group shares of joint venture net assets	184	(214)
Group share of turnover	1,837	219

The Group's investment in Primary Medical Property Limited, previously classified as an associated undertaking, has been reclassified as a joint venture in accordance with Financial Reporting Standard 9 "Associates and joint ventures". The Group's share of joint venture turnover and disclosure of gross assets and liabilities is shown by way of note due to their immateriality in relation to corresponding amounts for the Group and because the term bank loans which form the majority of the gross liabilities of Primary Medical Property Limited is non-recourse to Morgan Sindall plc. The principle place of business of Primary Medical Property Limited is 77 Newman Street, London W1P 3LA.

Morgan Sindall plc's involvement in the management of Primary Medical Property Limited is restricted to the appointment of two directors under the terms of a shareholder agreement under which certain matters may only be undertaken by the Company with the approval of all directors.

Own shares

The own shares at cost represent 400,000 Morgan Sindall plc ordinary shares held in trust in connection with the long term incentive plan as detailed in the Directors' Report. Based on the Company's share price on 31 December 1998 of £2.045, the market value of the shares was £818,000.

(b) Company

	Other loans £'000s	Subsidiary undertakings Shares £'000s	Loans £'000s	Joint venture shares £'000s	Total £'000s
Cost at 1 January 1998	500	29,070	4,814	4	34,388
Additions	190	6,696	-	-	6,886
Disposals	-	(1,873)	-	-	(1,873)
Repaid during the year	-	-	(2,563)	-	(2,563)
Cost at 31 December 1998	690	33,893	2,251	4	36,838
Provisions at 1 January 1998	-	1,993	480	4	2,477
Disposals	-	(1,123)	-	-	(1,123)
(Release of provisions)/ provisions created in year	-	(18)	200	-	182
Provisions at 31 December 1998	-	182	680	4	1,536
Net book value at 31 December 1998	690	33,041	1,571	-	35,302
Net book value at 31 December 1997	500	27,077	4,334	-	31,911

15 Stocks

	Group		Company	
	1998 £'000s	1997 £'000s	1998 £'000s	1997 £'000s
Development works and building land	4,364	3,728	4,364	3,353
Trading properties	2,628	2,628	2,628	2,628
Materials and equipment	163	108	-	-
	<u>7,155</u>	<u>6,464</u>	<u>6,992</u>	<u>5,981</u>

Included within development works and building land is £177,000 (1997: £15,000) in respect of interest capitalised.

16 Debtors

	Group		Company	
	1998 £'000s	1997 £'000s	1998 £'000s	1997 £'000s
Trade debtors	31,591	23,810	219	165
Amounts recoverable on contracts	33,826	29,709	-	-
Amounts owed by subsidiary undertakings	-	-	2,452	710
Amounts owed by joint venture	40	74	40	74
Corporation tax recoverable	-	-	200	328
Other debtors	1,369	736	614	622
Prepayments and accrued income	1,002	608	130	27
	<u>67,828</u>	<u>54,937</u>	<u>3,655</u>	<u>1,926</u>

17 Creditors: amounts falling due within one year

	Group		Company	
	1998 £'000s	1997 £'000s	1998 £'000s	1997 £'000s
Bank loans	-	876	-	876
Trade creditors	32,271	27,092	74	49
Amounts owed to subsidiary undertakings	-	-	11,543	7,551
Other creditors	1,988	2,705	167	1,181
Corporation tax	1,669	886	-	-
Other tax and social security	2,896	2,387	185	63
Accruals and deferred income	56,034	45,262	2,636	1,844
Dividend	1,557	1,260	1,557	1,260
	<u>96,415</u>	<u>80,468</u>	<u>16,162</u>	<u>12,824</u>

18 Creditors: amounts falling due after more than one year

	Group		Company	
	1998 £'000s	1997 £'000s	1998 £'000s	1997 £'000s
Bank loans	-	3,458	-	3,458

The bank loans which were outstanding at 1 January 1998 and which were repayable in quarterly instalments between 1998 and 2006 were repaid during the year.

19 Provisions for liabilities and charges

	Group		Company	
	1998 £'000s	1997 £'000s	1998 £'000s	1997 £'000s
Provisions for losses:				
At 1 January 1998	218	-	173	616
Reclassified as investment	(218)	-	-	-
Released to profit and loss account	-	-	(93)	(554)
Share of joint venture losses	-	218	-	-
Provision for losses of subsidiary undertakings	-	-	-	111
At 31 December 1998	-	218	80	173

The amounts of deferred taxation provided and not provided in the accounts are as follows:

Group	Provided		Not provided	
	1998 £'000s	1997 £'000s	1998 £'000s	1997 £'000s
Capital allowances in excess of depreciation	-	-	235	-
Taxation loss relief and other timing differences	-	-	(235)	-
	-	-	-	-

Advance corporation tax amounting to £154,000 (1997: £502,000) written off within the accounts remains available to offset against future taxable profits. In addition there are taxation losses to carry forward of approximately £7 million (1997: £6 million).

20 Disposal of business

On 7 December 1998 the sale of a subsidiary company, Sotham Engineering Services Limited was completed for a cash consideration of £35,000. Deferred consideration of up to £238,000 is receivable in cash over a four year period on the achievement of certain performance criteria regarding contracts and profits. The total consideration would be in excess of the net assets of the company at the date of sale.

The purchasers were the management team of Sotham Engineering Services Limited and included Mr P R Kerrison, one of its directors and accordingly a related party as defined in The Listing Rules of the London Stock Exchange. This note complies with an undertaking given to the London Stock Exchange to include details of the transaction in these Accounts.

During the year until the date of disposal the business had a net operating cash outflow of £293,000 and spent £29,000 on capital expenditure and financial investment.

21 Acquisitions

John E. B. Wheatley Limited

On 4 February 1998 the Company acquired the entire issued share capital of John E. B. Wheatley Limited for a total consideration of £365,000 in cash. The losses, after taxation, of John E. B. Wheatley Limited were as follows:

	£'000's
1 April 1997 to date of acquisition	(1,399)
Preceding financial year ending 31 March 1997	(47)

The following table analyses the book value of the major categories of assets and liabilities acquired:

	Book value at date of acquisition £'000	Provisional fair value adjustments £'000	Fair value of net assets £'000
Tangible fixed assets	109	–	109
Current assets	5,344	–	5,344
Creditors	(5,164)	(3,138)	(8,302)
Net cash balances	(888)	–	(888)
Net liabilities	(599)	(3,138)	(3,737)
Cost of acquisition including expenses			(424)
Goodwill			(4,161)

The acquisition has been accounted for by the acquisition method of accounting. The provisional fair value adjustments mainly relate to contract accruals following the assessment of contract profitability.

Ottervale Estates Limited

On 14 July 1998 the Company acquired the remaining 14.3% share of the issued share capital of its subsidiary undertaking, Ottervale Estates Limited for a consideration of 50,000 ordinary shares of Morgan Sindall plc which had a book and fair value on the date of acquisition of £124,250.

Cash flow

During the year, acquisitions contributed £120,000 to the Group's net operating cash flows, paid £1,000 in respect of net returns on investment and servicing of finance and received £113,000 from investing activities.

22 Financial commitments

	Group		Company	
	1998 £'000s	1997 £'000s	1998 £'000s	1997 £'000s
Capital expenditure				
Authorised and contracted	78	104	–	43

23 Called up share capital

Authorised	1998		1997	
	No. '000s	£'000s	No. '000s	£'000s
Ordinary shares of 5p each	42,960	2,148	42,960	2,148
5.625% Convertible cumulative redeemable preference shares of £1 each	5,000	5,000	5,000	5,000
	<u>47,960</u>	<u>7,148</u>	<u>47,960</u>	<u>7,148</u>
Issued and fully paid				
Ordinary shares of 5p each	33,661	1,684	33,519	1,678
5.625% Convertible cumulative redeemable preference shares of £1 each	4,935	4,935	4,938	4,938
	<u>38,596</u>	<u>6,619</u>	<u>38,457</u>	<u>6,616</u>

Ordinary shares

The ordinary shares of 5p each of the Company issued during the year are shown below. Details of the share option schemes referred to are given later in this note.

- 91,550 ordinary shares in respect of options exercised under the Company's 1988 Scheme (referred to below) for total consideration of £79,000.
- 1,300 ordinary shares in respect of conversion rights attached to 3,250 convertible preference shares exercised as at 30 June 1998.
- 50,000 ordinary shares in respect of the acquisition of shares in Ottervale Estates Limited as described in Note 21.

Preference shares

The convertible preference shares are convertible at the option of the holder on 30 June in each of the years 1991 to 2003 inclusive on the basis of 40 ordinary shares for every 100 convertible preference shares. After conversion of 75% of the convertible preference shares the Company has the right to require the conversion of the outstanding balance. The convertible preference shares are redeemable at par at the Company's option after the last date of conversion in 2003 and are finally redeemable on 30 June 2005. There is no premium payable on a return of capital on a winding up and the convertible preference shares do not entitle the holders to any participation in the profits or assets of the Company beyond their preference dividend entitlement.

Options

The company has two share option schemes. The first scheme ('the 1988 Scheme') was introduced on 21 January 1988 and the second scheme ('the 1995 Scheme') received approval on 24 May 1995.

Options granted under the 1998 Scheme are exercisable between three and ten years from the date of grant and under the 1995 Scheme are exercisable between five and seven years from the date of grant.

The period for the granting of options under the 1988 Scheme expired in January 1998. As at 31 December 1998 there remain 579,350 options outstanding under that Scheme exercisable at prices between £0.73 and £1.71.

At the same date there were 1,734,300 options outstanding under the 1995 Scheme exercisable at prices between £0.73 and £2.01.

No options have been granted to any present members of the Morgan Sindall plc Board.

24 Contingent liabilities

Group bank accounts are supported by cross-guarantees given by the Company and floating and fixed charges on certain Group properties. Performance bond facilities are supported by cross-guarantees given by the Company and participating trading companies in the Group. The overdraft facility of the joint venture is supported by a Group guarantee.

25 Pensions

Defined contribution and hybrid schemes

The Morgan Sindall Retirement Benefits Plan was established on 31 May 1995 and is a defined contributions arrangement which is now available to all permanent salaried staff in all Group companies. The Plan includes some defined benefit liabilities and transfers of funds representing the accrued benefit rights of former active and deferred members of pension plans of companies which are part of the Group as it now stands.

Subject as provided below, pension costs for the Plan and for other small defined contributions schemes in the Group represent the employer's contributions actually paid in the year together with employer's contributions to the personal pension plans of individuals, where applicable.

The latest actuarial valuation was dated 1 June 1998 and was prepared using the assumptions of rate of investment return of 6.5% per annum, rate of earnings escalation; 5.5% per annum and rate of inflation of 4.5% per annum. The ongoing liabilities of the Plan were assessed using the attained age method whereas the assets were taken at realisable market value. The defined benefit liabilities are fully funded. The actuarial valuation referred to shows that on an ongoing basis, the value of the assets represented 137% of the value of these liabilities. The actuarial valuation also showed that the realisable market value of the Plan's assets is in excess of its minimum liabilities when assessed on the Minimum Funding Requirement basis (as defined in the Pensions Act 1995).

Accordingly, on the recommendation of the Plan actuary, certain employers' contributions during the year have been funded using the Unallocated Reserve of the Plan assets and in these circumstances no charge to the Profit and Loss Account of the employer is recorded. The Plan actuary has recommended that this practice should continue to apply for the remainder of the current year. The contributions paid by the Group for the year amounted to £686,000.

26 Reconciliation of operating profit to net cash inflow from operating activities

	1998 £'000s	1997 £'000s
Operating profit	8,447	7,546
Depreciation of tangible fixed assets	1,507	1,554
Amortisation of goodwill	191	–
Profit on disposal of business	(40)	–
Profit on sale of fixed assets	(494)	(671)
(Increase)/decrease in stocks and work in progress	(285)	37
(Increase)/decrease in debtors	(8,444)	704
Increase in creditors	8,394	2,414
Net cash inflow from operating activities	<u>9,276</u>	<u>11,584</u>

27 Reconciliation and analysis of net cash flow to movement in net cash

	Cash at bank and in hand £'000s	Bank loans due within one year £'000s	Bank loans due after more than one year £'000s	1998 Net cash £'000s	1997 Net cash £'000s
At 1 January 1998	22,720	(876)	(3,458)	18,386	9,296
Cash inflow	5,666	–	–	5,666	7,413
Cash outflow from financing	–	876	3,458	4,334	1,677
At 31 December 1998	<u>28,386</u>	<u>–</u>	<u>–</u>	<u>28,386</u>	<u>18,386</u>

28 Revaluation reserve

	Group		Company	
	1998 £'000s	1997 £'000s	1998 £'000s	1997 £'000s
Investment property revaluation reserve	2,069	6,101	2,069	6,101
Other property revaluation reserve	551	220	220	220
	<u>2,620</u>	<u>6,321</u>	<u>2,289</u>	<u>6,321</u>

29 Operating lease commitments

At 31 December 1998 the Group was committed to making the following payments during the next year in respect of non-cancellable operating leases

Leases which expire:	Land and buildings £'000s	Other £'000s
Within one year	92	344
Within two to five years	437	1,335
After five years	764	-
	<u>1,293</u>	<u>1,679</u>

30 Additional information on subsidiary undertakings and joint venture

The Company acts as a holding company for the Group and has the following principal subsidiary undertakings and joint venture which affected the Group's results or net assets.

<i>Subsidiary undertakings</i>	<i>Activity</i>
*Morgan Lovell London Limited	Office design, fitting out and refurbishment specialists
*Morgan Lovell Regions Limited	Office design, fitting out and refurbishment specialists
*Overbury plc	Fitting out and refurbishment contractor
Sindall Limited (formerly Sindall Construction Limited)	Construction
Sindall Maintenance Limited	Construction
*Sindall Norwich Limited	Construction
Barnes & Elliott Limited	Construction
T. J. Braybon & Son Limited	Construction
Hinkins & Frewin Limited	Construction
Stansell Limited	Construction
*Stansell QVC Limited	Construction
The Snape Group Limited	Intermediate holding company
*Snape Limited	Construction
Robert R Roberts (Leeds) Limited	Construction
Wheatley Construction Limited (formerly John E. B. Wheatley Limited)	Construction
<i>Joint venture</i>	
Primary Medical Property Limited (50%)	Development and investment of medical properties

All subsidiary undertakings are wholly owned unless shown otherwise and with the exception of companies marked * all shareholdings are in the name of Morgan Sindall plc. With the exception of Stansell QVC Limited, registered and operating in Jersey, all undertakings are registered in England and England is the principal place of business.

31 Directors' interests

According to the register maintained as required by the Companies Act 1985, the interests of the directors in office at 31 December 1998 and 1 January 1998 (or the date of appointment if later) were as follows:

	5p Ordinary Beneficial	
	31.12.98	1.1.98
Sir D P Hornby	5,452	5,452
J C Morgan	6,206,926	6,186,926
J M Bishop	20,000	20,000
J J C Lovell	6,183,706	6,183,706
A M Stoddart	5,000	5,000
G Gallacher	–	–
B H Asher	–	–

No director had any non beneficial interest in the ordinary shares or any interest in the preference shares of the Company. There have been no changes in the interests of the directors between the year end and 16 February 1999. No director had any material interest in any contract with the Company.

Notice of Annual General Meeting

Notice is hereby given that the forty-second Annual General Meeting of the Company will be held in the Drawing Room of The Armourers' Hall, 81 Coleman Street, London, EC2R 5BJ at 12 noon on Tuesday, 13 April 1999 for the following purposes:

Ordinary business

1. To receive the Reports of the Directors and the Auditors and the Accounts for the year ended 31 December 1998.
2. To declare a final dividend of 4.45 pence per Ordinary Share.
3. To re-elect Sir D P Hornby a Director.
4. To re-elect Mr A M Stoddart a Director
5. To re-appoint Deloitte & Touche as Auditors.
6. To authorise the Directors to fix the Auditors remuneration.

Special business

To consider and if thought fit pass the following resolutions of which resolution 7 will be proposed as an Ordinary Resolution and resolution 8 will be proposed as a Special Resolution.

7. That the Directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 ('the Act') to exercise all of the powers of the Company to allot relevant securities (within the meaning of that section) of the Company up to an aggregate amount of £464,927.55 such authority (unless previously revoked or varied) to expire on the earlier of the conclusion of the Company's next Annual General Meeting and fifteen months from the date of the passing of this resolution save that the Company may make offers or agreements which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements as if the authority conferred hereby had not expired.
8. That, subject to the passing of the previous resolution, the Directors be and they are hereby authorised and empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authority given in the previous resolution as if section 89(1) of the Act did not apply to such allotment, provided that such power be limited to:
 - i) the allotment of equity securities which are offered to all the holders of equity securities of the Company (at a date specified by the Directors) where the equity securities respectively attributable to the interests of such holders are as nearly as practicable in proportion to the respective number of equity securities held by them, but subject to such exclusions and other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements and any legal or practical problems under any laws, or requirements of any regulatory body or stock exchange in any territory or otherwise; and

Notice of Annual General Meeting

- ii) the allotment (otherwise than pursuant to sub-paragraphs i) above and iii) below) of equity securities up to an aggregate nominal amount of £84,153.62; and
- iii) the allotment of equity securities up to a total nominal amount of £98,709.20 in connection with the satisfaction of conversion rights attached to the 5.625% Convertible Cumulative Redeemable Preference Shares of £1 each currently in issue

and this power shall expire on the earlier of the conclusion of the Company's next Annual General Meeting and fifteen months from the date of the passing of this resolution save that the Company may make an offer or enter into an agreement before the expiry of that date which would or might require equity securities to be allotted after that date and the Directors may allot equity securities in pursuance of such an offer as if the power conferred hereby had not expired.

By order of the Board

W R Johnston
Company Secretary

Registered Office
77 Newman Street
London
W1P 3LA

16 February 1999

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote on a poll in his place. A proxy need not also be a member of the Company. A form of proxy accompanies this notice.
2. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of any other joint holders. For these purposes, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
3. In the case of a corporation the form of proxy must be executed under its common seal or signed on its behalf by a duly authorised attorney or a duly authorised officer of the corporation.
4. To be effective, the form of proxy, together with any power of attorney or other authority under which it is executed or a notarially certified copy thereof must be sent to Connaught St Michaels Limited, PO Box 30 Victoria Street, Luton, Bedfordshire, LU1 2PZ so as to arrive no later than 12 noon on 11 April 1999.
5. Short biographical details of the directors seeking re-election are shown on pages 14 and 15.
6. Service contracts of Directors will be available for inspection at 77 Newman Street, London, W1P 3LA during usual business hours on any business day from the date of this notice until the date of the meeting and for 15 minutes prior to the meeting at The Armourers' Hall, 81 Coleman Street, London, EC2R 5BJ.
7. The Company, pursuant to regulation 34 of The Uncertificated Securities Regulations 1995, specifies that only those ordinary shareholders registered in the register of members of the Company 48 hours before the meeting shall be entitled to attend or vote at the 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 that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

Notes: *(continued)*

8. **Resolution 7**

When resolution 7 in the notice of the Annual General Meeting is passed, the Board will have general and unconditional authority to allot 9,298,551 Ordinary Shares, which authority will expire fifteen months from the date on which this resolution is passed or, if earlier, at the conclusion of the next Annual General Meeting. 4,288,334 authorised but unissued Ordinary Shares will be reserved in respect of share options granted under the two Share Option Schemes which members have approved and to provide for the conversion of Preference Shares. Accordingly, following the passing of this resolution 5,010,217 Ordinary Shares, representing approximately 15 per cent of the issued share capital of the Company, will remain authorised, unissued and unreserved.

9. **Resolution 8**

In addition to the above, on the passing of resolution 8, the Board will have authority to allot equity securities up to an aggregate value of £84,153.62, representing approximately 5 per cent of the issued Ordinary Share capital of the Company for cash otherwise than pro-rata to existing shareholders, which authority will expire fifteen months from the date on which the resolution is passed or, if earlier, at the conclusion of the next Annual General Meeting of the Company. The Board will also have authority to allot equity securities in order to satisfy the conversion rights attaching to the Preference Shares. However, currently there is no intention to issue any further share capital otherwise than pursuant to the exercise of conversion rights in respect of the Preference Shares in issue and in the exercise of any options under the two Share Option Schemes.

Private Shareholders

For ease of reference paragraph C.2 of the Principles of Good Governance as set out in Section 1 of the Combined Code is reproduced below.

C.2 Constructive Use of the AGM

Principle

Boards should use the AGM to communicate with private investors and encourage their participation.

Code Provisions

- C.2.1 Companies should count all proxy votes and, except where a poll is called, should indicate the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands.
- C.2.2 Companies should propose a separate resolution at the AGM on each substantially separate issue, and should in particular propose a resolution at the AGM relating to the report and accounts.
- C.2.3 The chairman of the board should arrange for the chairmen of the audit, remuneration and nomination committees to be available to answer questions at the AGM.
- C.2.4 Companies should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting.

The Board would welcome the views of private investors regarding any change or addition which would make the proceedings of the Annual General Meeting more meaningful to them.