MEARS

Annual Report & Accounts 2002

National provider of facilities and support services

Contents

Financial Calendar

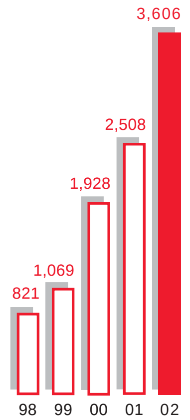
Annual General Meeting	4 June 2003
Record date for final dividend	6 June 2003
Dividend warrants posted to shareholders	1 July 2003
Interim results announced	2 September 2003

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.

Profit before tax

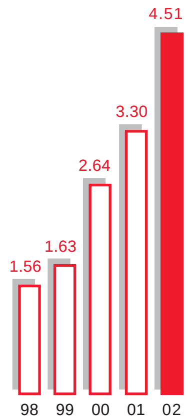
up 44%



profit before tax £'000

Normalised earnings per share

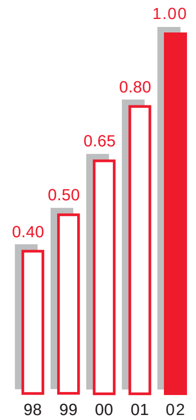
up 37%



earnings per share p

Dividends per share

up 25%



dividends per share p

Mears at a Glance

		
Type of service	public sector services	mechanical and electrical 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.	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.
Brand providing service	Mears Social Housing	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"

Board of Directors & Advisers

Bob Holt (48)
Chairman and Chief Executive

Bob was appointed Chairman in February 1996 prior to flotation in October 1996. He has a background in developing support service businesses. He has operated in the service sector since 1981 initially in a financial capacity then moving into general management. He is a member of the Audit and Remuneration Committees.

He is also Chairman of Staffing Ventures plc and Wyatt Group PLC.

David J Robertson (47)
Finance Director

After attending Edinburgh University, David qualified as a Scottish Chartered Accountant in 1979. He spent time in Imperial Tobacco and Lloyds Bank before joining MITIE Group PLC in 1991, where he was Finance Director of MITIE Cleaning for over six years during a period of rapid expansion. He joined the Group in 1997 as Finance Director and is a member of the Audit Committee.

Phillip L Molloy (33)
Executive Director

Phillip has a background in recruitment where he worked as a consultant for an employment agency in the early 90's. Most of Phillip's working life has been as Managing Director of United Fleet Distribution (UFD) which under his control and ownership became the leading provider of driven vehicle delivery services. He joined Mears in 1998 upon the acquisition of UFD and heads up the Group's marketing activities.

Michael A Macario (65)
Non-Executive Director

Michael is a Chartered Accountant and a director of a number of public and private companies. He joined Mears in 1996 upon flotation and is Chairman of the Group's Audit Committee.

Reginald B Pomphrett (59)
Company Secretary and Non-Executive Director

Reg has been involved in corporate finance for over 30 years and is director of a number of companies. He is a Chartered Secretary and a member of the Securities Institute.
He joined Mears in 1996 and is Chairman of the Group's Remuneration Committee.

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www.mearsgroup.co.uk

Company registration number
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Bankers
Barclays Bank PLC
18 Southgate Street
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GL1 2DJ
Tel: 01452 365353

Solicitors
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St James's House
St James' Square
Cheltenham
GL50 3PR
Tel: 01242 224433

Auditors
Grant Thornton
Registered Auditors
Chartered Accountants
The Quadrangle
Imperial Square
Cheltenham
GL50 1PZ
Tel: 01242 633200

Nominated adviser and stockbroker
Arbuthnot
Old Mutual Place
2 Lambeth Hill
London
EC4 4GG
Tel: 020 7002 4600

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:

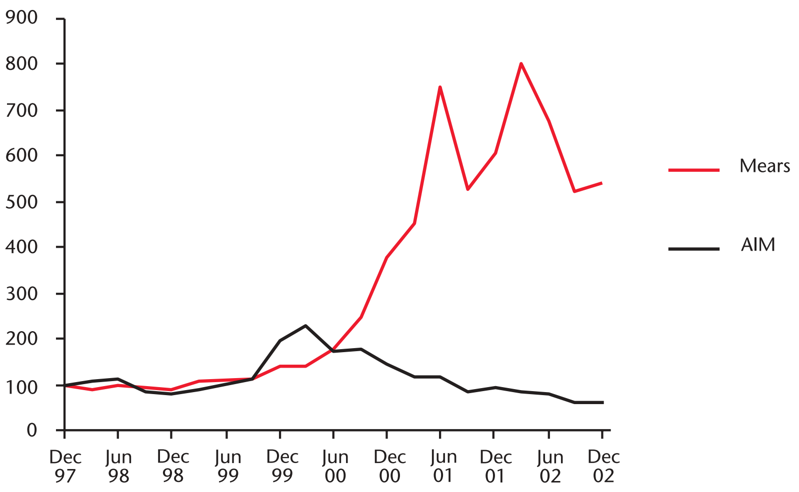
- Annual salary – the actual salary for each of the Executive Directors is determined by the Remuneration Committee; these salaries reflect experience and sustained performance of the individuals to whom they apply, also taking into account market competitiveness.
- Annual bonus – the Chairman and Finance 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
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 £
Turnover					
Continuing operations	1	78,535,297		68,579,597	
Acquisitions		298,700		—	
			78,833,997		68,579,597
Cost of sales			(58,758,960)		(51,638,639)
Gross profit					
Continuing operations		20,028,667		16,940,958	
Acquisitions		46,370		—	
			20,075,037		16,940,958
Administrative expenses			(16,562,778)		(14,362,652)
Operating profit					
Continuing operations		3,512,259		2,578,306	
Acquisitions		—		—	
			3,512,259		2,578,306
Share of operating profit in associate			7,609		—
			3,519,868		2,578,306
Net interest	2		86,321		(69,908)
Profit on ordinary activities before taxation	1		3,606,189		2,508,398
Tax on profit on ordinary activities	4		(1,112,007)		(378,500)
Profit on ordinary activities after taxation			2,494,182		2,129,898
Equity minority interests			35,086		10,157
Profit for the financial year	5		2,529,268		2,140,055
Dividends	6		(565,325)		(444,131)
Profit retained	16		1,963,943		1,695,924
Earnings per share					
Basic	7		4.51p		4.00p
Basic – normalised	7		4.51p		3.30p
Diluted	7		4.36p		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 £
Fixed assets					
Intangible assets	8	5,433,006		2,243,136	
Tangible assets	9	1,641,095		1,360,633	
Investments – associates	10	36,944		—	
Investments – other	10	61,927		55,677	
			7,172,972		3,659,446
Current assets					
Stocks	11	1,266,334		1,232,170	
Debtors	12	15,919,547		15,739,056	
Cash at bank and in hand		5,565,728		4,576,203	
		22,751,609		21,547,429	
Creditors: amounts falling due within one year	13	(18,129,054)		(18,194,870)	
Net current assets			4,622,555		3,352,559
Total assets less current liabilities			11,795,527		7,012,005
Creditors: amounts falling due after more than one year	14		(2,260,000)		—
			9,535,527		7,012,005
Capital and reserves					
Called up share capital	15		565,405		537,352
Share premium account	16		2,969,684		2,397,851
Profit and loss account	16		6,023,673		4,059,730
Equity shareholders' funds	17		9,558,762		6,994,933
Equity minority interests			(23,235)		17,072
			9,535,527		7,012,005

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.

Company Balance Sheet

at 31 December 2002

	Note	2002 £	2002 £	2001 £	2001 £
Fixed assets					
Investments	10		9,181,903		5,286,513
Current assets					
Debtors	12	2,368,558		3,347,618	
		2,368,558		3,347,618	
Creditors: amounts falling due within one year	13	(4,393,005)		(5,215,046)	
Net current liabilities			(2,024,447)		(1,867,428)
Total assets less current liabilities			7,157,456		3,419,085
Creditors: amounts falling due after more than one year	14		(2,260,000)		—
			4,897,456		3,419,085
Capital and reserves					
Called up share capital	15		565,405		537,352
Share premium account	16		2,969,684		2,397,851
Profit and loss account	16		1,362,367		483,882
Equity shareholders' funds			4,897,456		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 £
Net cash inflow from operating activities	18	4,743,346	4,288,850
Returns on investments and servicing of finance			
Interest received		86,109	3,112
Interest paid		(3,158)	(76,617)
Net cash inflow/(outflow) from returns on investments and servicing of finance		82,951	(73,505)
Taxation paid		(537,920)	(104,912)
Capital expenditure			
Purchase of tangible fixed assets		(730,616)	(665,169)
Sale of tangible fixed assets		17,000	38,373
Purchase of investment		(36,250)	—
Net cash outflow from capital expenditure		(749,866)	(626,796)
Acquisitions			
Purchase of subsidiary undertakings		(836,780)	—
Net cash acquired with subsidiary undertakings		478,657	—
Net cash outflow from acquisitions		(358,123)	—
Equity dividends paid		(478,683)	(373,771)
Financing			
Issue of shares		251,276	111,275
Repayment of borrowings		—	(1,100,040)
Net cash inflow/(outflow) from financing		251,276	(988,765)
Increase in cash	19	2,952,981	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	62,915,818	59,775,925	2,530,601	1,914,434	8,207,580	5,925,985
Vehicle collection and delivery	15,918,179	8,803,672	1,075,588	593,964	1,327,947	1,086,020
	78,833,997	68,579,597	3,606,189	2,508,398	9,535,527	7,012,005

Profit on ordinary activities is stated after:

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

2. Net interest

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

3. Directors and employees

Staff costs during the year were as follows:

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

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

	2002	2001
Site workers	580	539
Office & management	318	286
	898	825

3. Directors and employees (continued)

Remuneration in respect of Directors was as follows:

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

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

	2002 £	2001 £
Emoluments	161,070	157,747
Gains made on the exercise of share options	1,134,000	—
Pension contributions to personal pension schemes	37,950	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%)	1,111,007	405,000
Share of tax charge of associate	1,000	—
Adjustments in respect of prior years	—	(20,000)
Total current tax	1,112,007	385,000
Origination and reversal of timing differences	—	(6,500)
Tax on profit on ordinary activities	1,112,007	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	3,606,189	2,508,398
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 30% (2001: 30%)	1,081,857	752,519
Effect of:		
Expenses not deductible for tax purposes	77,295	46,826
Capital allowances in excess of depreciation	(47,145)	(22,360)
Utilisation of tax losses	—	(371,985)
Adjustments in respect of prior periods	—	(20,000)
Current tax for the year	1,112,007	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	141,272	106,720
– proposed final dividend of 0.75p (2001: 0.60p) per share	424,053	337,411
	565,325	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	4.51	4.00	4.36	3.61
Effect of full tax adjustment	—	(0.70)	—	(0.63)
Normalised earnings per share	4.51	3.30	4.36	2.98

8. Intangible fixed assets

The Group	Goodwill arising on consolidation £	Purchased goodwill £	Total £
Cost			
At 1 January 2002	2,347,872	280,000	2,627,872
Additions	3,347,523	—	3,347,523
At 31 December 2002	5,695,395	280,000	5,975,395
Amortisation			
At 1 January 2002	343,903	40,833	384,736
Provided in the year	143,653	14,000	157,653
At 31 December 2002	487,556	54,833	542,389
Net book amount			
At 31 December 2002	5,207,839	225,167	5,433,006
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 £
Cost						
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)
At 31 December 2002	59,995	403,076	728,788	2,400,417	227,818	3,820,094
Depreciation						
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)
At 31 December 2002	6,355	254,925	588,091	1,218,540	111,088	2,178,999
Net book amount						
At 31 December 2002	53,640	148,151	140,697	1,181,877	116,730	1,641,095
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: Share of net assets £	Associated undertakings: Goodwill £	Associated undertakings: Total £	Other investments £
Cost				
At 1 January 2002	—	—	—	55,677
Additions	10,061	19,939	30,000	6,250
Share of profits of associates	7,609	—	7,609	—
At 31 December 2002	17,670	19,939	37,609	61,927
Amounts written off				
At 1 January 2002	—	—	—	—
Provided in the year	—	665	665	—
At 31 December 2002	—	665	665	—
Net book amount				
At 31 December 2002	17,670	19,274	36,944	61,927
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	
Cost	
At 1 January 2002	5,286,513
Additions	3,895,390
At 31 December 2002	9,181,903

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		
	The Group	The Company	Nature of business
Subsidiaries:			
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
Associate:			
FITE IT Limited	49%	—	Provision of IT support services

11. Stocks

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

12. Debtors

	The Group		The Company	
	2002 £	2001 £	2002 £	2001 £
Trade debtors	12,962,200	12,127,444	—	—
Amounts owed by Group undertakings	—	—	2,368,558	3,321,026
Amounts recoverable on contracts	2,475,903	3,114,206	—	—
Other debtors	78,695	177,656	—	26,592
Prepayments and accrued income	402,749	319,750	—	—
	15,919,547	15,739,056	2,368,558	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	1,198,520	1,907,557
Payments received on account	3,796,506	4,208,530	—	—
Trade creditors	7,634,255	8,081,717	—	—
Amounts owed to Group undertakings	—	—	1,980,051	2,696,171
Corporation tax	1,032,156	367,817	335,007	85,000
Social security and other taxes	1,830,422	1,835,611	—	—
Proposed dividend	424,053	337,411	424,053	337,411
Other creditors	425,000	7,945	425,000	188,907
Accruals and deferred income	2,986,662	1,392,383	30,374	—
	18,129,054	18,194,870	4,393,005	5,215,046

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

	The Group		The Company	
	2002 £	2001 £	2002 £	2001 £
Other creditors	2,260,000	—	2,260,000	—

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			
	Fixed	Floating	Zero	Total
Financial liabilities – 2002	—	—	2,260,000	—
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	1,000,000	1,000,000
Allotted, called up and fully paid		
56,540,515 (2001: 53,735,199) ordinary shares of 1p each	565,405	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: Granted	Number of options during the year: Exercised	31 December 2002	Exercise price	Market price at the date of exercise	Exercise dates
D J Robertson	100,000	—	100,000	—	11.75p	100p	—
	100,000	—	—	100,000	14.25p	—	2002–2009
	9,687	—	—	9,687	50p	—	2004
	208,000	—	—	208,000	50p	—	2004–2011
	—	200,000	—	200,000	67.5p	—	2005–2012
P L Molloy	9,687	—	—	9,687	50p	—	2004
	—	5,757	—	5,757	82.5p	—	2005
	—	142,857	—	142,857	67.5p	—	2005–2012
R Holt	1,800,000	—	1,800,000	—	10p	73p	—
	—	9,687	—	9,687	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
At 31 December 2002	2,969,684	6,023,673

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
At 31 December 2002	2,969,684	1,362,367

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	2,529,268	2,140,055
Dividends	(565,325)	(444,131)
	1,963,943	1,695,924
Issue of shares	599,886	246,900
Net increase in equity shareholders' funds	2,563,829	1,942,824
Equity shareholders' funds at 1 January 2002	6,994,933	5,052,109
Equity shareholders' funds at 31 December 2002	9,558,762	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
Net cash inflow from operating activities	4,743,346	4,288,850

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)
Net funds at 31 December 2002	5,565,728	2,612,747

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&T acquired were as follows:

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

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)
Decrease in cash	(109,694)

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)
	(358,123)

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	43,156	112,226	84,284	70,246
Between one and five years	103,497	884,275	209,415	693,019
In five years or more	165,188	—	85,189	—
	311,841	996,501	378,888	763,265

Notice of the Annual General Meeting

Notice is hereby given that the Annual General Meeting of Mears Group PLC will be held at the offices of Arbuthnot, Old Mutual Place, 2 Lambeth Hill, London, EC4 4GG at 11.30am on 4 June 2003 when the following ordinary business will be considered:

1. To receive and adopt the Accounts for the year ended 31 December 2002, together with the reports of the Directors and auditors thereon.
2. To declare a final dividend of 0.75p per share on the ordinary share capital of the Company.
3. To re-appoint Grant Thornton as auditors and authorise the Directors to determine their remuneration.
4. To re-appoint R B Pomphrett as a Director who, in accordance with the Articles of Association, retires by rotation.
5. To re-appoint D J Robertson as a Director who, in accordance with the Articles of Association, retires by rotation.

And the following special business:

Ordinary resolution

6. THAT in substitution for the authority to allot relevant securities conferred on the Directors by the ordinary resolution passed on 29 May 2002, the Directors be and are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Companies Act 1985) of the Company with an aggregate nominal amount of up to £243,743 provided that the authority hereby conferred shall expire five years from the date of this resolution unless previously renewed, varied or revoked by the Company in General Meeting and so that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities of the Company to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such agreements as if the authority hereby conferred had not expired. In relation to the grant of any rights to subscribe for, or to convert any security into, shares in the Company, the reference in this paragraph to the maximum amount of relevant securities that may be allotted is to the maximum amount of shares which may be allotted pursuant to such rights.

Special resolution

7. THAT:
   - (a) the Directors be authorised to allot securities of the Company (pursuant to the authority conferred on the Directors by resolution 6 above) at any time up to the conclusion of the Company's next Annual General Meeting following the date of the passing of this resolution or, if earlier, the expiry of 15 months from the date of the passing of this resolution as if section 89(1) of the Companies Act 1985 did not apply to any such allotment, provided that such power shall be limited to the allotment of equity securities:
     - (i) in connection with any rights issue; and
     - (ii) otherwise than under sub-paragraph (a) (i) of this resolution, with an aggregate nominal amount of up to £28,270.
   - (b) such power shall permit and enable the Company to make an offer or agreement before the expiry of such power which would or might require equity securities to be allotted after such expiry and shall permit the Directors to allot such securities pursuant to any such offer or agreement as if such power had not expired; and
   - (c) in this resolution:
     - (i) "rights issue" means an offer of equity securities open for acceptance for a period fixed by the Directors to holders of ordinary shares on the register on a fixed record date in proportion to their respective holdings of such shares or in accordance with the rights attached thereto (but subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any regulatory body or any stock exchange in, any territory);
     - (ii) the nominal amount of any securities should be taken to be, in the case of a right to subscribe for or convert any securities into shares of the Company, the nominal amount of the shares which may be allotted pursuant to such right; and
     - (iii) words and expressions defined in or for the purposes of sections 89 to 96 inclusive of the Companies Act 1985 shall bear the same meanings.

R B Pomphrett ACIS, MSI
Secretary
6 May 2003

The Leaze
Salter Street
Berkeley
Gloucestershire
GL13 9DB

Notice of the Annual General Meeting

Notes:

1. A member entitled to attend and vote at the Meeting may appoint a proxy to attend and, on a poll, to vote instead of him. A proxy need not also be a member of the Company.

2. A form of proxy is enclosed. Completion of the proxy does not preclude a shareholder from attending the Meeting and voting in person. Proxies must be received by the Company, The Leaze, Salter Street, Berkeley, Gloucestershire GL13 9DB not less than 48 hours before the time fixed for the Meeting.

3. In accordance with Regulation 34 of Uncertified Securities Regulations 1995, only those members entered on the register of members of the Company on 2 June 2003 shall be entitled to attend or vote at the Meeting in respect of the numbers of shares registered in their name on that date.

4. There will be available for inspection at the Company's registered office during normal business hours from the date of this notice to the date of the Annual General Meeting and for 15 minutes prior to and during the Meeting the following:
   (a) the Register of Directors' interest in the share capital of the Company; and
   (b) copies of the Directors' Contracts of Service with the Company or its subsidiaries.

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