MEARS

GROUP PLC

ANNUAL REPORT & ACCOUNTS 2003







IMPROVING HOMES, IMPROVING NEIGHBOURHOODS, IMPROVING LIVES

Contents

Financial Calendar

Annual General Meeting	2 June 2004
Record date for final dividend	4 June 2004
Dividend warrants posted to shareholders	1 July 2004
Interim results announced	31 August 2004

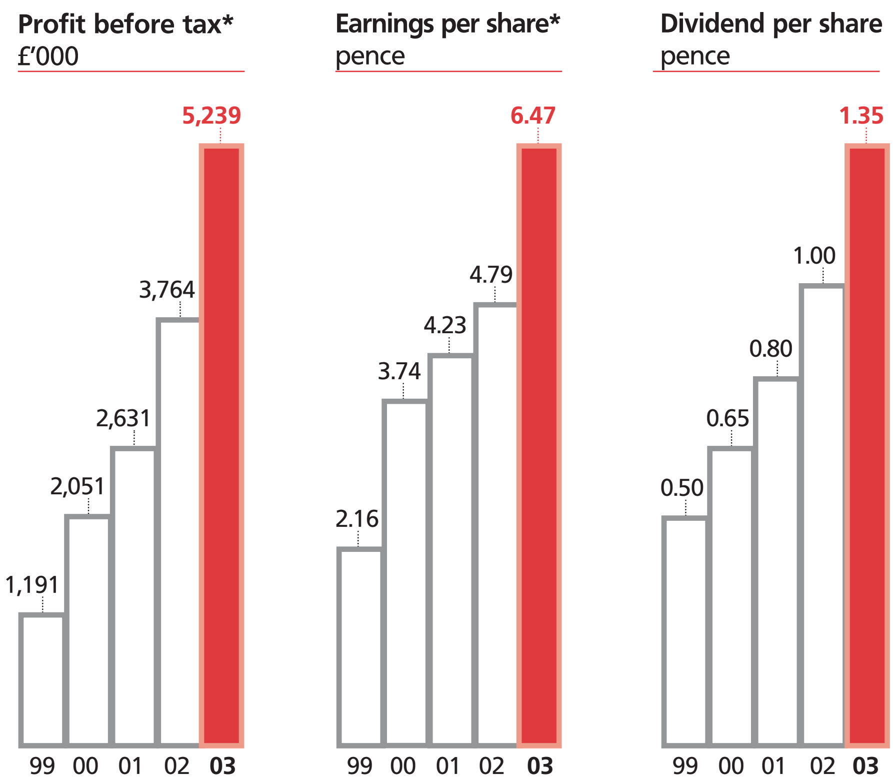
Corporate Statement and Financial Highlights

The vision is to become the market leader in transforming the housing environment, improving homes, improving neighbourhoods and improving lives.

> Profit before tax* up 39%

> Earnings per share* up 35%

> Dividend per share up 35%



*Pre-amortisation

Mears at a Glance

Public Sector Services

Mears Social Housing

Mears Social Housing is a specialist in the provision of a range of services to social landlords. The scope of these services includes response maintenance, void refurbishment, planned preventative maintenance, Decent Home Standard improvements and estate management. The work is executed using primarily directly employed labour and providing our clients/partners with innovative long-term solutions. Service delivery is very strongly focused on the customers' needs and local community initiatives. The contracts provide us with long-term visible earnings, with all contracts typically being of a minimum five year duration. Operational centres provide a 24/7 service and incorporate all associated functions, including bespoke material stores.

Mechanical and Electrical Services

Haydon Mechanical & Electrical (Haydon)

Haydon is a mechanical and electrical services contractor specialising in design and build services to a wide range of sectors and has dedicated divisions to carry out works in the housing, education, commercial and leisure markets, including the Ministry of Defence and social landlords. Haydon was originally established in 1885 and was acquired by Mears Group PLC in August 1999; the business has expanded both into new sectors and geographical areas and has strengthened its presence by the acquisition of Powersave and Scion Technical Services.

Facility Management

Mears Facility Management (FM)

Mears FM offers a total support service to clients with large property portfolios in the public and private sectors and is involved in the provision, management and co-ordination of an extensive range of services. Mears FM operates on a national basis and specialises in developing single-source solutions to meet the diverse facility management needs of companies and organisations of all kinds throughout the UK. Success is based upon close working partnerships and total commitment to providing superior levels of service.

Vehicle Collection and Delivery

United Fleet Distribution (UFD)

UFD is the market leader in the single vehicle movement sector and holds some of the largest contracts for these services in the UK. The company provides vehicle inspection, collection and delivery services to commercial organisations from a network of six regional offices. Customers include leasing companies, motor dealerships and organisations who have large vehicle fleets.

Painting and Decorating Services

Mears Decorating Services

Mears Decorating Services is a national painting and decorating services business. The Group has acquired several regional painting businesses to maximise the opportunities that are available in the social housing and other sectors. The business provides a pre-decorative repairs service as well as a fully maintained painting maintenance programme.

> The demand for our services has never been stronger

Chairman's Statement

I am pleased to announce record results for the year ended 31 December 2003.

Profit before tax and the amortisation of goodwill increased by 39.2% to £5.24m (2002: £3.76m) on turnover up by 42.4% to £112.3m (2002: £78.8m). Profits have shown an annual compound growth rate of 43% since Mears was listed on the Alternative Investment Market (AIM) in October 1996.

Earnings before amortisation of goodwill increased by 35.1% to 6.47p per share (2002: 4.79p).

Excellent cash management again resulted in the generation of £4.7m of positive cash inflow from operating activities in the period.

The Group had cash in the bank of £1.9m at the end of December 2003 after expending £5.4m on acquisitions.

The Board recommends a final dividend of 1.00p per share making a total dividend for the year of 1.35p per share, an increase of 35% from the previous year (2002: 1.00p per share). The final dividend is payable on 1 July 2004 to shareholders on the register on 4 June 2004.

The order book increased to a record level of £550m (2002: £300m).

Acquisitions

I am also pleased to confirm the acquisition of Scion Group Limited (Scion). Scion provides a range of facility services including grounds maintenance, building maintenance, mechanical and electrical services and facility and estate management to a wide range of customers in the public and private sectors. In addition the Group acquired Powersave Limited (Powersave) a mechanical and electrical maintenance services company. The painting division was strengthened following the acquisition of three regional painting contracting businesses. I welcome all the new employees into the Group.

Full details of the acquisitions are contained in the Financial review.

Trading review

Mears provides 'essential support services' and is not subject in its core business to any aspect of discretionary spending from its customers. Social housing represents a huge addressable market which continues to demonstrate strong and robust growth. The market for these services is highly fragmented and Mears operates in the top tier of the sector with few focussed competitors with such a high level of service delivery capability. The vision is to become the market leader in transforming the housing environment, improving homes, improving neighbourhoods and improving lives. Growth has become a natural function of our strong management ethos and delivery platform.

Mears has continued its excellent progress in the period and has been awarded a number of new contracts, mostly on a long-term partnership basis. Contracts have been awarded with New Islington and Hackney Housing Association, Berneslai Homes, (the Arms Length Management Organisation of Barnsley Metropolitan Borough Council), Leeds North East Homes, London Borough of Ealing, Crawley Borough Council, Stockport Metropolitan Council, Thanet District Council and Wigan and Leigh Housing. The record order book of £550m stretches as far ahead as 2019.

Operations

Mears operates principally in five sectors.

Public sector services

By far the largest part of Mears, representing 65% of Group turnover, is the provision of a range of maintenance services to the social housing and central Government sectors. The Group is well positioned to take significant advantage of the public sector reform agenda.

> Summary

- > Profits have shown an annual compound growth rate of 43% since flotation in 1996.
- > Excellent cash management generating £4.7m of positive cash inflow from operating activities.
- > Increased visibility of earnings – record order book of £550m.

The Government has made a commitment to bring all council housing up to a decent standard by 2010. This is driven by the Decent Homes Standard Initiative and will make a significant impact on the estimated £19 billion backlog of repair and improvement work required to local authority housing in England and Wales. Mears has been successful in the award of long-term partnering contracts to ensure that social housing providers comply with that standard. The contracts are typically for five years or longer and contain annual benchmarked spending requirements. Mears provides a mixture of both rapid response and planned maintenance to deliver a total quality outsourced building maintenance service. The partnership ethos embraces the tenant, client, employee and every stakeholder in that process. As the contracts near the end of their term the Group has demonstrated an excellent record of contract renewal. The division has enjoyed buoyant trading conditions and continues to be recognised as providing a high level of service delivery.

Mechanical and electrical services
This business provides mechanical and electrical services in the commercial, housing, education and healthcare sectors operating as Haydon Mechanical & Electrical (Haydon). Haydon has performed well in the period and has increased its exposure within the social housing sector working alongside other Group companies to provide a domestic heating installation and refurbishment service. The business has expanded both into new sectors and geographical areas and has strengthened its presence by the acquisition of Powersave which has increased the range and scope of services provided. The London based housing division has performed excellently and is well positioned to capitalise upon the current housing initiatives promoted by central Government in the recent Budget.

Vehicle collection and delivery
United Fleet Distribution (UFD) provides a collection and delivery service to large commercial customers who typically own a large vehicle fleet. UFD is the market leader in the single vehicle collection sector and holds some of the largest contracts for these services in the UK operating from a number of locations. The business performed well in the period.

Facility management (FM)
Mears FM provides a total building management service to its customers managing a large number of individual services. Since its formation in September 2001, the business has performed excellently and expanded significantly.

> The order book increased to a record level of £550m (2002: £300m)

Chairman's Statement

Operations (continued)

Facility management (FM) (continued)

The award by Northampton Borough Council of a seven year partnership contract for the management of all white collar building management services has expanded the range of services offered by Mears FM and the Group into the public sector.

Painting and decorating services

In December 2002 the Group acquired M&T Group Limited with the aim of building a national painting and decorating services business. Mears has subsequently acquired three other small regional painting businesses to maximise the opportunities that are available in the social housing and other sectors.

Strategy and expansion

Throughout Mears we operate a reward based culture with bonus and incentive arrangements in place at all levels. Of equal importance is the ethos of partnership, both within the Group and towards its customers. We are seen as an employer who is admired internally and externally and I have been impressed by the number of our people who want to be a Mears employee for a very long time.

In an age where loyalty is almost a forgotten word we have a management team who looks to embrace change, welcoming new colleagues into the Group and seeking to build long-term futures for all. Record profits reflect this approach with employees at all levels committed to a common ethos.

We are looking to strengthen the management of the Group at all levels with a particular emphasis on the recruitment of the best junior and senior management from within the social housing and services sector. As such we are looking to be regarded as the number one employer at attracting the very top talent available.

The Group has been successful in recruiting people early in the cycle of bidding for contracts ensuring that the management is already in situ when contracts have been awarded. With this proactive approach to recruitment it is unlikely that the Group will place any undue pressure on the existing management team in any particular area. The management team is in place already to cope with the anticipated growth in demand for 2004 and a recruitment drive to bring on board the additional people for 2005 is already in hand to capitalise on the significant growth opportunities available.

We are looking to embrace an even wider corporate social responsibility (CSR) ethos by our commitment to improving homes, improving neighbourhoods and improving lives. I am delighted to confirm that all our recent initiatives are working well. We have recently formalised our CSR approach with the formation of a committee, chaired by myself, and represented throughout the Group with employees from all the business units. In addition we continue to support a large number of community based schemes on a national basis with the emphasis on improving the local community for all.

At our Group management development conference in December 2003, David Hempleman-Adams, the British explorer, spoke on the topic of team working in a project environment, a topic he was qualified to discuss as he had returned that week from his successful world record attempt to cross the Atlantic in a hot air balloon. The Mears team was thrilled at the prospect of being involved with David in any future world record attempt.

I am delighted to confirm that the Mears Altitude Challenge balloon world record altitude attempt was successful on 23 March 2004. David and his team of assistants from Mears are to be congratulated. The event carried out in Denver, Colorado in the United States

> **Summary**

> The social housing sector continues to provide significant opportunities for growth.

> The record order book of £550m stretches as far ahead as 2019.

> The management team is in place already to cope with the anticipated growth in demand for 2004.

was managed by teams in the USA and the UK which included Mears' employees. This was indeed a fantastic achievement which typified team working at its very best, whilst also raising monies for Cancer Research.

It is, I believe, these types of initiatives which will continue to set Mears apart from its competitors. Success can and will be judged in different ways and the Group has been tremendously successful to date and can continue to improve with the commitment of all. I commend this commitment and the support of staff at all levels.

Mears 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 social housing sector continues to provide significant opportunities for growth. The demand for our services has never been stronger.

Our future earnings are highly visible and our order book has risen from £300m a year ago to £550m at present, whilst the generation of cash from our operations allows us to seek out earnings enhancing acquisition opportunities. Some mergers and acquisitions activity is likely and I anticipate a consolidation of service providers to maximise the significant opportunities for public sector contracts which are getting bigger and longer. It is becoming the norm for contracts to be awarded for well in excess of five years and we are in discussions with two of our leading customers to extend existing contractual arrangements to a 15 year term.

The record order book demonstrates a commitment to long-term partnership opportunities in stable and growing market sectors.

Again my sincere congratulations to everyone involved within the business, there are too many individuals to name here but they are all aware of my tremendous gratitude. I also extend a warm welcome to all the teams who have recently joined the Group.

I look forward to bringing further news of exciting developments for Mears as the year progresses.

Bob Holt
Chairman
29 March 2004

> Growth has become a natural function of our strong management ethos and delivery platform

Financial Review

> Summary

> Margins in the orginal maintenance, mechanical and electrical services business reached 5.0% up from 4.2%.

> Earnings per share before goodwill amortisation grew in the year by 35.1%.

> Net cash inflow from operating activities represented 99% of operating profit.

Turnover

Total turnover increased by 42.4% to £112.3m. Acquisitions contributed £9.1m of the overall growth leaving organic growth at 30.9% in the year.

Profit on ordinary activities before tax and goodwill amortisation

Profit on ordinary activities before tax and goodwill was up 39.2% at £5.24m. Margins in the original maintenance, mechanical and electrical services business reached 5.0% up from 4.2%. This excludes the effect of Scion (acquired in August 2003) where there was a small loss before taxation. In total the acquisitions contributed £0.08m operating profit to the Group result. United Fleet Distribution Limited saw a return to more normal levels of profit in 2003 following the windfall in the previous year.

Goodwill

The acquisition of M&T Group at the end of 2002 together with the acquisitions in 2003 of Scion, Powersave and the three decorating subsidiaries all contributed to the increase in amortisation of goodwill from £0.2m to £0.4m in the year.

Acquisitions

The following transactions took place during the year:

On 22 August 2003 the Group acquired the entire issued share capital of Scion Group Limited. The initial cost of acquisition was satisfied by £661,910 cash and £206,250 loan notes. A contingent deferred consideration is payable over a two year period commencing in 2005, by annual instalments and is based on a multiple of pre tax profits for the financial years ending 31 December 2004 and 31 December 2005. The maximum total consideration is capped at £6m.

On 2 September 2003 the Group acquired the entire issued share capital of Powersave Limited for £1,105,547 including acquisition costs, satisfied by cash of £415,547, share options valued at £90,000 and deferred consideration of £600,000. The deferred consideration is payable in annual instalments of loan notes commencing in August 2006. The maximum consideration payable including acquisition costs is £1,105,547.

On 28 July 2003 the Group acquired the trade and assets of Grogan Decorators and on 19 August 2003 the Group acquired the trade and assets of Sheffield Décor. On 1 September 2003 the Group acquired the entire issued share capital of Andrew Decorations Limited. The total consideration payable including acquisition costs of these painting and decorating businesses is £635,010.

Interest

Overall the Group achieved an interest credit of £0.08m (2002: £0.09m). Whilst bank interest received was up slightly at £0.1m from £0.09m the impact of acquisitions in the year and associated debt reduced the overall receipt in the year.

Earnings per share

Earnings per share before goodwill amortisation grew in the year by 35.1% to 6.47p up from 4.79p.

Cash flow

Net cash inflow from operating activities represented 99% of operating profit whilst 80% of EBITDA was converted into operating cash flow. The Group remained cash positive to the tune of £1.9m at 31 December 2003 despite the impact of acquisitions which resulted in an outflow of £5.4m. The 30.9% organic growth in turnover required some £4.0m of working capital. This was offset, however, by an improvement in debtor days of some eight days.

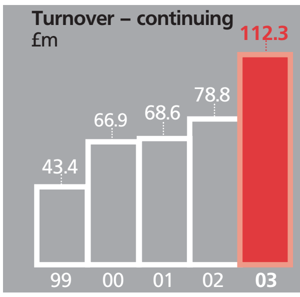
Net assets

At 31 December 2003 the Group's net assets had risen from £9.5m to £12.3m. Whilst working capital within this had reduced to £2.2m, this is merely a reflection of the investment in new businesses and infrastructure to provide a sound platform for organic growth.

Order book

The record forward order book of £550m provides further visibility of earnings. The element of planned turnover for 2004 which has been secured now stands at 100%.

David J Robertson
Finance Director
29 March 2004



> Turnover increased by 42.4% to £112.3m

Board of Directors and Company Advisers

Bob Holt (49)

Chairman and Chief Executive

Bob acquired a controlling interest in Mears 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 Committee.

David J Robertson (48)

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.

Phillip L Molloy (34)

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 (66)

Non-Executive Director

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

Reginald B Pomphrett (60)

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.

Registered office

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Company registration number

3232863

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Gloucester GL1 2DJ
Tel: 01452 365353

Solicitors

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St James's House
St James' Square
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Tel: 01242 224433

Auditors

Grant Thornton
Registered Auditors
Chartered Accountants
The Quadrangle
Imperial Square
Cheltenham GL50 1PZ
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Nominated adviser and stockbroker

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Tel: 020 7012 2000

Advisers

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Manchester M3 5FT
Tel: 0161 831 1512

Report of the Directors

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2003.

Principal activities

The principal activities of the Group are the provision of a range of outsource services to the public and private sectors. 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 £3.25m (2002: £2.53m). The Directors recommend dividends absorbing £0.77m (2002: £0.57m), leaving £2.48m (2002: £1.96m) retained.

Directors

The present membership of the Board is set out below. R Holt and P L Molloy 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 2003 and at 1 January 2003 were as follows:

	Salary		Ordinary shares	
	31 December 2003 £	31 December 2002 £	**31 December 2003 Number**	1 January 2003 Number
R Holt	**180,000**	125,000	**5,200,000**	5,200,000
D J Robertson	**120,000**	95,000	**200,000**	300,000
P L Molloy	**150,000**	130,000	**4,000,000**	4,400,000
M A Macario	**18,000**	15,000	**200,000**	200,000
R B Pomphrett	**18,000**	15,000	**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 16 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. They are also responsible for ensuring that the annual report includes information required by the Alternative Investment Market (AIM) rules.

Directors' responsibilities for the financial statements (continued)

The maintenance and integrity of the Group's web site is the responsibility of the Directors. 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 transaction, to ensure suppliers are aware of these terms. Group trade creditors during the year amounted to 45 days (2002: 48 days) of average supplies for the year.

Substantial shareholdings

On 23 March 2004 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	12.5%
R Holt	5,200,000	9.1%
Newton Investment Management Limited	4,101,651	7.2%
P L Molloy	4,000,000	7.0%
Fidelity Investments	2,462,790	4.3%
Close Investment Limited	2,352,575	4.1%
Gartmore Investment Management	2,329,018	4.1%
Rathbone Brothers & Company Limited	2,317,180	4.1%
Standard Life Investments Limited	2,050,000	3.6%
Diageo Pension Fund	1,845,000	3.2%
Orbis Trustees Guernsey Limited	1,750,000	3.1%

In addition to the above shareholdings, a total of 2,237,609 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.

Transition to International Financial Reporting Standards (IFRS)

The Group is in the process of preparing to convert to IFRS in time for application to the 2005 results. A project team began the process of identifying the effects of differences between UK and IFRS GAAP in 2003. This process is currently ongoing and will continue as new standards and amendments to existing standards evolve. During 2004 Mears Group PLC will begin to run a separate internal IFRS financial reporting consolidation.

The principal differences between IFRS and current UK standards which affect the Group arise in the accounting for share options, the treatment of goodwill, and segmental reporting. These and other changes will affect reported profits and net asset values.

Preparatory work will continue over the coming year, given the requirement for the Group to report under IFRS for the first time when it announces its interim results for the period to 30 June 2005. It is expected that a restated 2004 profit and loss account and balance sheets will be published at some point prior to the 2005 Interim Results so that all interested parties will have time to absorb and interpret the scope of the changes brought about by the transition to IFRS.

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.

Report of the Directors

Employee information and 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. Information is provided to employees through a quarterly newsletter and the Group web site.

The Group operates a stakeholder pension plan available to all employees. The Group operates a personal pension plan and contributes to the pension schemes of certain Directors. The Group also contributes to defined benefit schemes on behalf of a number of 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 16 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.

Going concern

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

Auditors

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

On behalf of the Board

R B Pomphrett
Director and Secretary
29 March 2004

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 AIM, the Group is not required to comply with the Combined Code (1998). However, the Group has taken steps to comply with the Combined Code (1998) 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. 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 R Pomphrett 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. This commitment was recognised by the AIM Best Communications Award 2001 and AIM Company of the Year Award 2003. 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 newsletters and the Group's web site (www.mearsgroup.co.uk) which was recently relaunched.

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.

The Group has also established procedures to routinely test internal control systems. The Board has reviewed these procedures and considers them appropriate given the nature of the Group's operations.

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

Corporate Governance

Internal control and risk management (continued)

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.

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 a large number of local sports clubs and individuals. The Group is looking to embrace an even wider corporate social responsibility (CSR) ethos by its commitment to improving homes, improving neighbourhoods and improving lives. All of the recent initiatives are working well. The Group has recently formalised its CSR approach with the formation of a committee, chaired by R Holt, and represented throughout the Group with employees from all business units. In addition the Group continues to support a large number of community based schemes on a national basis with the emphasis on improving the local community for all.

Remuneration policy

The remuneration policy is set by the Remuneration Committee and is designed to deliver the Group's objectives of creating real increases in shareholder value by attracting and retaining the most capable and committed people. 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 real increase in earnings per share. The other Executive Director is entitled to an annual bonus related to the achievement of targeted measures relevant to UFD, 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; and

> benefits in kind – such as car and health benefits.

The Directors' emoluments in 2003 are disclosed within the Report of the Directors and note 3 of the financial statements.

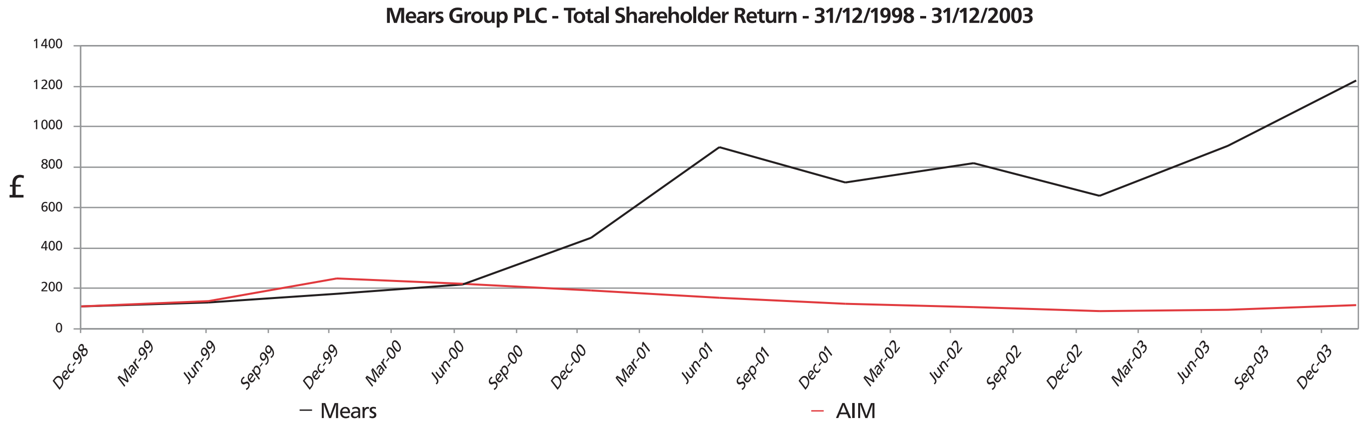
The Managing Directors of the operating subsidiaries are rewarded by basic salaries and bonuses determined by the achievement of exceeding performance targets for their individual business units.

All employees are eligible to participate in one or more of the share incentive arrangements operated by the Board.

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 TSR 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 plotted against the AIM Index.



Report of the Independent Auditors to the members of Mears Group PLC

We have audited the financial statements of Mears Group PLC for the year ended 31 December 2003 which comprise the principal accounting policies, the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and notes 1 to 27. 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 in the Directors' report.

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 Report of the Directors, 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 2003 and of the profit for the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton

Grant Thornton
Registered Auditors
Chartered Accountants
Cheltenham
29 March 2004

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 2003. Acquisitions of subsidiaries are dealt with by the acquisition method of accounting.

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. The period of amortisation is assessed on an acquisition by acquisition basis.

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, trade discounts and retentions where appropriate. The particular policies applied are:

> response maintenance – turnover includes work in respect of jobs where the benefit of the work completed has been transferred to the customer;

> long-term contract work and planned maintenance – turnover reflects the contract activity during the year and represents the proportion of total contract value for which the benefit of work completed has been transferred to the customer; and

> vehicle movements – turnover includes work in respect of movements completed during the year.

Retirement benefits

Defined contribution pension scheme

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

Defined benefit pension scheme

The pension costs charged against profits are based on actuarial methods and assumptions designed to spread the anticipated pension costs over the service lives of the employees in the scheme so as to ensure that the regular pension cost represents a substantially level percentage of the current and expected future pensionable payroll. Variations from regular costs are spread over the remaining service lives of current employees in the scheme.

Leased assets

Assets held under finance leases are capitalised in the balance sheet and depreciated over their estimated useful economic lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease. All other leases are regarded as 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.

Consolidated Profit and Loss Account for the year ended 31 December 2003

	Note	2003 £'000	2003 £'000	2002 £'000	2002 £'000
Turnover					
Continuing operations	1	**103,177**		78,834	
Acquisitions		**9,094**		–	
			112,271		78,834
Cost of sales					
Continuing operations		**(76,260)**		(58,759)	
Acquisitions		**(7,008)**		–	
			(83,268)		(58,759)
Gross profit					
Continuing operations		**26,917**		20,075	
Acquisitions		**2,086**		–	
			29,003		20,075
Administrative expenses			**(24,276)**		(16,563)
Operating profit					
Continuing operations		**4,647**		3,512	
Acquisitions		**80**		–	
			4,727		3,512
Share of operating profit in associate			**9**		8
			4,736		3,520
Net interest	2		**78**		86
Profit on ordinary activities before taxation	1		**4,814**		3,606
Tax on profit on ordinary activities	4		**(1,571)**		(1,112)
Profit on ordinary activities after taxation			**3,243**		2,494
Equity minority interests			**7**		35
Profit for the financial year	5		**3,250**		2,529
Dividends	6		**(773)**		(565)
Profit retained	17		**2,477**		1,964
Earnings per share					
Basic	7		**5.72p**		4.51p
Basic pre-amortisation	7		**6.47p**		4.79p
Diluted	7		**5.48p**		4.36p
Diluted pre-amortisation	7		**6.20p**		4.63p

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 2003

	Note	2003 £'000	2003 £'000	2002 £'000	2002 £'000
Fixed assets					
Intangible assets	8	**12,273**		5,433	
Tangible assets	9	**3,093**		1,641	
Investments – associates	10	**45**		37	
Investments – other	10	**62**		62	
			15,473		7,173
Current assets					
Stocks	11	**2,487**		1,266	
Debtors	12	**24,875**		15,920	
Cash at bank and in hand		**3,408**		5,566	
		30,770		22,752	
Creditors: amounts falling due within one year	13	**(28,600)**		(18,129)	
Net current assets			**2,170**		4,623
Total assets less current liabilities			**17,643**		11,796
Creditors: amounts falling due after more than one year	14		**(5,351)**		(2,260)
			12,292		9,536
Capital and reserves					
Called up share capital	16		**570**		565
Share premium account	17		**3,041**		2,970
Shares to be issued	17		**90**		–
Profit and loss account	17		**8,501**		6,024
Equity shareholders' funds	18		**12,202**		9,559
Equity minority interests			**90**		(23)
			12,292		9,536

The financial statements were approved by the Board of Directors on 29 March 2004.

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 2003

	Note	2003 £'000	2003 £'000	2002 £'000	2002 £'000
Fixed assets					
Investments	10		**14,296**		9,182
Current assets					
Debtors	12	**2,081**		2,369	
Cash at bank and in hand		**19**		–	
		2,100		2,369	
Creditors: amounts falling due within one year	13	**(5,091)**		(4,394)	
Net current liabilities			**(2,991)**		(2,025)
Total assets less current liabilities			**11,305**		7,157
Creditors: amounts falling due after more than one year	14		**(5,090)**		(2,260)
			6,215		4,897
Capital and reserves					
Called up share capital	16		**570**		565
Share premium account	17		**3,041**		2,970
Shares to be issued	17		**90**		–
Profit and loss account	17		**2,514**		1,362
Equity shareholders' funds			**6,215**		4,897

The financial statements were approved by the Board of Directors on 29 March 2004.

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 2003

	Note	2003 £'000	2002 £'000
Net cash inflow from operating activities	19	**4,691**	4,743
Returns on investments and servicing of finance			
Interest received		**103**	86
Interest paid		**(8)**	(3)
Finance lease interest paid		**(14)**	–
Net cash inflow from returns on investments and servicing of finance		**81**	83
Taxation paid		**(1,543)**	(538)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(829)**	(731)
Sale of tangible fixed assets		**3**	17
Purchase of investment		**–**	(36)
Net cash outflow from capital expenditure and financial investment		**(826)**	(750)
Acquisitions			
Purchase of subsidiary undertakings		**(2,037)**	(837)
Net cash acquired with subsidiary undertakings		**(3,351)**	479
Net cash outflow from acquisitions		**(5,388)**	(358)
Equity dividends paid		**(623)**	(479)
Financing			
Issue of shares		**76**	252
Capital element of finance lease rentals		**(97)**	–
Repayment of borrowings		**(36)**	–
Net cash (outflow)/inflow from financing		**(57)**	252
(Decrease)/increase in cash	20	**(3,665)**	2,953

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

Notes to the Financial Statements for the year ended 31 December 2003

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	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000	**2003 £'000**	2002 £'000
Maintenance, mechanical and electrical services	**99,574**	62,916	**4,193**	2,531	**10,693**	8,208
Vehicle collection and delivery	**12,697**	15,918	**621**	1,075	**1,599**	1,328
	112,271	78,834	**4,814**	3,606	**12,292**	9,536

Profit on ordinary activities is stated after:

	2003 £'000	2002 £'000
Auditors' remuneration		
– audit services	**94**	48
– non-audit services	**64**	23
Amortisation of goodwill	**425**	158
Depreciation	**697**	452
Hire of plant and machinery	**510**	468
Other operating lease rentals	**3,887**	2,496

Included within non-audit services are tax compliance fees of £23,000, tax advice fees of £23,000 and other advice fees of £18,000.

2. Net interest

	2003 £'000	2002 £'000
On bank loans and overdrafts	**(8)**	(1)
Finance charges in respect of finance leases	**(14)**	–
Other interest receivable and similar income	**100**	87
	78	86

3. Directors and employees

Staff costs during the year were as follows:

	2003 £'000	2002 £'000
Wages and salaries	**30,924**	18,021
Social security costs	**2,976**	1,689
Other pension costs	**391**	367
	34,291	20,077

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

	2003	2002
Site workers	**985**	580
Office and management	**413**	318
	1,398	898

3. Directors and employees (continued)

Remuneration in respect of Directors was as follows:

	2003 £'000	2002 £'000
Emoluments	**652**	513
Gains made on the exercise of share options	**81**	1,222
Pension contributions to personal pension schemes	**79**	68
	812	1,803

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

	2003 £'000	2002 £'000
Emoluments	**266**	161
Gains made on the exercise of share options	**–**	1,134
Pension contributions to personal pension schemes	**46**	38

During the year contributions were paid to personal pension schemes for three Directors (2002: three).

During the year one Director (2002: two) exercised share options.

4. Tax on profit on ordinary activities

The tax charge represents:

	2003 £'000	2002 £'000
United Kingdom corporation tax at 30% (2002: 30%)	**1,285**	1,111
Share of tax charge of associate	**1**	1
Total current tax	**1,286**	1,112
Reversal of timing differences	**285**	–
Tax on profit on ordinary activities	**1,571**	1,112

The tax assessed for the year is higher than the standard rate of corporation tax in the United Kingdom of 30% (2002: 30%). The differences are explained as follows:

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	**4,814**	3,606
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 30% (2002: 30%)	**1,444**	1,082
Effect of:		
Expenses not deductible for tax purposes	**111**	77
Depreciation in excess of capital allowances/(capital allowances in excess of depreciation)	**138**	(47)
Tax relief on exercise of share options	**(106)**	–
Utilisation of tax losses	**(301)**	–
Current tax for the year	**1,286**	1,112

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 £1.93m (2002: £1.44m) which is dealt with in the financial statements of the Company.

Notes to the Financial Statements for the year ended 31 December 2003

6. Dividends

	2003 £'000	2002 £'000
Ordinary shares		
– interim dividend of 0.35p (2002: 0.25p) per share paid	**200**	141
– final dividend of 1.00p (2002: 0.75p) per share proposed	**573**	424
	773	565

7. Earnings per share

Basic earnings per share is based on equity earnings of £3.25m (2002: £2.53m) and 56.78m (2002: 56.13m) 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 59.29m (2002: 58.03m) to reflect the potential dilution effect of employee share schemes.

A pre-amortisation earnings per share, is disclosed in order to show performance undistorted by amortisation. The pre-amortisation earnings per share is based on equity earnings (after adding back amortisation) of £3.68m (2002: £2.69m).

	Basic		Diluted	
	2003 p	2002 p	2003 p	2002 p
Earnings per share	**5.72**	4.51	**5.48**	4.36
Effect of eliminating amortisation	**0.75**	0.28	**0.72**	0.27
Pre-amortisation earnings per share	**6.47**	4.79	**6.20**	4.63

8. Intangible fixed assets

The Group	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Cost			
At 1 January 2003	5,695	280	5,975
Additions	6,982	282	7,264
At 31 December 2003	**12,677**	**562**	**13,239**
Amortisation			
At 1 January 2003	487	55	542
Provided in the year	406	18	424
At 31 December 2003	**893**	**73**	**966**
Net book amount			
At 31 December 2003	**11,784**	**489**	**12,273**
At 31 December 2002	5,208	225	5,433

Additions to goodwill arising on consolidation and purchased goodwill relate to acquisitions as detailed in note 22.

9. Tangible fixed assets

The Group	Freehold land and buildings £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 January 2003	60	403	729	2,400	228	3,820
Additions	–	61	89	602	79	831
Acquisition of subsidiary undertakings	–	56	1,550	759	584	2,949
Disposals	–	–	–	(110)	(45)	(155)
At 31 December 2003	**60**	**520**	**2,368**	**3,651**	**846**	**7,445**
Depreciation						
At 1 January 2003	6	255	588	1,219	111	2,179
Provided in the year	2	52	86	469	88	697
Acquisition of subsidiary undertakings	–	39	720	502	328	1,589
Eliminated on disposals	–	–	–	(81)	(32)	(113)
At 31 December 2003	**8**	**346**	**1,394**	**2,109**	**495**	**4,352**
Net book amount						
At 31 December 2003	**52**	**174**	**974**	**1,542**	**351**	**3,093**
At 31 December 2002	54	148	141	1,181	117	1,641

The figures stated above include assets held under finance leases as follows:

	Plant and machinery £'000
Net book amount	
At 31 December 2003	**495**
At 31 December 2002	–
Depreciation provided in the year	49

10. Fixed asset investments

The Group	Associated undertaking			
	Share of net assets £'000	Goodwill £'000	Total £'000	Other investments £'000
Cost				
At 1 January 2003	18	20	38	62
Share of profits of associate	9	–	9	–
At 31 December 2003	**27**	**20**	**47**	**62**
Amounts written off				
At 1 January 2003	–	1	1	–
Provided in the year	–	1	1	–
At 31 December 2003	**–**	**2**	**2**	**–**
Net book amount				
At 31 December 2003	**27**	**18**	**45**	**62**
At 31 December 2002	18	19	37	62

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

Notes to the Financial Statements for the year ended 31 December 2003

10. Fixed asset investments (continued)

The Company	£'000
Investment in subsidiary undertakings	
Cost	
At 1 January 2003	9,182
Additions	5,114
At 31 December 2003	**14,296**

Additions relate to the purchase of 100% of the equity share capital of Scion Group Limited, Powersave Limited and 99% of the equity share capital of Mears Decorating Services Limited, Andrew Decorations (Bedford) Limited, Grogan Decorators Limited and Sheffield Décor Services Limited.

The principal undertakings, where the Group held 20% or more of the equity share capital at 31 December 2003, are shown below:

	Proportion held		
	The Group	The Company	Nature of business
Subsidiaries:			
Mears Social Housing Limited (formerly Mears Building Contractors Limited)	–	100%	Provision of maintenance services
United Fleet Distribution Limited	–	100%	Vehicle collection and delivery
Transbureau Limited	100%	–	Provision of facility management services
Mears Facility Management Limited	–	90%	Provision of facility management services
Mears Building Services Limited	–	100%	Provision of maintenance services
Haydon Mechanical & Electrical Limited (formerly Haydon & Company Limited)	–	100%	Provision of maintenance, mechanical and electrical services
M&T Group Limited	–	100%	Holding company
FWA (Southern) Limited	100%	–	Provision of maintenance, mechanical and electrical services
Haydon Building Contractors Limited	100%	–	Provision of maintenance, mechanical and electrical services
Powersave Limited	–	100%	Provision of heating and air conditioning services
Mears Decorating Services Limited	–	99%	Provision of painting and decorating services
Andrew Decorations (Bedford) Limited	99%	–	Provision of painting and decorating services
Sheffield Décor Services Limited	99%	–	Provision of painting and decorating services
Grogan Decorators Limited	99%	–	Provision of painting and decorating services
Scion Group Limited	–	100%	Holding company
Scion Technical Services Limited	100%	–	Provision of maintenance services
Scion Estates Limited	100%	–	Provision of grounds maintenance services
Scion Direct Limited	100%	–	Provision of facility management services
Scion Property Services Limited (formerly Spear & King Limited)	100%	–	Provision of maintenance services
Associate:			
FITE IT Limited	49%	–	Provision of IT support services

All subsidiary undertakings prepare accounts to 31 December and are registered in England and Wales. FITE IT Limited prepares accounts to 31 March and is registered in England and Wales.

A full list of subsidiary undertakings is available from the Company Secretary upon request.

11. Stocks

The Group	2003 £'000	2002 £'000
Materials and consumables	**690**	330
Work in progress	**1,797**	936
	2,487	1,266

12. Debtors

	The Group		The Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade debtors	**17,489**	12,962	**–**	–
Amounts owed by Group undertakings	**–**	–	**1,900**	2,369
Amounts recoverable on contracts	**5,746**	2,476	**–**	–
Other debtors	**518**	79	**181**	–
Prepayments and accrued income	**1,122**	403	**–**	–
	24,875	15,920	**2,081**	2,369

Included in trade debtors is an amount of £1.03m (2002: £0.91m) which is due after more than one year and represents retention balances.

13. Creditors: amounts falling due within one year

	The Group		The Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Bank overdraft	**1,507**	–	**–**	1,199
Payments received on account	**4,455**	3,797	**–**	–
Trade creditors	**12,451**	7,634	**–**	–
Amounts owed to Group undertakings	**–**	–	**3,726**	1,980
Corporation tax	**793**	1,032	**44**	335
Social security and other taxes	**3,021**	1,830	**–**	–
Proposed dividend	**574**	424	**574**	424
Other creditors	**867**	425	**706**	425
Accruals and deferred income	**4,717**	2,987	**41**	31
Amounts due under finance lease contracts	**215**	–	**–**	–
	28,600	18,129	**5,091**	4,394

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

	The Group		The Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Other creditors	**5,265**	2,260	**5,090**	2,260
Amounts due under finance lease contracts	**86**	–	**–**	–
	5,351	2,260	**5,090**	2,260

Included in other creditors for the Company and Group is £5.80m (2002: £2.69m), of which £0.71m (2002: £0.43m) falls due within one year, which relates to deferred consideration on the acquisitions of M&T Group Limited, Scion Group Limited and Powersave Limited. These are payable by instalments over a three year period.

Also included in other creditors for the Group is £0.18m (2002: £nil) which relates to deferred consideration on the acquisition of the trade and assets of Sheffield Décor Services.

Amounts due under finance lease contracts shown above fall due between one and two years and are secured on the assets to which they relate.

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

Notes to the Financial Statements for the year ended 31 December 2003

15. Financial instruments

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.

The interest rate exposure of the financial liabilities of the Group as at 31 December 2003 was:

	Interest rate			
	Fixed £'000	Floating £'000	Zero £'000	Total £'000
Financial liabilities – 2003	**301**	**1,782**	**5,696**	**7,779**
Financial liabilities – 2002	–	–	2,260	2,260

The floating rate borrowings bear interest at rates based on LIBOR. The fixed rate borrowings relate to finance leases.

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.

Strategy

The Group seeks to manage long-term financing of acquisitions and organic growth through retained profits. Short-term financing is managed through the use of a bank overdraft.

16. Share capital

	2003 £'000	2002 £'000
Authorised		
100,000,000 ordinary shares of 1p each	**1,000**	1,000
Allotted, called up and fully paid		
56,997,627 (2002: 56,540,515) ordinary shares of 1p each	**570**	565

During the year 457,112 ordinary shares of 1p each were issued for consideration of £75,575 as a result of share options being exercised. The difference between the nominal value of £4,571 and the total consideration of £75,575 has been credited to the share premium account.

At 31 December 2003, 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
	2000	435,000	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
	2003	1,405,130	77p	2006–2013
Enterprise Management Incentive scheme	2001	1,415,000	50p	2004–2011
	2002	870,316	67.5p	2005–2012
	2003	192,857	67p	2006–2013
	2003	544,870	77p	2006–2013
Save As You Earn scheme	1998	35,526	9.50p	2004
	2001	398,141	50p	2004/2006
	2002	280,337	82.5p	2005/2007
	2003	322,444	100p	2006/2008

16. Share capital (continued)

Included above are the following options granted to Directors:

Director	1 January 2003	Number of options during the year: Granted	Exercised	**31 December 2003**	Exercise price	Market price at the date of exercise	Exercise dates
D J Robertson	100,000	–	(100,000)	**–**	14.25p	95p	2002–2009
	9,687	–	–	**9,687**	50p	–	2004
	208,000	–	–	**208,000**	50p	–	2004–2011
	200,000	–	–	**200,000**	67.5p	–	2005–2012
	–	4,612	–	**4,612**	100p	–	2006
	–	200,000	–	**200,000**	77p	–	2006–2013
P L Molloy	9,687	–	–	**9,687**	50p	–	2004
	5,757	–	–	**5,757**	82.5p	–	2005
	142,857	–	–	**142,857**	67.5p	–	2005–2012
	–	100,000	–	**100,000**	77p	–	2006–2013
R Holt	9,687	–	–	**9,687**	50p	–	2004
	–	129,870	–	**129,870**	77p	–	2006–2013
	–	305,130	–	**305,130**	77p	–	2006–2013

No options lapsed during the year. The market price at 31 December 2003 was 129p and the range during 2003 was 60p to 138p.

17. Share premium account and reserves

The Group	Share premium account £'000	Shares to be issued £'000	Profit and loss account £'000
At 1 January 2003	2,970	–	6,024
Issue of shares	71	–	–
Issue of options	–	90	–
Retained profit for the year	–	–	2,477
At 31 December 2003	**3,041**	**90**	**8,501**

The Company	Share premium account £'000	Shares to be issued £'000	Profit and loss account £'000
At 1 January 2003	2,970	–	1,362
Issue of shares	71	–	–
Issue of options	–	90	–
Retained profit for the year	–	–	1,152
At 31 December 2003	**3,041**	**90**	**2,514**

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

Notes to the Financial Statements for the year ended 31 December 2003

18. Reconciliation of movements in equity shareholders' funds

The Group	2003 £'000	2002 £'000
Profit for the financial year	**3,250**	2,529
Dividends	**(773)**	(565)
	2,477	1,964
Shares to be issued	**90**	–
Issue of shares	**76**	600
Net increase in equity shareholders' funds	**2,643**	2,564
Equity shareholders' funds at 1 January 2003	**9,559**	6,995
Equity shareholders' funds at 31 December 2003	**12,202**	9,559

19. Net cash inflow from operating activities

	2003 £'000	2002 £'000
Operating profit	**4,727**	3,512
Depreciation and amortisation	**1,122**	610
Loss on disposal of fixed assets	**39**	6
Increase in stocks	**(1,069)**	(29)
(Increase)/decrease in debtors	**(3,461)**	575
Increase in creditors	**3,333**	69
Net cash inflow from operating activities	**4,691**	4,743

20. Reconciliation of net cash flow to movement in net funds

	2003 £'000	2002 £'000
(Decrease)/increase in cash in the year	**(3,665)**	2,953
Cash outflow from financing	**133**	–
Change in net funds resulting from cash flows	**(3,532)**	2,953
Loans and finance leases acquired with subsidiaries	**(434)**	–
Net funds at 1 January 2003	**5,566**	2,613
Net funds at 31 December 2003	**1,600**	5,566

21. Analysis of changes in net funds

	At 1 January 2003 £'000	Cash flow £'000	Acquisition £'000	**At 31 December 2003 £'000**
Cash at bank and in hand	5,566	(2,163)	5	**3,408**
Overdraft	–	1,849	(3,356)	**(1,507)**
	5,566	(314)	(3,351)	**1,901**
Debt	–	36	(36)	**–**
Finance leases	–	97	(398)	**(301)**
	5,566	(181)	(3,785)	**1,600**

22. Acquisitions

On 22 August 2003 the Group acquired the entire issued share capital of Scion Group Limited for £3,618,160 (including acquisition costs), satisfied by £661,910 cash, £206,250 loan notes and contingent consideration of £2,750,000. The contingent consideration is payable over a two year period commencing in 2005, by annual instalments and is based on a multiple of pre tax profits for the financial years ending 31 December 2004 and 31 December 2005. The contingent consideration included represents the Directors' best estimate of contingent consideration payable. The maximum total consideration that could be payable, including acquisition costs is £5,868,160. The purchase has been accounted for by the acquisition method of accounting.

The assets and liabilities of Scion Group Limited acquired were as follows:

	Book value £'000	Adjustments £'000	Fair value £'000
Fixed assets			
Tangible assets	1,406	(258)	1,148
Current assets			
Stocks and work in progress	988	(100)	888
Debtors	4,003	–	4,003
Deferred tax asset	–	285	285
Total assets	6,397	(73)	6,324
Creditors			
Bank overdraft	3,370	–	3,370
Trade creditors	3,209	–	3,209
Other creditors	1,010	–	1,010
Accruals	879	50	929
Total liabilities	8,468	50	8,518
Fair value of net assets acquired			(2,194)
Goodwill capitalised			5,812
			3,618
Satisfied by:			
Cash			662
Loan notes			206
Contingent consideration			2,750
			3,618

Provisional fair value adjustments represent the write off of a revaluation of tangible fixed assets totalling £258,000; a work in progress provision of £100,000 and accruals of £50,000 made to bring the accounting policies of Scion Group Limited into line with those of the Group. The fair value adjustment to the deferred tax asset of £285,000 represents losses available for use by the Group post acquisition.

The profit and loss accounts of Scion Group Limited for the period from 1 April 2003 to 22 August 2003 and the year ended 31 March 2003 are summarised below:

	Period to 22 August 2003 £'000	12 months to 31 March 2003 £'000
Turnover	9,698	23,082
Operating (loss)/profit	(1,873)	440
Net (loss)/profit before taxation	(1,975)	68
Taxation	285	–
Net (loss)/profit after taxation	(1,690)	68

Notes to the Financial Statements for the year ended 31 December 2003

22. Acquisitions (continued)

Following the acquisition, Scion Group Limited made the following contribution to, and utilisation of, Group cash flow:

	Scion Group Limited £'000
Net cash outflow from operating activities	(1,268)
Returns on investment and servicing of finance	(74)
Capital expenditure	(11)
Financing	(82)
Decrease in cash	(1,435)

On 2 September 2003 the Group and Company acquired the entire issued share capital of Powersave Limited for £1,105,547 (including acquisition costs), satisfied by cash of £415,547, share options valued at £90,000 and contingent consideration of £600,000. The contingent consideration is payable in annual instalments of loan notes commencing in 2004, and is based on a multiple of post tax profits for the financial years ending 31 August 2004, 31 August 2005, 31 August 2006 and 31 August 2007. The loan notes, once issued, may be redeemed at any time between 1 December 2007 and 1 February 2008. The value of share options is also based on a multiple of post tax profits. The maximum consideration payable, including acquisition costs, is £1,105,547.

On 28 July 2003 the Group acquired the trade and assets of Grogan Decorators, on 19 August 2003 the Group acquired the trade and assets of Sheffield Décor Services and on 1 September 2003 the Group acquired the entire issued share capital of Andrew Decorations Limited. The total consideration payable, including acquisition costs was £635,010, satisfied by cash of £460,010 and contingent consideration of £175,000. The contingent consideration is payable in instalments over three years and is based on pre tax profits. The purchases have been accounted for by the acquisition method of accounting.

The losses after taxation for the period from the beginning of the financial years of the acquired companies to the dates of acquisition in aggregate were £64,000. The profit after taxation for the financial year prior to acquisition of the companies acquired was £138,000 in aggregate.

The assets and liabilities acquired were as follows:

	Book value £'000	Adjustments £'000	Fair value £'000
Fixed assets			
Tangible assets	260	(48)	212
Current assets			
Stocks and work in progress	152	–	152
Debtors	632	(30)	602
Cash at bank	5	–	5
Total assets	1,049	(78)	971
Creditors			
Bank overdraft	142	–	142
Trade creditors	245	–	245
Other creditors	132	1	133
Accruals	63	20	83
Corporation tax	28	20	48
Total liabilities	610	41	651
Fair value of net assets acquired			320
Goodwill capitalised			1,420
			1,740
Satisfied by:			
Cash			870
Share options			90
Deferred consideration			780
			1,740

During the year the Group and Company paid £0.51m in respect of contingent consideration relating to acquisitions in prior periods.

22. Acquisitions (continued)

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

	2003 £'000
Cash at bank and in hand acquired	5
Bank overdrafts	(3,356)
	(3,351)
Cash consideration	(2,037)
	(5,388)

23. Capital commitments

Neither the Group nor Company had any capital commitments at 31 December 2003 or at 31 December 2002.

24. Contingent liabilities

The Group has guaranteed that it will complete the contracts it has commenced with 23 (2002: 23) local authorities. At 31 December 2003 these guarantees amounted to £2.38m (2002: £2.39m).

The Group and Company had no other contingent liabilities at 31 December 2003 or at 31 December 2002.

25. Pensions

Defined contribution schemes

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

Defined benefit scheme

The Group contributes to defined benefit schemes on behalf of a number of employees. The Group operates a defined benefit pension scheme for the benefit of certain employees of Scion Group Limited and its subsidiary undertakings. The assets of the scheme are administered by trustees in a fund independent from the assets of the Group.

SSAP 24 accounting valuation

Pension costs are assessed in accordance with the advice of a qualified actuary using the projected unit method. The assumptions which have the most significant effect on the results of the valuation are:

Investment returns per annum	7.0%
Pension increases per annum	2.5%
Salary scale increases per annum	3.0%

The most recent valuation was at 31 March 2003.

The total contributions made in the year ended 31 December 2003 were £0.03m.

The market value of the scheme assets as at 31 March 2003 was £0.27m. The actuarial value of those assets was sufficient to cover 77% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

FRS 17 Retirement Benefits

Costs and liabilities of the scheme are based on actuarial valuations. The latest full actuarial valuation was carried out at 31 March 2003 and updated to 31 December 2003 by a qualified independent actuary using the projected unit method.

The main assumptions used by the actuary were:

	2003 %
Rate of increase of salaries	**3.3**
Rate of increase for pensions in payment	**2.8**
Discount rate	**5.5**
Inflation	**2.8**

Notes to the Financial Statements for the year ended 31 December 2003

25. Pensions (continued)

FRS 17 Retirement Benefits (continued)

The assets in the scheme and expected rates of return were:

	2003 %	2003 £'000
Equities	8.0	356
Bonds	5.0	49
Cash	4.0	37
Company's estimated asset share		442
Present value of scheme liabilities		530
Deficit in scheme		(88)
Related deferred taxation asset		26
Net pension liability		(62)

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31 December 2003 would be as follows:

	2003 £'000
Net assets as reported	12,292
Net pension liability under FRS 17	(62)
Net assets including net pension liability	12,230

	2003 £'000
Profit and loss reserve as reported	8,501
Net pension liability under FRS 17	(62)
Profit and loss reserve including net pension liability	8,439

On the basis of the above assumptions and in compliance with FRS 17 the amounts that would have been recognised in the consolidated profit and loss account and the statement of total recognised gains and losses for the year ended 31 March 2003 would be as follows:

	2003 £'000
Analysis of amounts that would have been charged to operating profit:	
Current service cost	36
Past service cost	–
Total operating charge	36
Amount that would have been charged to net interest payable:	
Expected return on pension scheme assets	7
Expected return on pension scheme liabilities	(6)
Net finance expense	1
Amount that would have been charged to profit before taxation on a FRS 17 basis	37

	2003 £'000
Amount that would have been charged to the statement of total recognised gains and losses:	
Actual return less expected return on pension scheme assets	22
Experience gains and losses arising on the scheme liabilities	1
Changes in assumptions underlying the present value of the scheme assets	(29)
Actuarial loss recognised	(6)

25. Pensions (continued)

FRS 17 Retirement Benefits (continued)

The movements in the net pension liability, on a FRS 17 basis, during the year ended 31 December 2003 were:

	2003 £'000
Deficit on acquisition	**(75)**
Current service cost	**(36)**
Contributions	**28**
Other finance income	**1**
Actuarial loss	**(6)**
Deficit in scheme at end of year	**(88)**

The history of experience gains and losses which would have been recognised under FRS 17 were:

Difference between the expected and actual return on scheme assets:	
Amount (£'000)	22
Percentage of scheme assets	5.0%
Experience gains and losses on scheme liabilities:	
Amount (£'000)	1
Percentage of the present value of scheme liabilities	0.2%
Total amount recognised in the statement of total recognised gains and losses:	
Amount (£'000)	(6)
Percentage of the present value of the scheme liabilities	1.1%

26. Leasing commitments

The Group

Operating lease payments amounting to £1.88m (2002: £1.31m) are due within one year. The leases to which these relate expire as follows:

	2003		2002	
	Land and buildings £'000	**Other £'000**	Land and buildings £'000	Other £'000
In one year or less	**170**	**261**	43	112
Between one and five years	**234**	**901**	103	884
In five years or more	**315**	**–**	165	–
	719	**1,162**	311	996

27. Related party transactions

During the year the Group purchased goods to the value of £98,000 from FITE IT Limited, an associated company. At 31 December 2003 the Group owed FITE IT Limited £16,000.

During the year the Group loaned FITE IT Limited £20,000. At 31 December 2003 the total loan balance outstanding was £50,000 (2002: £30,000).

During the year the Group paid Macario Reid, a business in which M Macario a Non-Executive Director is a partner, £50,000 in respect of consultancy services supplied to the Group in relation to the acquisition of Scion Group Limited.

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, Arbuthnot House, 20 Ropemaker Street, London EC2Y 9AR at 12:30pm on 2 June 2004 when the following ordinary business will be considered:

1. To receive and adopt the accounts for the year ended 31 December 2003, together with the reports of the Directors and auditors thereon.
2. To declare a final dividend of 1.00p 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 Holt as a Director who, in accordance with the Articles of Association, retires by rotation.
5. To re-appoint P L Molloy as a Director who, in accordance with the Articles of Association, retires by rotation.

And the following special business:

Ordinary resolution

6. THAT the report of the Board in relation to remuneration policy and practice (as referred to on pages 13 and 14 of the annual report and accounts for the year ended 31 December 2003) be approved.
7. THAT in substitution for the authority to allot relevant securities conferred on the Directors by the ordinary resolution passed on 4 June 2003, 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 £264,780 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

8. THAT:
   (a) the Directors be authorised to allot securities of the Company (pursuant to the authority conferred on the Directors by resolution 7 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 £28,500.
   (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.

By order of the Board

R B Pomphrett
Secretary
5 May 2004

The Leaze
Salter Street
Berkeley
Gloucestershire
GL13 9DB

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 at Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA 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 31 May 2004 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' interests 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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