MEARS

GROUP PLC

ANNUAL REPORT & ACCOUNTS 2004

IMPROVING HOMES, IMPROVING NEIGHBOURHOODS, **IMPROVING LIVES**

OUR VISION... TO CONTINUALLY STRENGTHEN OUR POSITION AS MARKET LEADER IN TRANSFORMING THE SOCIAL HOUSING ENVIRONMENT BY IMPROVING HOMES, IMPROVING NEIGHBOURHOODS AND IMPROVING LIVES.

Mears is the largest social housing repairs and maintenance provider in the UK. We work in partnership with clients to manage, maintain, repair and upgrade people's homes. We believe tenants should be treated as partners and always put their needs at the heart of what we do.

More than 2,000 Mears people are out there supporting our clients and helping tenants to enjoy a better quality of life. Together, we look after more than 400,000 homes and carry out more than one million repairs a year.

We listen carefully to the needs of our partners, we work hard to provide truly excellent services and we constantly try to find better ways to do things. Our excellent results in 2004 underline the financial and operational strengths of this Group and our desire to be the recognised leader in our market.

Social Housing – Market Overview

The Decent Homes Standard, launched by the Government in 2000, is the major force behind the very strong growth in this market. The initiative has increased annual investment in public housing from £1.5bn (1997/8) to £4bn (2003/4) and requires all local authorities to bring social housing stock up to a decent standard by 2010. A decent home is defined as a property that is wind and weather tight, warm and has modern facilities.

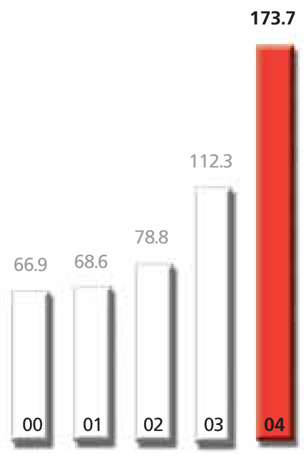
Many local authorities have turned to the private sector for support in meeting Decent Homes targets and this has created excellent opportunities for service providers such as Mears. A number of authorities have also created arms-length management organisations (ALMOs) to run their housing programmes, giving them scope to unlock additional funding from Government. We work direct with local authorities and with a wide range of ALMOs and housing associations.

This remains a fragmented market, however, with the ten largest providers serving just 13% of the market. We expect the market share of larger service providers to increase as local authorities and housing organisations seek to develop long-term partnerships with a smaller number of providers. The recent contract awards in Sheffield point the way forward, with five main service providers – including Mears – sharing the total contract budget of £1bn.

Although originally planned for completion by 2010, we expect the Decent Homes Standard to run into the next decade and believe investment may continue until 2015. We also believe Decent Homes has strengthened the repairs and maintenance market, as clients invest to maintain the standards achieved by improvements. This, together with the Government's focus on the construction of affordable housing, suggests the social housing sector may remain buoyant for at least a decade and possibly well beyond.

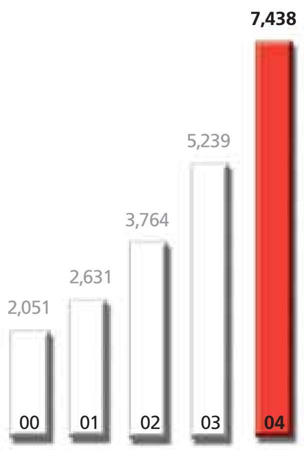
Turnover – continuing
£m

54.7%



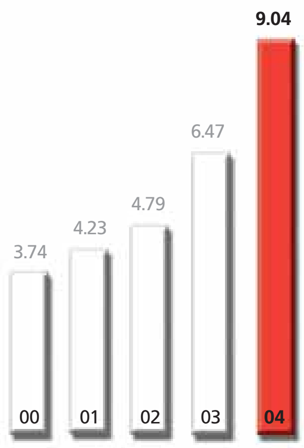
Profit before tax*
£'000

+41.9%



Earnings per share**
pence

+39.7%



2004 Highlights

- → Turnover up 54.7% to £173.7m
- → Profits* up 41.9% to £7.4m
- → Earnings per share** up 39.7% to 9.04p

Annual General Meeting	1 June 2005
Record date for final dividend	10 June 2005
Dividend warrants posted to shareholders	1 July 2005
Interim results announced	30 August 2005

* Pre-goodwill amortisation
** Full tax, pre-goodwill amortisation

IMPROVING HOMES... IN EAST LONDON
WE HANDLE EVERYTHING FROM BASIC PLUMBING TO BUILDING WORK AND DAY-TO-DAY LIAISON WITH TENANTS. WE'RE WORKING TO ADDRESS LOCAL ISSUES TOO, LIKE SKILLS TRAINING AND TRUANCY.

Mosaic Homes – East London

Formerly known as New Islington & Hackney Housing Association, Mosaic Homes is an innovative manager and developer of social housing in the East London and Essex area.

In December 2004 Mosaic awarded us a five-year, £7.5m a year maintenance and repairs contract for 6,000 of its homes. We now look after everything from a multilingual call centre for tenants to inspections. We repair and maintain anything from a tap washer to a roof.

We will soon be opening a skills training centre where members of the local community can develop housing maintenance expertise and we intend to offer employment to many of those who graduate.

We also co-fund and help to run breakfast clubs at three schools in the area. Each school is opened at 7am and pupils are offered a nutritious meal – in some cases this is the only opportunity they have to receive a hot meal. Absenteeism has dropped by 60% at one school and a number of other schools are keen to join the scheme.

EXCELLENT RESULTS... ONCE AGAIN MEARS HAS PRODUCED AN EXCELLENT SET OF FIGURES. THE STRATEGY FOR FURTHER GROWTH IS CLEAR AND THE SPIRIT WITHIN THE GROUP IS BETTER THAN EVER.

Chairman's Statement

Look at our performance this year:

- → **Profit before tax and goodwill amortisation up 41.9%**
- → **Turnover up 54.7%**
- → **Cash inflow of £0.9m after absorbing strong growth**
- → **Contract wins valued at £526m**
- → **Order book up by £265m**
- → **Normalised earnings per share pre-goodwill amortisation up 39.7%**
- → **Dividend up 40.7%**

These are the results we have achieved with a group of talented people who are committed to ***Improving Homes, Improving Neighbourhoods, Improving Lives.*** Our team is consistently delivering results that stand out in our sector. Why? Because we are passionate about what we do and where we can take this Group. This applies not only in social housing but across all the divisions of Mears.

Clarity and ambition
We are the market leader in social housing. What defines 'leadership' in this sector? For me it's about excellent and sustainable financial performance; consistent, high quality, tenant-focused services, delivered in close partnership with good clients; and a genuinely innovative approach that makes a real difference to people's lives. I believe our job is to make tenants smile.

The opportunity has never been bigger
Social housing is clearly the right market for us. It is a fragmented sector with relatively few large service providers. Yet the outsourcing argument has been won. More and more Local Government clients are exploring the benefits to be gained by working with private sector providers and in developing long-term partnerships with a smaller number of large service providers. We see an addressable market opportunity in recurring repairs and maintenance of around £5bn a year.

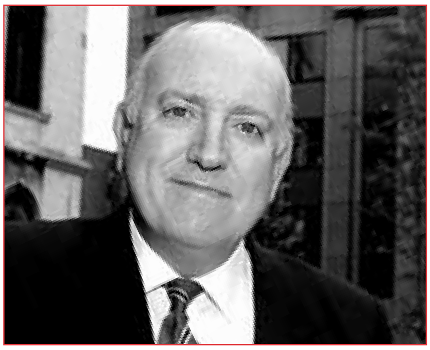
The available spend from Central Government is also very healthy, with at least £3.5bn to be committed annually to the Decent Homes Standard. Although due to end in 2010, we believe the Decent Homes commitment is likely to last until 2015.

It's not just about the numbers though. There is a strong client commitment to quality and to community in this sector and that plays to our strengths. Clients recognise that Mears people work extremely hard to meet their needs and the needs of their tenants. We are problem-solvers: We are always looking to find better ways to do things and to create long-term benefits and that approach resonates with those who care about the local community.

Our work with Wigan & Leigh Housing is a great example of how our approach achieves satisfaction and savings. We've been working with this client for six years now and in 2003 we were awarded a £5m a year contract for repairs, maintenance and refurbishment with these services to be provided until 2020. Last year the scheme reduced overall repair costs by 15% and tenant satisfaction with work quality was at 98%. We're working on the 2%.

Community – at the heart of everything
Physical repairs and refurbishments are just one part of what makes a good neighbourhood tick. Communities are about people and I believe our work should set out to improve daily life in the neighbourhoods we serve. Our apprenticeship schemes demonstrate what can be achieved when service providers think beyond the obvious and really put the community at the heart of what they do. Through these schemes we employ and train people so they can manage and maintain housing in their area. This gives a boost to local employment and makes Mears part of the fabric of everyday life.

We are always looking for new ways to support the local community. Take our sponsorship of breakfast clubs in Hackney. Our teams open schools buildings up at 7am and help to serve a meal to pupils. This is improving school attendance and the general wellbeing of children for the benefit of the entire community. Visiting these clubs was definitely one of the highlights of my year. Everyone at Mears has the opportunity to contribute to schemes such as this in their day-to-day work. Through our 100 Days in the Community programme they can also contribute time and resource to any locally based community initiative.



Bob Holt

Summary

- Strong growth in pre-tax profit, turnover and order book
- Robust market with excellent addressable market opportunities
- Strengthened management team and a renewed commitment to quality and passion

Doing things the right way

As Mears grows it is increasingly important for us to recruit, develop and manage people to a consistently high standard. Our services are delivered at a local level and we must ensure that everyone within Mears is committed to providing truly excellent service.

The One Mears Way plays an effective role in enabling current and new employees to understand and follow the right way to do things. We have built our success on these principles and everyone within the management team is dedicated to ensuring that our passion and standards continue to unite us as we grow.

Management team strengthened

The quality of our management team was recognised by a number of industry bodies in 2004. In the Quoted Company Awards, for example, David Robertson was named Finance Director of the Year. David deserves this recognition for his excellent work.

We made a number of significant new appointments in 2004 to further strengthen the business, including the appointment of Stuart Black as Chief Operating Officer in November. Stuart is highly experienced and will really help the business to meet its operational challenges over the next few years. We have also appointed talented individuals to the jobs of Group HR Director and Group IT Director. With these additional specialists in place we have a well-balanced executive team with real strength in depth.

Looking ahead

I would like to thank everyone at Mears for their hard work in 2004 and to congratulate them on the success they have achieved. The excellent figures reported are down to them and they should also take great satisfaction from the way their work has helped to improve the lives of others.

Many of you will know that I sold two million Mears shares recently and may wonder what this signifies. I did this to satisfy demand from a number of institutional investors. I remain absolutely committed to Mears and intend to play a central role in the team that will take this Group to the next stage and beyond.

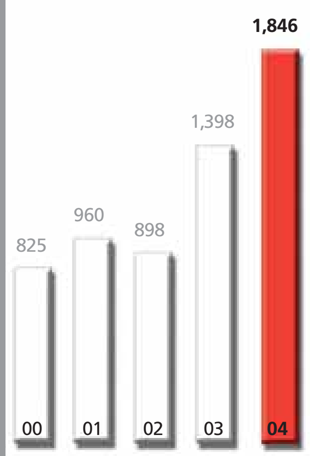
There is a fantastic opportunity for everyone at Mears to be part of something special. If we can all rise to the challenges ahead we can achieve an enormous amount – together. This is a very exciting time; I hope everyone at Mears will join me in working to strengthen our position as an outstanding leader in the social housing sector

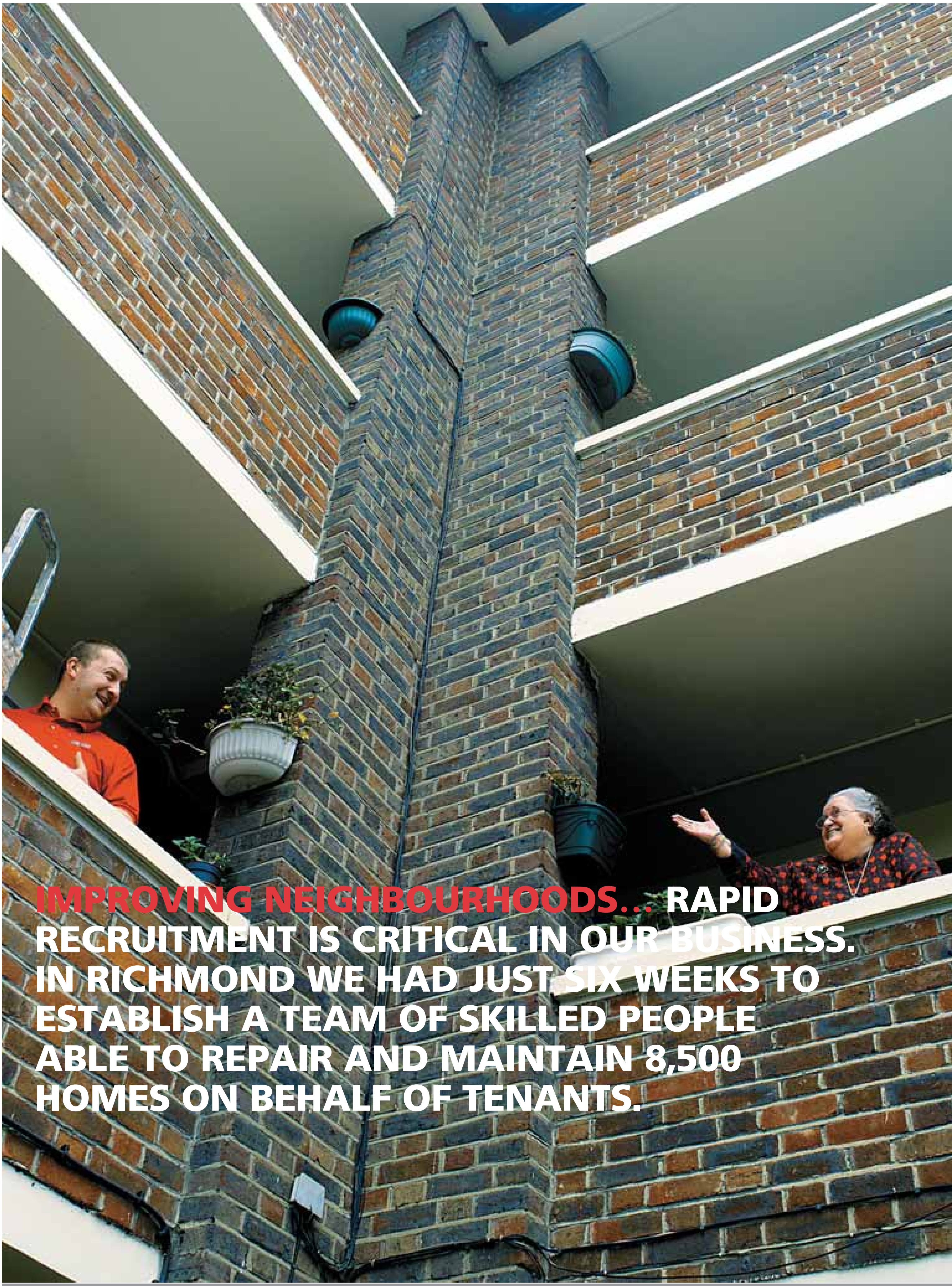
Bob Holt

Bob Holt
bob.holt@mearsgroup.co.uk
Chairman
21 March 2005

Growth in average employee numbers

+32.0%





IMPROVING NEIGHBOURHOODS... RAPID RECRUITMENT IS CRITICAL IN OUR BUSINESS. IN RICHMOND WE HAD JUST SIX WEEKS TO ESTABLISH A TEAM OF SKILLED PEOPLE ABLE TO REPAIR AND MAINTAIN 8,500 HOMES ON BEHALF OF TENANTS.

Richmond Housing Partnership – South West London

In 2002 we secured a ten-year, £13m a year contract to provide repairs and maintenance services to the partnership's 8,500 homes. The challenge here was all about time: we had just six weeks to set up a new office and communications and recruit 120 people.

Everything was in place at the start of the contract and we have now completed more than 50,000 individual jobs for tenants in this area. We've worked closely with local people and that has helped us to achieve tenant satisfaction levels well above 90%.

Getting the right people in place remains critical and we have worked closely with our client to recruit, train and employ local residents. Ten places on this scheme are reserved for members of tenants' families. We are also providing work placement experience to around 100 local, long-term unemployed people through the Government's Back to Work programme.

EXCEPTIONAL GROWTH... 2004 WAS ALL ABOUT DELIVERING EXCELLENT SERVICES AND MAINTAINING EXCEPTIONAL LEVELS OF GROWTH, WHILE BRINGING EVEN GREATER FOCUS TO WHAT WE DO AND HOW WE DO IT.

Operating and Financial Review

We believe our performance underlines that Mears is the strongest company in the social housing sector and is able to deliver impressive and sustainable growth.

Turnover
In 2004 we grew turnover to £173.7m (2003: £112.3m), an increase of 54.7%. Organic growth was the main driver. This significant growth reflects our ability to win, retain and extend major contracts in a very active social housing market.

Profit before taxation and goodwill amortisation
We achieved profit before taxation and goodwill amortisation of £7.4m (2003: £5.2m), a 41.9% increase. Operating margins in our social housing activities held up well at 4.9%, despite major growth in new work from contracts secured in late 2003 and 2004. United Fleet Distribution (UFD) achieved a 4.2% operating margin, unchanged from 2003. Scion's operating margin was 1.0%, as anticipated.

We believe there is room for further margin improvement where we share the potential risks and benefits of service performance with our clients. We are also able to find operational efficiencies as contracts mature. Our investments in infrastructure – particularly Group-wide improvements in IT – provide scope for better margins and even greater customer satisfaction.

Acquisitions
We are pleased to confirm that we have completed the turnaround of Scion Group Limited, the multi-disciplinary facility services group we acquired in 2003. This business is now focused on growing its margin.

We are continuing to build a national painting and decorating business by acquisition. The businesses we have acquired are now integrated and are focused on developing significant growth opportunities in the public sector.

Goodwill amortisation at £0.7m (2003: £0.4m) reflects the full year effect of acquisitions in 2003 and two small painting business acquisitions in 2004.

Excellent market opportunities in social housing mean that organic growth is likely to maintain our momentum. Having said that, we are able and willing to make significant acquisitions that further our strategic ends and enable us to improve or broaden our services.

Interest
This year's modest charge of £0.07m (2003: £0.08m receipt) reflects our broadly neutral cash position throughout the year. Our constant emphasis on improving the management of working capital has paid off and has been particularly valuable given the scale of growth we achieved in the year.

Earnings per share and dividend
Basic Earnings Per Share (EPS) before goodwill increased 49.8% to 9.69p (2003: 6.47p). Tax was lower at 27.4% (2003: 32.6%) due mainly to a tax deduction for share option exercises and utilisation of tax losses. Even after applying a full tax charge, EPS is still up 39.7% at 9.04p (2003: 6.47p).

The dividend increase is in line with our earnings growth. A final dividend of 1.4p per share is proposed, making 1.9p for the full year – up 40.7% on 2003. The final dividend is payable on 1 July 2005 to shareholders on the register on 10 June 2005.

Cash flow
Once again, the cash flow position underlines our strength as a business. A net cash inflow of £0.9m was achieved in 2004 (2003: £3.7m outflow). The Group converted 77.6% of EBITDA into operating cash flow (2003: 80.1%). This was achieved against a backdrop of 41.0% organic growth, which was contained at £3.9m of additional working capital. Some £2.5m was invested in new technology and operational bases, with 12 new sites opened in the year. Acquisitions absorbed £1.1m of cash.

Order book
The visibility of our earnings has never been better. £526m of new work was secured in 2004 from 18 contracts. Our order book now stands at £815m. The element of consensus forecast turnover secured for 2005 is 81%, with some 60% of 2006 and 48% of 2007.

Stuart Black

David Robertson

We take a conservative approach to quantifying our order book and place great emphasis on winning good quality contracts that can provide clear and sustainable margins. We also hold a healthy mix of Decent Homes and repairs and maintenance work, giving us a balanced position in the social housing market that is not reliant on clients' future discretionary spending.

Net assets
Asset value had risen from £12.3m to £16.4m at year-end. Net current assets within this improved by £2.3m to £4.5m.

Major contract wins
We achieved a number of major successes, winning contracts valued at £526m in total. Highlights included:

→ ***Sheffield***
A one-fifth share of the largest contract placed to date. In total £1bn is to be spent over seven years to service 55,000 houses.

→ ***Ealing***
A five-year, £27m partnership contract to provide response maintenance services, void repairs and decoration services to 7,500 homes.

→ ***Newcastle***
A six-year, £60m Decent Homes Standard contract covering 32,000 homes. The client's total spend is £500m for all service providers, so we have secured more than 10% of the total contract value.

→ ***Leeds***
A five-year £3m contract to carry out responsive repairs and voids work for 3,300 houses.

→ ***Crawley***
A five-year, £2m a year contract to undertake responsive repairs and voids work in 8,500 homes.

→ ***Hackney***
A five-year £7.5m a year contract covering responsive repairs, void properties and planned maintenance for 6,000 homes.

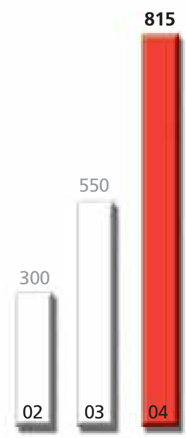
Risks
We believe the most significant risk we face is damage to our reputation as a result of a service failure. We mitigate this through our very strong focus on service delivery and a constant emphasis on innovation. The One Mears Way approach helps to ensure that the standards we – and our customers – expect are clear to everyone within Mears and are part of everything we do.

We also recognise that a significant skills shortage would represent a risk to growth. We are mitigating this risk through investment in innovative recruitment and development programmes, such as our highly successful apprenticeship schemes. We intend to further strengthen our reputation as a highly attractive employer that offers rewarding jobs, good rates, consistent income, opportunities for career and personal development and a great working culture.

Summary
→ Order book up £265m to £815m
→ £526m revenue secured in 2004
→ £0.9m cash inflow, despite strong organic growth of 41.0%

Order book growth
£m

+48.2%



IMPROVING LIVES… BY UPGRADING HOMES IN STOCKTON-ON-TEES WE'RE HELPING PEOPLE TO ENJOY A BETTER QUALITY OF LIFE, BUT WE'RE ALSO PROVIDING JOB OPPORTUNITIES, WITH SKILLED LOCAL PEOPLE AND APPRENTICES JOINING OUR TEAMS.

Tristar Homes – North East England

Tristar Homes has looked after the day-to-day running of Stockton-on-Tees Borough Council's homes since 2003. Its challenge is to ensure thousands of homes meet the Decent Homes Standard by 2010.

In 2003 we were awarded a partnering contract to provide new kitchens, bathrooms, windows, roofs and other improvements for 5,000 homes. We recruited local people to join our experienced teams and have developed their skills through mentoring and training. We are also introducing a local apprenticeship training scheme and we use local supply partners wherever possible.

The risk of fire is a significant problem in this area, with a high proportion of incidents caused by unattended chip pans. Working with our client and risk specialists Risksmart, we introduced a 'Chip Pan Amnesty' for tenants. Anyone willing to hand over an old chip pan was given a free deep fat fryer in return. 175 fire safety checks were also carried out for tenants.

Operating and Financial Review continued

Market outlook
The social housing market provides us with excellent opportunities in both Decent Homes and repairs and maintenance work.

The Government's Decent Homes Standard capital programme is likely to be extended to 2015 and is yet to address 1.2m homes that still do not meet the Decent Homes Standard. We expect continued Decent Homes-related expenditure of around £3.5bn a year.

The repairs and maintenance market is also thriving and we believe expenditure of around £5bn a year through to 2020 is likely.

Despite the substantial budgets of local authorities, social housing is a fragmented market. The ten largest service providers currently account for just 13% of the total market. We believe this will change, with the larger service providers increasing their share. Market consolidation is being driven by wider client recognition of the benefits of outsourcing. An increasing number of clients also prefer to work with a smaller number of service providers for a longer period of time. We expect these market developments to increase the addressable opportunities for large, proven service providers such as Mears.

Our strategy
Social housing offers the biggest and best long-term growth opportunities for Mears and our focus is now firmly on this sector. In other words, our work is all about ***Improving Homes, Improving Neighbourhoods, Improving Lives.***

There are two particularly important aspects of our strategy:

→ ***Innovation***
We are constantly searching for new and better ways to support clients and help tenants. For example, our mobile show homes enable tenants to see the options available in terms of new colour schemes and fixtures and fittings and to discuss their preferences with us before any work is carried out. We also provide mobile comfort homes when work is in progress and we give tenants a video to explain how the repairs process might affect them.

→ ***Partnership***
We are committed to developing close relationships with clients and communities and delivering tangible, long-term improvements. We have discontinued bids where we felt the client did not share our commitment to partnership. We believe this makes good business sense, as strong client relationships enable us to do better work, increase the scale and scope of existing contracts and achieve sustainable margins and clear visibility of future earnings.

We are now broadening our service offerings with key clients. In Richmond, for example, we are working very closely with our client to jointly offer white and blue-collar services. Our collaborative approach also enables us to work effectively with our peers. In Sheffield, for example, we are developing a common supply chain with the four other partners.

Group structure
We have a lean corporate centre that is efficient, agile and flexible. We try to avoid bureaucracy whenever and wherever we can. The centre of the Group drives strategy, best practice and controls; the individual businesses drive delivery, client relationships and local innovation.

We are not yet achieving the right levels of synergy between our businesses and that is an area we are addressing. Our investment in a Group-wide IT system is a major step forward and will offer an excellent return on investment as we grow.

Our focus on social housing has driven the development of our core businesses. Haydon, for example, has rapidly developed from a largely private sector mechanical and electrical services contractor into a more dedicated social housing contractor.

UFD is clearly outside the scope of our focus on housing and we expect this mature business to become less significant in terms of Group turnover and profit over time. We are happy to have UFD within the Group, however. It is a profitable, well-managed business with highly motivated people and leads its sector in terms of service delivery and market share.

People – our greatest differentiator
What really sets us apart as a business is the quality and spirit of our people. As we grow we must give our employees the support they need to do a fantastic job for clients

Summary

- Balanced portfolio of Decent Homes and repairs and maintenance contracts
- Clear strategic and operational focus on social housing
- One Mears Way strengthened by values

and tenants. In 2004 we further strengthened our management team to ensure this happens, appointing a Chief Operating Officer and making senior appointments in human resources, finance, IT and marketing.

We also invested in attracting a strong mix of new employees and put particular emphasis on recruiting local people. Local recruitment is an effective way to compete for talent and ensure we can grow quickly to meet clients' needs. We have innovative local recruitment initiatives in place to attract the best talent available. Many Mears people don't just serve the local community, they live in the area and are part of it. These close connections between Mears and local neighbourhoods are invaluable, not least because they help us to understand the real needs of the people we serve.

Retention of good people is very important and our excellent Save As You Earn (SAYE) schemes underline our belief that employees should have the opportunity to share in the Group's success. Currently, 229 employees are involved in SAYE schemes.

At our Group Management Conference in January 2005 we spent time discussing the values that have made Mears successful and will help us to thrive in the future. The values we agreed are: Commitment; Customer focus; Teamwork; Reliability; Integrity; and Innovation. These values will become a central part of the One Mears Way and will guide everything we do.

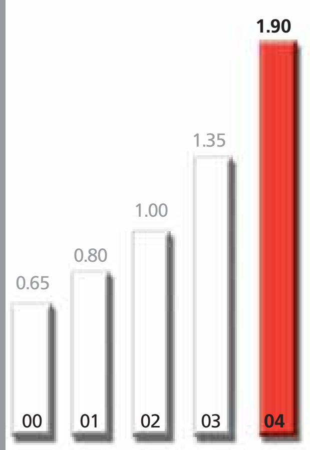
If we are to succeed in realising our ambitions for the Group we will need to recruit many new people over the next few years. It is absolutely vital that those who join – at all levels – share the same spirit, values and drive as Mears people today. The entire management team is dedicated to making this happen. We know that the passion and commitment that has taken Mears to this point can take us a very long way indeed.

David Robertson
david.robertson@mearsgroup.co.uk
Finance Director
21 March 2005

Stuart Black
stuart.black@mearsgroup.co.uk
Chief Operating Officer
21 March 2005

Dividend per share
pence

+40.7%



MEETING THE STANDARD… IN WIGAN AND LEIGH OUR CHALLENGE IS TO ENSURE 33,000 KITCHENS MEET THE DECENT HOMES STANDARD BEFORE 2008. DESPITE STRICT QUALITY CONTROLS, WE'RE WELL AHEAD OF THE PROGRAMME AND SATISFYING OUR ULTIMATE CUSTOMERS – THE TENANTS.

Wigan & Leigh Housing – North West England

Our client must ensure all 33,000 of its homes meet the Decent Homes Standard before 2008. The kitchen is a vital part of any home and in January 2003 we were commissioned to carry out a kitchen replacement programme (a £5m a year, five-year contract) and also handle quick response repairs.

To meet the scale of this challenge we recruited 80 people from the local community to join our existing team of tradespeople. We've also saved a significant amount of management time for our client by agreeing an average price payment structure for the work we carry out.

By year-end 2004 we were 18 months ahead of the agreed programme milestones and we currently hand over 50 new kitchens to tenants each week. Each refurbishment is completed according to stringent key performance indicators. But most important, 98% of tenants say they are completely satisfied with the work we've carried out.

Directors and Advisers

Bob Holt (50)

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.

Stuart J Black (40)

Chief Operating Officer

Stuart joined the Board on 15 November 2004 as an Executive Director and is responsible for the day-to-day operational activity of Mears. Stuart previously held the position of Group Business Development Director with Mouchel Parkman plc. He has a successful track record of over 20 years in support services organisations at different stages of the business cycle.

David J Robertson (49)

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 (35)

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.

Reginald B Pomphrett (61)

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.

Michael A Macario (67)

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.

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Report of the Directors

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2004.

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 Operating and Financial Review.

The consolidated profit for the year after taxation and minority interests amounted to £4.91m (2003: £3.25m). The Directors recommend dividends absorbing £1.11m (2003: £0.77m), leaving £3.81m (2003: £2.48m) retained.

Directors

The present membership of the Board is set out below. M A Macario and R B Pomphrett retire by rotation and, being eligible, offer themselves for re-election. S J Black retires having been appointed since the last Annual General Meeting and offers himself for re-election.

The base salaries and beneficial interests of the Directors in the shares of the Company at 31 December 2004 and at 1 January 2004 were as follows:

	Salary		Ordinary shares	
	31 December 2004 £	1 January 2004 £	**31 December 2004 Number**	1 January 2004 Number
R Holt	**220,000**	180,000	**5,209,687**	5,200,000
D J Robertson	**145,000**	120,000	**200,000**	200,000
S J Black	**150,000**	–	**–**	–
P L Molloy	**160,000**	150,000	**3,559,687**	4,000,000
M A Macario	**24,000**	18,000	**200,000**	200,000
R B Pomphrett	**24,000**	18,000	**200,000**	200,000

R Holt, D J Robertson and S J Black 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 the inflation adjusted growth in earnings per share combined with the individual performance of a subsidiary undertaking against budget.

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.

Directors' responsibilities for the financial statements continued

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 Report of the Directors 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.

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 41 days (2003: 45 days) of average supplies for the year.

Substantial shareholdings

On 15 March 2005 the following shareholders held 3% or more of the issued share capital of the Company:

	Number of ordinary shares (m)	Percentage of issued ordinary shares %
Unicorn Asset Management Limited	5.57	9.6
Fidelity Investments	3.93	6.8
P L Molloy	3.56	6.1
Newton Investment Management Limited	3.48	6.0
R Holt	3.21	5.5
AEGON Asset Management UK	2.95	5.1
Old Mutual Asset Management	2.07	3.6
Orbis Trustees Guernsey Limited	1.75	3.0
Diageo Pension Fund	1.75	3.0

In addition to the above shareholdings, a total of 2.67m ordinary 1p shares representing 4.6% 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 schemes have been well received.

Transition to International Financial Reporting Standards (IFRS)

The Group is continuing 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 being finalised and will continue as new standards and amendments to existing standards evolve. It is anticipated Mears Group PLC will adopt IFRS for the year ended 31 December 2005.

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.

Report of the Directors continued

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 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, the Group web site and the Intranet.

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
On 1 July 2004, the Grant Thornton partnership, who have been the Group's auditors since 1994, transferred its business to a limited liability partnership, Grant Thornton UK LLP. Under section 26(5) of the Companies Act 1989 the Directors consented to extend the audit appointment to Grant Thornton UK LLP from 1 July 2004.

On behalf of the Board

R B Pomphrett
Director and Secretary
21 March 2005

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 Principles of Good Governance and Code of Best Practice (the Combined Code 2003). 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 four 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 Board does not consider the Non-Executive Directors' shareholdings to impinge on their independence. The Non-Executive Directors provide a strong independent element to the Board and bring experience at a senior level of business operations and strategy.

The Board has appointed M A Macario as the Senior Independent Non-Executive Director. The Board appointed S J Black as Chief Operating Officer in November 2004. It is anticipated that S J Black will be appointed as Chief Executive. Separating the roles of Chairman and Chief Executive will ensure a balance of responsibility and authority at the head of the Group.

All Directors have access to the Company Secretary, who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. Any Director, on appointment and throughout their service, is entitled to receive any training they consider necessary to fulfill their responsibilities effectively.

Board Committees

The Board has delegated authority to three 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 is chaired by M A Macario and also comprises R Holt and R B Pomphrett. 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.

Nomination Committee

The Nomination Committee comprises two Non-Executive Directors and the Chairman. The Committee meets four times a year and is responsible for succession planning within the Group and for the recommendation of appointments to the Board for Executive and Non-Executive Directors.

Meeting attendance

All Directors are encouraged to attend all Board meetings and meetings of Committees of which they are members.

Current Directors' attendance at Board meetings and Committee meetings is shown in the following table:

	Actual meeting attendance	Maximum possible
R Holt	12	12
D J Robertson	8	8
S J Black	1	1
P L Molloy	4	6
M A Macario	12	13
R B Pomphrett	12	13

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 2004 and AIM Company of the Year Award 2003. The Group has continued to increase its awareness to the investing public at large and is represented at a series of Investor Relations exhibitions, where shareholders have welcomed the opportunity to both meet the management team and improve their understanding of the Group.

Corporate Governance continued

The Company and its shareholders continued
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).

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 Group 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 on a quarterly basis 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.

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.

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, Chief Operating Officer 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 both the real increase in earnings per share and to the achievement of targeted measures relevant to United Fleet Distribution Limited, 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.

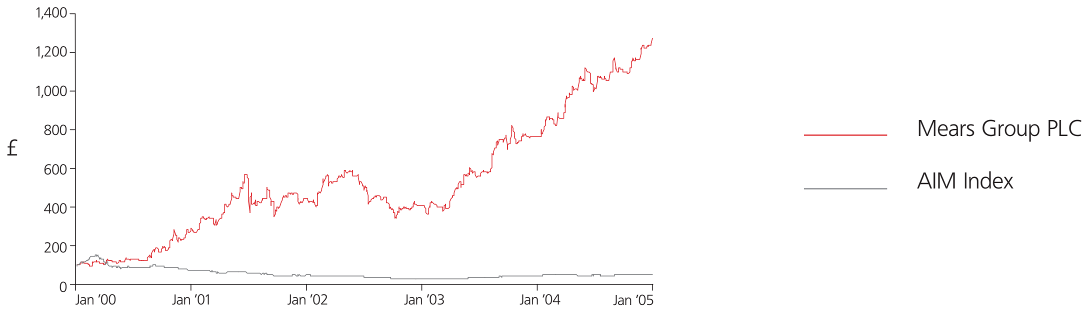
The Directors' emoluments in 2004 are disclosed within the Report of the Directors and note 3 of the financial statements.

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. The value of overdue work in progress and debtors is deducted in arriving at profit for bonus purposes.

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

The Group has voluntarily included in the Annual Report 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.



Corporate and 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.

Social responsibility

The Group is totally committed to ensuring the way in which it runs its business adds positive impact to the community, the environment and society generally. It is the intention to achieve the business objectives through embracing values that align with those of society whilst ensuring a strategy is in place that encapsulates risk management, contingency planning and diversity.

The Group is embracing an even wider Corporate Social Responsibility (CSR) ethos, having established a formal Committee, with representatives from across the Group. The aim is to ensure that CSR becomes an integral part of our culture, running hand in hand with our day to day business activities, becoming the very DNA of our organisation. With our core work being conducted in the heart of the community we believe that we can continue to make sustainable improvements in each of the communities in which we work. We are passionate about improving lives with a strong commitment to encourage, enable and engage our employees to contribute positively to the community, striving to maximise the opportunity for each of us to become personally socially responsible.

Work in the community

Our commitment to improve communities and the environment is an extension of our desire for improving homes, improving neighbourhoods and improving lives. We have already completed a number of projects in our communities through practical refurbishments on behalf of different community groups utilising the skills of our workforce and providing financial support. These include renovating a school playground, refurbishing a community centre, sponsoring breakfast clubs for schools, reading buddy schemes and providing financial and practical support to a working farm in Sheffield.

We are committed to significantly increase our efforts this year through a 100 day community challenge. We have asked our employees to apply their creativity and local knowledge to identify projects in their community that will challenge the skills of our employees and provide opportunities for volunteering. Engaging in the community also enhances our understanding of diverse communities and provides us with personal development opportunities and team working. We are continually looking to improve our training program and recognise that we can provide creative and innovative training programmes through work in the community. The benefits to be gained from contributing in this way are far reaching as one small positive action can lead to other indirect benefits. Employees benefit from personal development and may also benefit from being a community recipient where sustainable improvement has been given by Mears employees. Through these activities we can demonstrate our commitment to the community through visual and tangible improvements. This presents opportunities for development and growth which will provide more local employment opportunities and development opportunities for our staff. Consulting and involving our staff in this way assists us to ensure our internal working practices are effective.

Our 100 day challenge is an ideal opportunity for us to work in partnership with our staff, our clients and our community groups. We wish to work as one large team, striving for full participation, sharing experiences so we can celebrate in our achievements. We recognise the strength in working in partnership and we have already been involved in projects involving local education, councils and public services. We have also recently developed a partnership with Oxfam where we have been giving support through resource of employees, materials, storage space and vehicles. We encourage our employees to take an active part in nationally organised charitable events such as Macmillan Coffee Day, Wear It Pink and Red Nose Day.

We recognise the benefits to be gained through our community activities; for our employees, for the community and for our business.

Corporate and Social Responsibility continued

Environment

We are also very aware of the threat to society through bad environmental practices and we are constantly striving to improve our own policies and processes to counteract potential damage. It is our belief that a large amount of bad environmental deluge is caused through ignorance, lack of thought and complacency. We promote the welfare of the environment both in the workplace, through compliance with legislation and best practice, and in our personal lives through face to face contact and communications with our Community Affairs Group.

Health and Safety

It is the firm policy of the Group to take all practicable steps to safeguard the health, safely and welfare of all employees, clients, sub-contractors and the public.

The Group employs a full time Health and Safety Manager who works with regional teams team to liaise both internally and externally on Health and Safety issues. As part of their function they carry out spot audits. The Group also subscribes to a number of Health and Safety Services who provide advice on all safety matters.

Any accidents are thoroughly investigated internally and procedures modified where appropriate. We are always seeking to reduce the risk of accidents.

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 2004 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 Report of the Directors.

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 Report of the Directors 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 Operating and 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 2004 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 UK LLP
Registered Auditors
Chartered Accountants
Cheltenham
21 March 2005

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 and continue to be the most appropriate.

Basis of consolidation

The Group financial statements consolidate those of the Company and its subsidiary undertakings (see note 10) drawn up to 31 December 2004. 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 value of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life. The period of amortisation is assessed on an acquisition by acquisition basis and is set based on the expected period that the assets acquired will contribute to the Group's results. The rate applicable to all goodwill currently included in the balance sheet is 5% per annum.

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 and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes materials and direct labour. Provision is made for any foreseeable losses when appropriate.

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 stocks and work in progress to the extent that they cannot be matched with contract work accounted for as turnover.

Full provision is made for losses on any contracts in the 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 2004

	Note	**2004 £'000**	**2004 £'000**	2003 £'000	2003 £'000
Turnover					
Continuing operations	1	**172,078**		112,271	
Acquisitions		**1,607**		–	
			173,685		112,271
Cost of sales					
Continuing operations		**(127,456)**		(83,268)	
Acquisitions		**(1,310)**		–	
			(128,766)		(83,268)
Gross profit					
Continuing operations		**44,622**		29,003	
Acquisitions		**297**		–	
			44,919		29,003
Administrative expenses			**(38,081)**		(24,276)
Operating profit					
Continuing operations		**6,747**		4,727	
Acquisitions		**91**		–	
			6,838		4,727
Share of operating profit in associate			**4**		9
			6,842		4,736
Net interest	2		**(68)**		78
Profit on ordinary activities before taxation	1		**6,774**		4,814
Tax on profit on ordinary activities	4		**(1,855)**		(1,571)
Profit on ordinary activities after taxation			**4,919**		3,243
Equity minority interests			**(5)**		7
Profit for the financial year	5		**4,914**		3,250
Dividends	6		**(1,105)**		(773)
Profit retained	17		**3,809**		2,477
Earnings per share					
Basic	7		**8.54p**		5.72p
Basic – normalised, pre-amortisation	7		**9.04p**		6.47p
Diluted	7		**7.98p**		5.48p
Diluted – normalised, pre-amortisation	7		**8.45p**		6.20p

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 2004

	Note	**2004 £'000**	**2004 £'000**	2003 £'000	2003 £'000
Fixed assets					
Intangible assets	8	**10,406**		12,273	
Tangible assets	9	**4,450**		3,093	
Investments – associates	10	**48**		45	
Investments – other	10	**–**		62	
			14,904		15,473
Current assets					
Stocks	11	**4,628**		2,487	
Debtors	12	**30,410**		24,875	
Cash at bank and in hand		**8,078**		3,408	
		43,116		30,770	
Creditors: amounts falling due within one year	13	**(38,624)**		(28,600)	
Net current assets			**4,492**		2,170
Total assets less current liabilities			**19,396**		17,643
Creditors: amounts falling due after more than one year	14		**(2,960)**		(5,351)
			16,436		12,292
Capital and reserves					
Called up share capital	16		**579**		570
Share premium account	17		**3,362**		3,041
Shares to be issued	17		**90**		90
Profit and loss account	17		**12,310**		8,501
Equity shareholders' funds	18		**16,341**		12,202
Equity minority interests			**95**		90
			16,436		12,292

The financial statements were approved by the Board of Directors on 21 March 2005.

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 2004

	Note	**2004 £'000**	**2004 £'000**	2003 £'000	2003 £'000
Fixed assets					
Investments	10		**12,767**		14,296
Current assets					
Debtors	12	**5,500**		2,081	
Cash at bank and in hand		–		19	
		5,500		2,100	
Creditors: amounts falling due within one year	13	**(5,653)**		(5,091)	
Net current liabilities			**(153)**		(2,991)
Total assets less current liabilities			**12,614**		11,305
Creditors: amounts falling due after more than one year	14		**(2,243)**		(5,090)
			10,371		6,215
Capital and reserves					
Called up share capital	16		**579**		570
Share premium account	17		**3,362**		3,041
Shares to be issued	17		**90**		90
Profit and loss account	17		**6,340**		2,514
Equity shareholders' funds			**10,371**		6,215

The financial statements were approved by the Board of Directors on 21 March 2005.

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 2004

	Note	**2004 £'000**	2003 £'000
Net cash inflow from operating activities	19	**6,661**	4,691
Returns on investments and servicing of finance			
Interest received		**16**	103
Interest paid		**(61)**	(8)
Finance lease interest paid		**(26)**	(14)
Net cash (outflow)/inflow from returns on investments and servicing of finance		**(71)**	81
Taxation paid		**(1,312)**	(1,543)
Capital expenditure			
Purchase of tangible fixed assets		**(2,540)**	(829)
Sale of tangible fixed assets		**11**	3
Net cash outflow from capital expenditure		**(2,529)**	(826)
Acquisitions			
Purchase of subsidiary undertakings		**(1,176)**	(2,037)
Net cash/(overdraft) acquired with subsidiary undertakings		**88**	(3,351)
Net cash outflow from acquisitions		**(1,088)**	(5,388)
Equity dividends paid		**(864)**	(623)
Financing			
Issue of shares		**330**	76
Capital element of finance lease rentals		**(210)**	(97)
Repayment of borrowings		**—**	(36)
Net cash inflow/(outflow) from financing		**120**	(57)
Increase/(decrease) in cash	20	**917**	(3,665)

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 2004

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	
	2004 £'000	2003 £'000	**2004 £'000**	2003 £'000	**2004 £'000**	2003 £'000
Maintenance, mechanical and electrical services	**162,770**	99,574	**6,206**	4,193	**14,702**	10,693
Vehicle collection and delivery	**10,915**	12,697	**568**	621	**1,734**	1,599
	173,685	112,271	**6,774**	4,814	**16,436**	12,292

Profit on ordinary activities is stated after:

	2004 £'000	2003 £'000
Auditors' remuneration		
– audit services	**95**	94
– non-audit services	**55**	64
Amortisation of goodwill	**664**	425
Depreciation	**1,082**	697
Hire of plant and machinery	**675**	510
Other operating lease rentals	**4,233**	3,887

Included within non-audit services are tax compliance fees of £30,000, tax advice fees of £13,000 and other advice fees of £12,000.

2. Net interest

	2004 £'000	2003 £'000
On bank loans and overdrafts	**(58)**	(8)
Finance charges in respect of finance leases	**(26)**	(14)
Other interest receivable and similar income	**16**	100
	(68)	78

3. Directors and employees

Staff costs during the year were as follows:

	2004 £'000	2003 £'000
Wages and salaries	**47,364**	30,924
Social security costs	**4,601**	2,976
Other pension costs	**512**	391
	52,477	34,291

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

	2004	2003
Site workers	**1,233**	985
Office and management	**613**	413
	1,846	1,398

3. Directors and employees continued

Remuneration in respect of Directors was as follows:

	2004 £'000	2003 £'000
Emoluments	**813**	652
Gains made on the exercise of share options	**35**	81
Pension contributions to personal pension schemes	**106**	79
	954	812

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

	2004 £'000	2003 £'000
Emoluments	**332**	266
Gains made on the exercise of share options	**11**	–
Pension contributions to personal pension schemes	**67**	46

During the year contributions were paid to personal pension schemes for four Directors (2003: three).

During the year three Directors (2003: one) exercised share options.

4. Tax on profit on ordinary activities

The tax charge represents:

	2004 £'000	2003 £'000
United Kingdom corporation tax at 30% (2003: 30%)	**1,855**	1,285
Share of tax charge of associate	**–**	1
Total current tax	**1,855**	1,286
Reversal of timing differences	**–**	285
Tax on profit on ordinary activities	**1,855**	1,571

The tax assessed for the year is lower than the standard rate of corporation tax in the United Kingdom of 30% (2003: 30%). The differences are explained as follows:

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	**6,774**	4,814
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 30% (2003: 30%)	**2,032**	1,444
Effect of:		
Expenses not deductible for tax purposes	**178**	111
Depreciation in excess of capital allowances	**14**	138
Tax relief on exercise of share options	**(237)**	(106)
Utilisation of tax losses	**(132)**	(301)
Current tax for the year	**1,855**	1,286

Notes to the Financial Statements continued

for the year ended 31 December 2004

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 £4.93m (2003: £1.93m) which is dealt with in the financial statements of the Company.

6. Dividends

	2004 £'000	2003 £'000
Ordinary shares		
– interim dividend of 0.50p (2003: 0.35p) per share paid	**290**	200
– final dividend of 1.40p (2003: 1.00p) per share proposed	**815**	573
	1,105	773

7. Earnings per share

Basic earnings per share is based on equity earnings of £4.91m (2003: £3.25m) and 57.57m (2003: 56.78m) 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 61.56m (2003: 59.29m) to reflect the potential dilution effect of employee share schemes.

A normalised pre-amortisation earnings per share is disclosed in order to show performance undistorted by amortisation, the tax effect of the exercise of share options and the utilisation of tax losses acquired. The normalised pre-amortisation earnings per share is based on equity earnings (after adding back amortisation) of £5.20m (2003: £3.68m).

	Basic		Diluted	
	2004 p	2003 p	**2004 p**	2003 p
Earnings per share	**8.54**	5.72	**7.98**	5.48
Effect of eliminating amortisation	**1.15**	0.75	**1.08**	0.72
Effect of full tax adjustment	**(0.65)**	–	**(0.61)**	–
Normalised, pre-amortisation earnings per share	**9.04**	6.47	**8.45**	6.20

8. Intangible fixed assets

The Group	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Cost			
At 1 January 2004	12,677	562	13,239
Additions	708	–	708
Revisions to prior year acquisition	(1,912)	–	(1,912)
At 31 December 2004	**11,473**	**562**	**12,035**
Amortisation			
At 1 January 2004	893	73	966
Provided in the year	634	29	663
At 31 December 2004	**1,527**	**102**	**1,629**
Net book amount			
At 31 December 2004	**9,946**	**460**	**10,406**
At 31 December 2003	11,784	489	12,273

8. Intangible fixed assets continued

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

Scion Group was acquired in August 2003; the Group accounts for the year ended 31 December 2003 included a provisional estimate of £5.8m for the goodwill arising on this transaction. During the current year the review of the fair values of assets and liabilities acquired has been completed and the estimated fair value of liabilities acquired of £2.2m has been revised upwards by £0.4m. 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 with the financial statements represents the Directors' best estimate of contingent consideration payable. The estimated deferred consideration payable has been revised downwards by £2.3m to £0.5m. No deferred consideration will fall due for payment in 2005. The impact of the adjustment to fair values and to deferred consideration has been to reduce the value of goodwill arising in respect of this acquisition by £1.9m to £3.9m.

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 2004	60	520	2,368	3,651	846	7,445
Additions	—	141	213	2,072	147	2,573
Acquisition of subsidiary undertakings	9	—	78	—	241	328
Disposals	—	(30)	(116)	(593)	(275)	(1,014)
At 31 December 2004	**69**	**631**	**2,543**	**5,130**	**959**	**9,332**
Depreciation						
At 1 January 2004	8	346	1,394	2,109	495	4,352
Provided in the year	—	70	226	651	135	1,082
Acquisition of subsidiary undertakings	1	—	64	—	129	194
Eliminated on disposals	—	(25)	(94)	(456)	(171)	(746)
At 31 December 2004	**9**	**391**	**1,590**	**2,304**	**588**	**4,882**
Net book amount						
At 31 December 2004	**60**	**240**	**953**	**2,826**	**371**	**4,450**
At 31 December 2003	52	174	974	1,542	351	3,093

Included within disposals is a cost of £0.80m and elimination of depreciation of £0.61m relating to the revision downwards of the fair value of net assets acquired in the acquisition of Scion Group in August 2003.

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

	Plant and machinery £'000
Net book amount	
At 31 December 2004	**353**
At 31 December 2003	495
Depreciation provided in the year	**96**

10. Fixed asset investments

The Group	Associated undertaking Share of net assets £'000	Goodwill £'000	Total £'000	Other investments £'000
Cost				
At 1 January 2004	27	20	47	62
Share of profits of associate	4	–	4	–
Disposals	–	–	–	(62)
At 31 December 2004	**31**	**20**	**51**	**–**
Amounts written off				
At 1 January 2004	–	2	2	–
Provided in the year	–	1	1	–
At 31 December 2004	**–**	**3**	**3**	**–**
Net book amount				
At 31 December 2004	**31**	**17**	**48**	**–**
At 31 December 2003	27	18	45	62

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

On 1 March 2005 the Group disposed of its entire investment in FITE IT Limited.

The Company	£'000
Investment in subsidiary undertakings	
Cost	
At 1 January 2004	14,296
Additions	768
Revisions to prior year acquisition	(2,297)
At 31 December 2004	**12,767**

Additions relate to the purchase of 99.99% of the equity share capital of Mears Insurance Captive Limited.

Scion Group was acquired in August 2003, the accounts for the year ended 31 December 2003 included a provisional estimate of £3.6m for the consideration payable on the acquisition. During the current year the estimated deferred consideration payable has been revised downwards as detailed in note 8.

10. Fixed asset investments continued

The principal undertakings, where the Group held 20% or more of the equity share capital at 31 December 2004, are shown below:

	Proportion held		
	The Group	The Company	Nature of business
Subsidiaries:			
Mears Limited	–	100%	Provision of maintenance services
United Fleet Distribution Limited	–	100%	Vehicle collection and delivery
Mears Facility Management Limited	–	90%	Provision of facility management services
Mears Building Services Limited	100%	–	Provision of maintenance services
Haydon Mechanical & Electrical 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
Scion Group Limited	–	100%	Provision of maintenance, mechanical, electrical, grounds and facility management services
Mears Insurance Captive Limited	–	99.99%	Provision of insurance services
Associate:			
FITE IT Limited	49%	–	Provision of IT support services

With the exception of Mears Insurance Captive Limited, all subsidiary undertakings prepare accounts to 31 December and are registered in England and Wales. Mears Insurance Captive Limited prepares accounts to 31 December and is registered in Guernsey. 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	**2004 £'000**	2003 £'000
Materials and consumables	**601**	690
Work in progress	**4,027**	1,797
	4,628	2,487

12. Debtors

	The Group		The Company	
	2004 £'000	2003 £'000	**2004 £'000**	2003 £'000
Trade debtors	**23,747**	17,489	**–**	–
Amounts owed by Group undertakings	**–**	–	**5,500**	1,900
Amounts recoverable on contracts	**5,369**	5,746	**–**	–
Other debtors	**321**	518	**–**	181
Prepayments and accrued income	**973**	1,122	**–**	–
	30,410	24,875	**5,500**	2,081

Included in trade debtors is an amount of £0.7m (2003: £1.03m) which is due after more than one year and represents retention balances.

Notes to the Financial Statements continued

for the year ended 31 December 2004

13. Creditors: amounts falling due within one year

	The Group		The Company	
	2004 £'000	2003 £'000	**2004 £'000**	2003 £'000
Bank overdraft	**5,260**	1,507	**1,984**	–
Payments received on account	**3,027**	4,455	**–**	–
Trade creditors	**17,643**	12,451	**–**	–
Amounts owed to Group undertakings	**–**	–	**2,141**	3,726
Corporation tax	**1,365**	793	**9**	44
Social security and other taxes	**3,846**	3,021	**25**	–
Proposed dividend	**815**	574	**815**	574
Other creditors	**635**	867	**550**	706
Accruals and deferred income	**5,919**	4,717	**129**	41
Amounts due under finance lease contracts	**114**	215	**–**	–
	38,624	28,600	**5,653**	5,091

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

	The Group		The Company	
	2004 £'000	2003 £'000	**2004 £'000**	2003 £'000
Other creditors	**2,953**	5,265	**2,243**	5,090
Amounts due under finance lease contracts	**7**	86	**–**	–
	2,960	5,351	**2,243**	5,090

Included in other creditors for the Company and Group is £2.79m (2003: £5.80m), of which £0.55m (2003: £0.71m) falls due within one year, relating 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 £0.71m (2003: £0.18m) which relates to deferred consideration on the acquisition of the trade and assets of Sheffield Décor Services and the acquisition of R Carter & Sons Limited.

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.

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.

Fair values of financial assets and financial liabilities

The fair value of the Group's financial assets and financial liabilities is not materially different to the book value.

Short-term debtors and creditors

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

15. Financial instruments continued

Interest rate risk

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

The interest rate exposure of the financial liabilities of the Group as at 31 December 2004 was:

	Interest rate			
	Fixed £'000	Floating £'000	Zero £'000	Total £'000
Financial liabilities – 2004	**121**	**5,260**	**3,503**	**8,884**
Financial liabilities – 2003	301	1,782	5,696	7,779

Included above in floating interest rate exposure is £5.3m bank overdraft. The interest rate risk on this liability is directly offset by cash at bank of £8.1m.

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 and the above short-term borrowing facility.

16. Share capital

	2004 £'000	2003 £'000
Authorised		
100,000,000 ordinary shares of 1p each	**1,000**	1,000
Allotted, called up and fully paid		
57,883,146 (2003: 56,997,627) ordinary shares of 1p each	**579**	570

During the year 885,519 ordinary shares of 1p each were issued for consideration of £330,198 as a result of share options being exercised. The difference between the nominal value of £8,855 and the total consideration of £330,198 has been credited to the share premium account.

16. Share capital continued

At 31 December 2004, the following ordinary shares were subject to options:

	Date of grant	Number	Exercise price	Exercise dates
Executive Share Option scheme	1998	25,000	11.75p	2001–2008
	2000	110,000	19.25p	2003–2010
	2001	133,000	50p	2004–2011
	2004	570,934	154p	2007–2014
	2004	15,463	194p	2007–2014
Unapproved Options	2001	110,000	50p	2004–2011
	2002	1,136,000	67.5p	2005–2012
	2003	1,470,130	77p	2006–2013
	2004	659,066	154p	2007–2014
	2004	184,537	194p	2007–2014
Enterprise Management Incentive scheme	2001	1,415,000	50p	2004–2011
	2002	640,316	67.5p	2005–2012
	2003	192,857	67p	2006–2013
	2003	544,870	77p	2006–2013
Save As You Earn scheme	2001	62,570	50p	2004/2006
	2002	231,894	82.5p	2005/2007
	2003	301,353	100p	2006/2008
	2004	439,181	149p	2007/2009

Included above are the following options granted to Directors:

		Number of options during the year					
Director	1 January 2004	Granted	Exercised	**31 December 2004**	Exercise price	Market price at the date of exercise	Exercise dates
D J Robertson	9,687	–	9,687	**–**	50p	167p	2004
	208,000	–	–	**208,000**	50p	–	2004–2011
	200,000	–	–	**200,000**	67.5p	–	2005–2012
	200,000	–	–	**200,000**	77p	–	2006–2013
	4,612	–	–	**4,612**	100p	–	2006
	–	50,000	–	**50,000**	154p	–	2007–2014
P L Molloy	9,687	–	9,687	**–**	50p	178p	2004
	142,857	–	–	**142,857**	67p	–	2005–2012
	5,757	–	–	**5,757**	82.5p	–	2005
	100,000	–	–	**100,000**	77p	–	2006–2013
	–	50,000	–	**50,000**	154p	–	2007–2014
R Holt	9,687	–	9,687	**–**	50p	167p	2004
	435,000	–	–	**435,000**	77p	–	2006–2013
	–	50,000	–	**50,000**	154p	–	2007–2014
S J Black	–	200,000	–	**200,000**	194p	–	2007–2014

No options lapsed during the year. The market price at 31 December 2004 was 206.5p and the range during 2004 was 126p to 208p.

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 2004	3,041	90	8,501
Issue of shares	321	—	—
Retained profit for the year	—	—	3,809
At 31 December 2004	**3,362**	**90**	**12,310**

The Company	Share premium account £'000	Shares to be issued £'000	Profit and loss account £'000
At 1 January 2004	3,041	90	2,514
Issue of shares	321	—	—
Retained profit for the year	—	—	3,826
At 31 December 2004	**3,362**	**90**	**6,340**

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

18. Reconciliation of movements in equity shareholders' funds

The Group	**2004 £'000**	2003 £'000
Profit for the financial year	**4,914**	3,250
Dividends	**(1,105)**	(773)
	3,809	2,477
Shares to be issued	**—**	90
Issue of shares	**330**	76
Net increase in equity shareholders' funds	**4,139**	2,643
Equity shareholders' funds at 1 January 2004	**12,202**	9,559
Equity shareholders' funds at 31 December 2004	**16,341**	12,202

19. Net cash inflow from operating activities

	2004 £'000	2003 £'000
Operating profit	**6,838**	4,727
Depreciation and amortisation	**1,746**	1,122
Loss on disposal of fixed assets	**33**	39
Increase in stocks	**(2,043)**	(1,069)
Increase in debtors	**(5,235)**	(3,461)
Increase in creditors	**5,322**	3,333
Net cash inflow from operating activities	**6,661**	4,691

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

	2004 £'000	2003 £'000
Increase/(decrease) in cash in the year	**917**	(3,665)
Cash outflow from financing	**210**	133
Change in net funds resulting from cash flows	**1,127**	(3,532)
Loans and finance leases acquired with subsidiaries	**(30)**	(434)
Net funds at 1 January 2004	**1,600**	5,566
Net funds at 31 December 2004	**2,697**	1,600

21. Analysis of changes in net funds

	At 1 January 2004 £'000	Cash flow £'000	Acquisitions £'000	At 31 December 2004 £'000
Cash at bank and in hand	3,408	4,582	88	**8,078**
Overdraft	(1,507)	(3,753)	–	**(5,260)**
	1,901	829	88	**2,818**
Finance leases	(301)	210	(30)	**(121)**
	1,600	1,039	58	**2,697**

22. Acquisitions

On 30 April 2004 the Group acquired the entire issued share capital of R Carter & Son (Painting Contractors) Limited for a maximum consideration of £0.83m (including acquisition costs), satisfied by £0.42m cash, and contingent consideration of £0.41m. The contingent consideration is payable over a three year period commencing in 2005, by annual instalments and is based on post tax profits for the accounting years ending 30 April 2005, 30 April 2006 and 30 April 2007. The contingent consideration included represents the Directors' best estimate of contingent consideration payable. On 21 May 2004 the Group acquired the entire issued share capital of Chas. A. Critchley (General Contractor) Limited for £0.16m (including acquisition costs), satisfied by £0.16m cash.

Both purchases have been accounted for by the acquisition method of accounting.

22. Acquisitions continued

The assets and liabilities acquired were as follows:

	Book value £'000	Adjustments £'000	Fair value £'000
Fixed assets			
Tangible assets	214	(80)	134
Current assets			
Stocks and work in progress	108	(10)	98
Debtors	238	–	238
Cash at bank	107	–	107
Total assets	667	(90)	577
Creditors			
Bank overdraft	19	–	19
Trade creditors	113	–	113
Other creditors	81	–	81
Accruals	18	20	38
Corporation tax	29	–	29
Total liabilities	260	20	280
Fair value of net assets acquired			297
Goodwill capitalised			690
			987
Satisfied by:			
Cash			577
Deferred consideration			410
			987

Provisional fair value adjustments represent the write off of a revaluation of tangible fixed assets totalling £0.08m and other adjustments of £0.03m.

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 £0.01m. The profit after taxation for the financial year prior to acquisition of the companies acquired was £0.14m in aggregate.

During the year the Group and Company paid £0.58m in respect of contingent consideration relating to acquisitions in prior periods.

The Company also invested £0.77m in Mears Insurance Captive Limited, relating to £0.75m in cost of investment and £0.02m of set-up costs. This investment resulted in the capitalisation of £0.02m of goodwill on consolidation.

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

	2004 £'000	2003 £'000
Cash at bank and in hand acquired	**107**	5
Bank overdrafts	**(19)**	(3,356)
	88	(3,351)
Cash consideration	**(1,176)**	(2,037)
	(1,088)	(5,388)

23. Capital commitments

Neither the Group nor Company had any capital commitments at 31 December 2004 or at 31 December 2003.

24. Contingent liabilities

The Group has guaranteed that it will complete the contracts it has commenced with 14 (2003: 23) local authorities. At 31 December 2004 these guarantees amounted to £1.95m (2003: £2.38m).

The Group and Company had no other contingent liabilities at 31 December 2004 or at 31 December 2003.

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 and employees. 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 2004 were £0.13m (2003: £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 2004 by a qualified independent actuary using the projected unit method.

The main assumptions used by the actuary were:

	2004 %	2003 %
Rate of increase of salaries	**3.3**	3.3
Rate of increase for pensions in payment	**2.8**	2.8
Discount rate	**5.3**	5.5
Inflation	**2.8**	2.8

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

	2004 %	**2004 £'000**	2003 %	2003 £'000
Equities	**7.5**	**522**	8.0	356
Bonds	**4.9**	**57**	5.0	49
Cash	**4.8**	**73**	4.0	37
Group's estimated asset share		**652**		442
Present value of scheme liabilities		**794**		530
Deficit in scheme		**(142)**		(88)
Related deferred taxation asset		**43**		26
Net pension liability		**(99)**		(62)

25. Pensions continued

FRS 17 Retirement Benefits *continued*

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31 December 2004 would be as follows:

	2004 £'000	2003 £'000
Net assets as reported	**16,436**	12,292
Net pension liability under FRS 17	**(99)**	(62)
Net assets including net pension liability	**16,337**	12,230

	2004 £'000	2003 £'000
Profit and loss reserve as reported	**12,310**	8,501
Net pension liability under FRS 17	**(99)**	(62)
Profit and loss reserve including net pension liability	**12,211**	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 2004 would be as follows:

	2004 £'000	2003 £'000
Analysis of amounts that would have been charged to operating profit:		
Current service cost	**121**	36
Past service cost	**5**	—
Total operating charge	**126**	36
Amount that would have been charged to net interest payable:		
Expected return on pension scheme assets	**38**	7
Expected return on pension scheme liabilities	**(33)**	(6)
Net finance expense	**5**	1
Amount that would have been charged to profit before taxation on a FRS 17 basis	**131**	37

	2004 £'000	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	**16**	22
Experience gains and losses arising on the scheme liabilities	**(42)**	1
Changes in assumptions underlying the present value of the scheme assets	**(32)**	(29)
Actuarial loss recognised	**(58)**	(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 2004 were:

	2004 £'000	2003 £'000
Deficit at 1 January 2004 (on acquisition)	**(88)**	(75)
Current service cost	**(121)**	(36)
Contributions	**125**	28
Past service costs	**(5)**	–
Other finance income	**5**	1
Actuarial loss	**(58)**	(6)
Deficit in scheme at end of year	**(142)**	(88)

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

	2004 £'000	2003 £'000
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	**16**	22
Percentage of scheme assets	**2.5%**	5.0%
Experience gains and losses on scheme liabilities:		
Amount (£'000)	**(42)**	1
Percentage of the present value of scheme liabilities	**(5.3%)**	0.2%
Total amount recognised in the statement of total recognised gains and losses:		
Amount (£'000)	**(58)**	(6)
Percentage of the present value of the scheme liabilities	**(7.3%)**	1.1%

26. Leasing commitments

The Group

Operating lease payments amounting to £3.23m (2002: £1.88m) are due within one year. The leases to which these relate expire as follows:

	2004		2003	
	Land and buildings £'000	**Other £'000**	Land and buildings £'000	Other £'000
In one year or less	**92**	**263**	170	261
Between one and five years	**727**	**1,894**	234	901
In five years or more	**253**	**–**	315	–
	1,072	**2,157**	719	1,162

27. Related party transactions

During the year the Group purchased goods to the value of £0.06m (2003: £0.01m) from FITE IT Limited, an associated company.

At 31 December 2004 there was a total loan balance owed by FITE IT Limited £0.05m (2003: £0.05m).

On 1 March 2005 the Group disposed of its entire investment in FITE IT 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 1 June 2005 when the following ordinary business will be considered:

1. To receive and adopt the accounts for the year ended 31 December 2004, together with the Reports of the Directors and Auditors thereon.
2. To declare a final dividend of 1.4p per share on the ordinary share capital of the Company.
3. To re-appoint Grant Thornton UK LLP as auditors and authorise the Directors to determine their remuneration.
4. To re-appoint M A Macario as a Director who, in accordance with the Articles of Association, retires by rotation.
5. To re-appoint R B Pomphrett as a Director who, in accordance with the Articles of Association, retires by rotation.
6. To re-appoint S J Black as a Director who, in accordance with the Articles of Association, retires having been appointed since the last Annual General Meeting.

And the following special business:

Ordinary resolution

7. THAT the report of the Board in relation to remuneration policy and practice (as referred to on pages 21 and 22 of the Annual Report and Accounts for the year ended 31 December 2004) be approved.
8. THAT in substitution for the authority to allot relevant securities conferred on the Directors by the ordinary resolution passed on 2 June 2004, 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 £275,365 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

9. THAT:

   (a) the Directors be authorised to allot securities of the Company (pursuant to the authority conferred on the Directors by resolution 8 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 £28,941.

   (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

Notice of the Annual General Meeting continued

Special resolutions continued

(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
9 May 2005

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 27 May 2005 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.

Mears' commitment to environmental issues is reflected in this annual report which has been printed on Revive Silk, a recycled paper stock. It contains 75% de-inked post consumer waste and 25% combination mill broke and virgin fibres.

This document was printed by Beacon Press using their environmental print technology which minimises the impact of printing on the environment. All energy used comes from renewable sources, vegetable based inks have been used and 85% of all waste associated with this production has been recycled. The printer is a Carbon Neutral® company.

Both the printer and the paper mill are registered to ISO 14001.

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