

IMPROVING HOMES, IMPROVING NEIGHBOURHOODS, IMPROVING LIVES



Who we are

We are the leading social housing repairs and maintenance provider in the UK. We achieve the highest levels of financial performance and innovation in our sector.

2,300 people work at Mears. Together with our clients, we maintain, repair and upgrade people's homes. We carry out more than 3,000 repairs each day to 500,000 houses nationwide. Our customer service philosophy is simple: we want to make tenants smile.

Our results in 2005 underline the financial and operational strengths of this Group.

Our vision

Our purpose is to make a positive difference to the communities we serve by improving homes, improving neighbourhoods and improving lives.

We do this by constantly striving to achieve the highest levels of customer satisfaction, efficiency and effectiveness in the social housing sector.

Our approach is based on the development of outstanding partnerships with employees, clients, tenants and the wider community.

Success enables us to create great opportunities for our employees and sustainable value for our shareholders.

What we do

Every day our people support clients and tenants by:

- Maintaining and improving homes, buildings and communities.
- Carrying out a planned programme of Decent Homes improvements.
- Fixing damage and responding to other urgent tenant needs.

We work hard to improve people's quality of life wherever we operate.

How we do it

We listen carefully to people's needs and we always try to find better ways to do things.

We believe tenants should be involved at all stages and always put their needs at the heart of what we do.

We call our approach the One Mears Way. Through this we capture the best ideas, processes and methods and share them with colleagues so all stakeholders can understand and follow the right way to do things – every single day.

Why we do it

Helping our clients to meet their objectives enables us to grow the scale and profitability of our business so as to provide improving service levels.

That means we can create great opportunities for our employees and sustainable value for our shareholders.

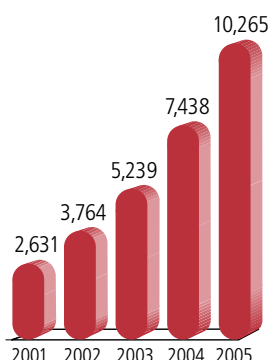
Success also enables us to support a wide range of community projects, from breakfast clubs for schoolchildren to skills training centres for potential employees.

Annual General Meeting	7 June 2006
Record date for final dividend	16 June 2006
Dividend warrants posted to shareholders	3 July 2006
Interim results announced	22 August 2006

Highlights

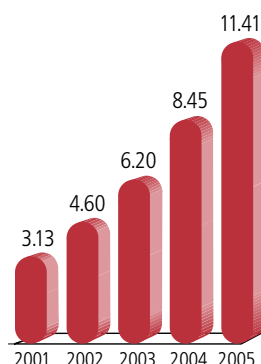
Profit before tax*
£'000

+38.0%



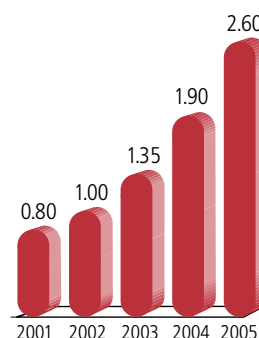
Diluted earnings per share**
pence

+35.0%



Dividend per share
pence

+36.8%



* Before share option charges
** Full tax, before share option charges

- Social housing turnover up 38.4% to £144.1m (2004: £104.1m).
- Order book £1 billion (2004: £815m).
- Net cash inflow of £4.1m (2004: £0.9m).
- Margins increased across all business segments.

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Our business

5.4m

the number of social homes in the UK

500,000

homes supported every day by Mears

Our values

Mears is a community in its own right. What we say and do creates our reputation – as individuals and as an organisation – and this drives our success. We have introduced a set of values to guide us. These help to make us more effective and efficient – and they help to make Mears a great place to work.



We value our customers and communities,
putting the needs of our clients and tenants at the heart of everything we do.



We value teamwork,
supporting each other, sharing ideas and never excluding others.



We value personal responsibility,
setting and achieving consistently high standards in our work and our conduct, and never adopting a negative attitude.



We value innovation,
being inventive in our approach and never allowing conventional thinking or bureaucracy to get in the way.

Our market

Social housing is a buoyant market with lots of potential for further growth. We meet the need for both ongoing repairs and maintenance work and the capital works required to upgrade housing to meet the Decent Homes Standard.

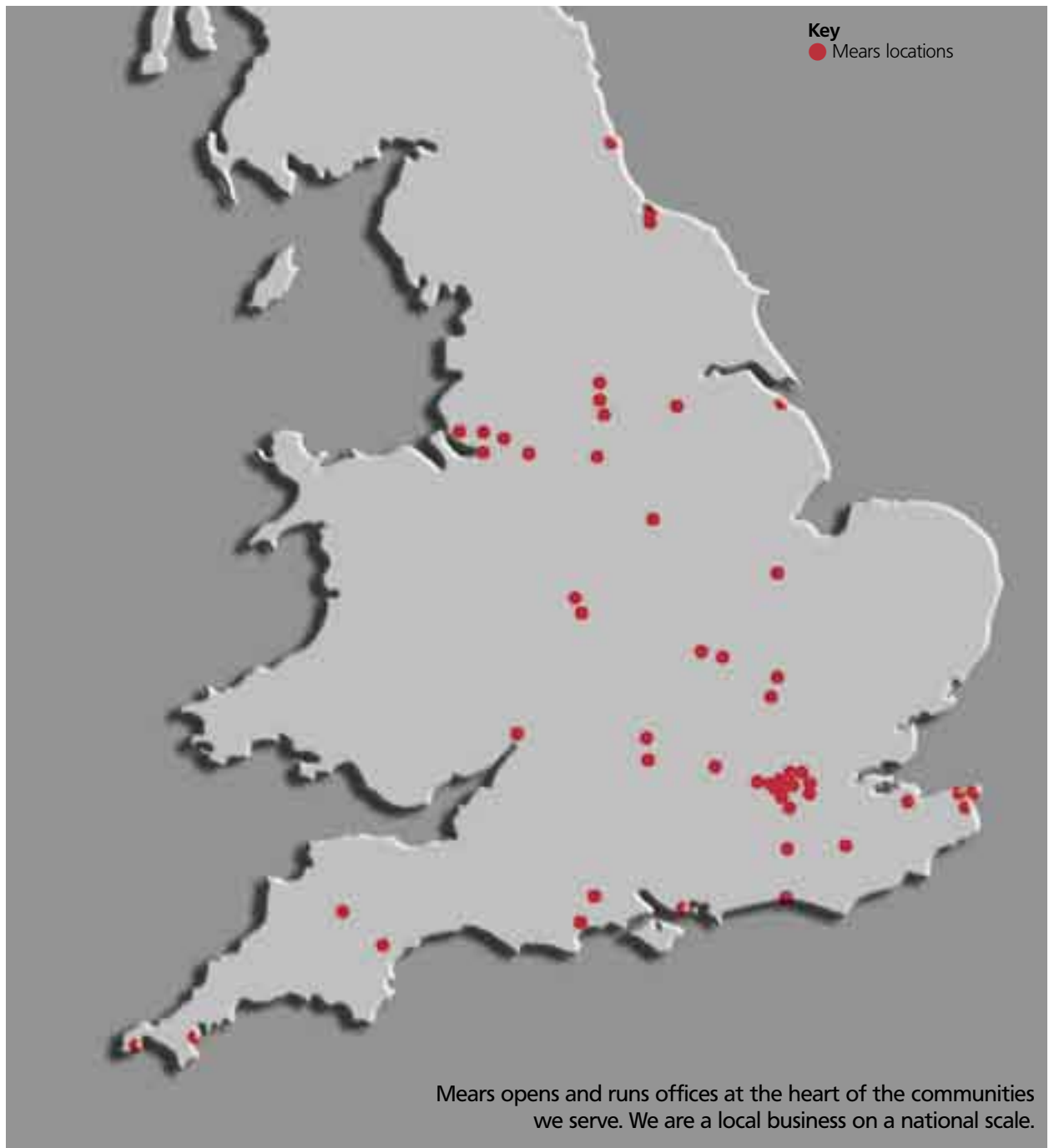
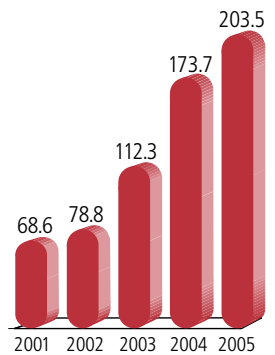
All local authorities are required to bring social housing stock up to a decent standard by 2010. A decent home is defined as a property that is wind and weather tight, warm and has modern facilities. Central Government is investing around £3.5 billion each year on Decent Homes Standard works and we expect this commitment to last well beyond 2010, probably until 2015.

We believe the repairs and maintenance area will provide us with an addressable market of at least £5 billion each year. This market area is growing and the key trend is a move towards larger, longer term contracts. More and more local authority clients want to work with suppliers able to develop and implement innovative partnership models.

We expect the market share of larger service providers to increase in both Decent Homes and repair and maintenance as an increasing number of local authorities, arms-length management organisations and housing associations seek to develop long term partnerships with a smaller number of providers.

Group turnover £m

+17.2%



“We’re now moving into a period of particularly rapid growth. There are enormous opportunities ahead – the greatest ever for Mears. I remain absolutely committed to the Group and I’m looking forward to leading the team that takes Mears to the next level.”

Chairman’s statement

Bob Holt

Mears was listed on the Alternative Investment Market (AIM) of the London Stock Exchange in October 1996. We had 83 employees and turnover of £12m. Since then we have achieved an average annual compound growth rate in profits of 42%.

In 2005 our performance was recognised with the Decade of Excellence and Best Performing Share Over 5 Years awards at the AIM Awards. It’s taken a lot of effort to achieve our results and the team deserves accolades like these.

We’ve continued our strong growth this year. In line with market expectations, turnover was up 17.2%, operating profit before share option charges was up 37.1% and dividend was up 36.8%. We now employ 2,300 people and we have an order book in excess of £1 billion. It’s another very strong, very consistent set of results that stand out in our sector.

Consistent qualities

We’ve been through enormous changes over ten years but the same four qualities have remained:

- We have strong financial management across the entire business.
- We have an open and honest approach to partnership – with clients, with tenants, with suppliers and with advisers.
- We know how to work together effectively.
- We are not afraid of hard work.

The £1 billion order book is an important indicator of our strengths. Yes, the quantity of future revenue involved is impressive, but I believe it’s the quality of those orders that’s most significant. These are long term agreements with clients based on the right key performance indicators. We have never taken on short term contracts simply to create more flattering figures. We’re building a robust business here, a business based on real partnerships.

The big challenge – the right people

One of the questions I am always asked is ‘Can you continue to manage growth?’ I’ve been asked that every year since I became Chairman. I think our figures demonstrate we meet our challenges head on.

We’re now moving into a period of particularly rapid growth and I’m sure we will, once again, manage change successfully. The key is to recruit early and bring in the right people before you need them. We also need to have the right number of excellent people in place, even though there is a skills shortage. We’re developing innovative training, development and apprenticeship schemes to meet that challenge. For example, in 2006 every tradesperson within the Company will have the opportunity to study towards a professional qualification – a first for Mears.

Over the last 12 months Stuart Black has had an immediate effect as Chief Operating Officer and we’ve recognised this by appointing him as Chief Executive. Stuart is enhancing the professionalism of the Group and is introducing a wide range of measures based on strong processes. It’s exactly what we need.

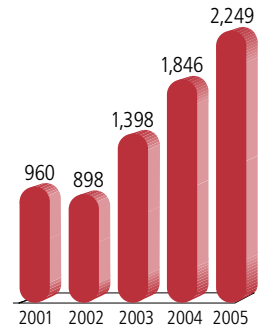
The finance team has continued its excellent work – how many companies can achieve earnings growth of around the 40% mark and still generate cash? In addition, Stuart has introduced an experienced management team across areas such as IT, Marketing and HR.

2,300

people work within Mears

Growth in average
employee numbers

+21.8%



Summary

- The trend for larger, longer term contracts continues and plays to our strengths as the leader in our market.
- We are very strong in the buoyant repairs and maintenance market and see no difficulty in continuing to build the emphasis of our business as Decent Homes ends.
- Corporate social responsibility is at the heart of this business.

Improving communities is part of our DNA

Corporate social responsibility is not just a set of policies here – it's at the heart of this Group. I believe our work should help to improve daily life for people. I say our job is to make tenants smile.

That belief runs through our repairs and refurbishments work and the additional projects we're involved in. Our 100 Days in the Community programme included 120 separate projects where Mears employees used their time, skills and energy to make a difference. We'll do even more in 2006.

Many of our employees come from the communities they serve and through apprenticeship schemes we're helping to increase employment and opportunity in deprived areas. We're planning to make our workforce even more reflective of our communities, employing more elderly people to work with elderly people.

Our community work has a real effect on people's lives. For example, Mears employees have been helping the Whitechapel Homeless Mission in East London by renovating part of the building and carrying out volunteer work. I am also personally supporting the Clean-up London campaign against anti-social behaviour and Mears branches are involved in everything from graffiti removal to supporting youth sports schemes.

A strong position in a great market

There are excellent prospects in social housing. We're continuing to see a trend for larger, longer term contracts and that plays to our strengths as the leader in our market. We can maximise our advantages in terms of quality of service, scale, innovation and our proven commitment to working in partnership.

I see no signs that change in the political climate will affect our market significantly. The Decent Homes initiative was scheduled to end in 2010 – though we expect that to stretch to 2015. We are very strong in the buoyant repairs and maintenance market and see no difficulty in continuing to build the emphasis of our business as Decent Homes ends.

I've been in support services for 25 years and it has always surprised me that there has been relatively little consolidation in social housing. It remains a relatively fragmented sector, with competitors and potential entrants showing no real appetite for merger so far. Mears is in a good position in terms of any future consolidation. We have robust organic growth, but we are also well placed to make acquisitions if and when the right opportunities emerge.

Looking ahead

I would like to thank everyone at Mears for their commitment and hard work in 2005. My hope for 2006 is that the excellent team here will raise their game once again. I want everyone within this Group to get the most from the career opportunities they have and to be ambitious for themselves and the business.

There are enormous opportunities ahead – the greatest ever for Mears. I remain absolutely committed to this Group and I'm looking forward to leading the team that takes Mears to the next level.

Bob Holt
bob.holt@mearsgroup.co.uk
Chairman
18 April 2006

“The social housing market is robust. The forward order book is extremely healthy both in terms of quantity and quality of future work.”

Operating and financial review
 Stuart Black (CE), David Robertson (FD)



We describe ourselves as the leader in the social housing market. What defines leadership for us?

- We continually demonstrate thought leadership and innovation.
- We have the most repair and maintenance contracts in our sector.
- We have the best margins in our sector.
- We have the strongest cash generation in our sector.

We believe our strong financial performance in 2005 underlines our strengths and demonstrates once again that we are able to deliver impressive and sustainable growth.

Before we review our performance we would like to note that we now prepare accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The comparatives in the results below have been restated to reflect this change.

Turnover

In 2005 we grew turnover to £203.5m (2004: £173.7m), an increase of 17.2%. Within this overall figure social housing turnover was up 38.4%, reflecting a strong performance in winning new business.

Operating result

We achieved an operating result before share option charges of £10.3m (2004: £7.5m) – a 37.1% increase. We increased operating margins in our social housing activities to 5.5% (2004: 5.2%) despite major increases in the operational demands placed on us by new work from contracts secured in late 2004 and 2005.

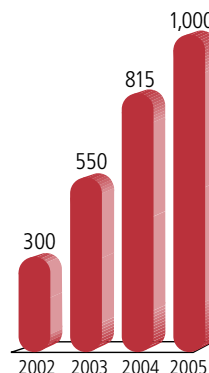
We carry out
3,000
 repairs every day

Key strategic progress this year:

- Quality £1 billion order book.
- Acquisitions integrated into core business.
- Risk management processes strengthened.
- Capacity increased ahead of market demand.
- Senior management and business processes enhanced.
- Company-wide training and development.

Order book growth
£m

+22.7%



Summary

- Social housing turnover up 38.4%.
- Margin increases across all business segments.
- 90.8% of EBITDA converted into operating cash flow.
- Order book stands at £1 billion.

Our mechanical and electrical division also achieved an improvement in margins at 3.8% (2004: 2.8%). United Fleet Distribution increased its operating margin to 4.8% (2004: 4.2%). Our ongoing investment in Group infrastructure provides scope for better margins and even greater customer satisfaction.

Share option charges

The share option charge for 2005 was £0.5m, up from £0.3m in 2004. There is no cash impact from this new expense which arises from the adoption of IFRS.

Finance

The Group again maintained its broadly neutral cash position throughout 2005 and incurred a net finance charge of £0.02m (2004: £0.07m). Tight working capital control remains paramount given the tremendous scale of growth we're generating.

Tax expense

£2.5m has been provided for corporation tax (2004: £1.8m). The effective rate in 2005 of 26.1% (2004: 24.7%) is low due to the impact of a corporation tax deduction received on the exercise of share options and the utilisation of tax losses.

Earnings per share

Normalised diluted earnings per share (EPS) before share option charges increased 35.0% to 11.41p (2004: 8.45p). This is calculated after applying a full tax charge. We consider this to be the fairest method of consistently evaluating the performance of Mears management.

Dividend

The dividend increase is in line with our earnings growth. A final dividend of 1.9p per share is proposed which combined with the 0.7p interim dividend gives a total dividend of 2.6p per share (2004: 1.9p). In accordance with IFRS, the final dividend has not been recognised within the financial statements as it did not represent an obligation at the balance sheet date.

The dividend is payable on 3 July 2006 to shareholders on the register on 16 June 2006.

Cash flow

The cash flow position continues to underline our strength as a business. A net cash inflow of £4.1m was achieved in the year (2004: £0.9m inflow). The Group converted 90.8% of EBITDA into operating cash flow (2004: 77.6%). A net £2.8m was invested in new technology and operational bases, with ten new sites opened in the year. The settlement of deferred consideration on previous acquisitions absorbed £0.8m of cash. Our net cash position at 31 December 2005 was £6.9m, up from £2.8m a year ago.

Acquisitions

The painting businesses we have acquired are now integrated into our social housing division and are focused on developing the significant growth opportunities in this sector.

Excellent market opportunities in social housing mean that organic growth is likely to fuel our momentum, but we continue to seek out quality businesses with the potential to help us further our strategic objectives and improve or broaden our services.



Mears Client Partnership Group

Mears believes significant procurement efficiencies can be made by bringing clients together on both response and Decent Homes work.

The Mears Client Partnership Group currently includes 14 clients. The aim of the Group is to identify products that will both improve the service for tenants and reduce the long term cost of repair and maintenance work.

The Group takes account of the full cost of the product when selecting items. This means allowing for both the product life cycle and the long term cost of product maintenance.

Peter Sharman from Welwyn and Hatfield Council states, "I believe there is much to be gained from Mears and clients working together to improve the long term value of response and maintenance work, through the joint selection of key products."

Operating and financial review

Continued

Order book

The visibility of our earnings continues to improve. £315m of new work was secured in the year from 14 customers. Our order book now stands at £1 billion (2004: £815m). The element of market forecast turnover secured for 2006 is 87%.

We continue to 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.

Total equity

Total shareholders' equity value rose by £8.2m in the year, up from £19.9m to £28.1m at 31 December 2005. Within this overall increase, £1.4m is due to the recognition under IFRS of the deferred tax asset in relation to share options.

Major contract wins

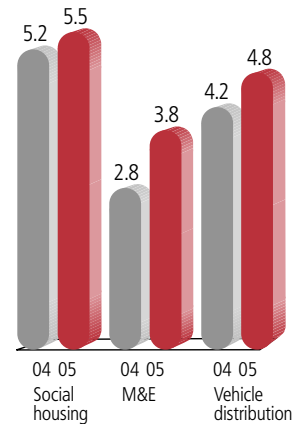
We achieved a number of major successes, winning contracts valued at £315m in total. Highlights included:

- **Brighton and Hove City Council**
Five year gas servicing and repair contract.
- **London Borough of Greenwich**
Five year Decent Homes contract.
- **Kensington Housing Trust**
Five year responsive repair and voids contract.
- **London Borough of Kingston upon Thames**
Seven year response and voids maintenance contract.





**Operating margin
(pre share-based payments)**
%



“We hold a healthy mix of Decent Homes and repairs and maintenance work, giving us a well balanced position in the social housing market that is not reliant on clients’ future discretionary spending.”

- **Leeds City Homes**
Five year Decent Homes contract.
- **Nottingham City Homes**
Five year Decent Homes contract.
- **Portsmouth City Council**
Three year response and maintenance contract.
- **Shoreline Housing Partnership**
Five year Decent Homes contract.
- **Thames Valley Housing Trust**
Five year responsive repair and voids contract.
- **Wakefield and District Housing**
Five year Decent Homes contract.

Risks

The two most significant risks we face are damage to our reputation as a result of a service failure and a shortage of appropriately skilled employees placing limits on our growth. In response, we have upgraded our risk practices in line with the growth of the business and invested significant time and resources in strengthening our approach to risk.

Of course, the risk of service failure is best mitigated through a very strong focus on service delivery and innovation and this is embedded in our operational approach – the One Mears Way. A skills shortage is best addressed through innovative recruitment and development programmes and an excellent working environment with great rewards and opportunities. We talk about our approach in more detail on pages 12 to 15.

Our market

We address two main market areas within social housing: ongoing repairs and maintenance contracts with local authorities and contracts for capital programmes generated by the Decent Homes Standard.

Central Government is committing at least £3.5 billion per annum to achieve the Decent Homes Standard and we believe this commitment is likely to last until 2015. More than one million homes do not yet meet the Standard. 58 of the scheduled 192 local authorities missed the Government’s deadline of July 2005 to start the process by submitting options appraisals. Clearly, there is still plenty of opportunity, including long term partnership agreements involving joint venture agreements or TUPE transfer.

The repair and maintenance market is thriving and we have identified an addressable market opportunity of around £5 billion a year. The trend is for larger and longer term contracts with clients looking to form partnerships with suppliers able to provide innovative business and service models. Everything from full-scale outsourcing to joint ventures is on the agenda. We believe these contracts play to our strengths as a market leader with a flexible and innovative approach.

Authorities in some of the larger conurbations in the North of England and the Midlands are now considering the option of joint working arrangements with the private sector for repair and maintenance work. We are also seeing interest in our repair and maintenance services from clients in Scotland and Wales – two relatively early-stage markets with great potential.

Local authorities are experiencing greater scrutiny from Central Government with the Audit Commission paying particular attention to the delivery of repair and maintenance services. A new key line of enquiry has been introduced focusing on the value for money and efficiency of maintenance services.



Mears Joins Public Partnerships to Support London Clean-up Initiative

Bob Holt, Mears Group Chairman stood alongside Home Office minister, Rt Hon. Hazel Blears MP to launch the London Clean-Up campaign at London's City Hall on 7 March 2006.

The campaign is the latest complement to the Government's "Respect Agenda" which aims to clean up London's streets from litter and reduce the amount of crime and anti-social behaviour. Research shows that this type of anti-social behaviour often makes residents feel intimidated and fearful of being victims of crime.

Bob was invited to speak at the launch to illustrate how local businesses like Mears can do so much to keep the communities in which they are based crime and grime free.

Mears currently works in seven London boroughs including Croydon, Hackney, Islington, Richmond and Brent. Through these partnership contracts we have worked on the following:

- Working with local youths and our Registered Social Landlord partners, we paint over areas prone to graffiti.
- We provide a handyman service in a number of boroughs where local residents (usually the elderly or infirm) can gain access to a skilled tradesman to carry out those day to day jobs around the home.
- We are providing a range of training and mentoring schemes aimed at both young people and parents.
- We are working on estate-wide football coaching schemes which lead to wider Urban Academy initiatives.

Operating and financial review Continued

Our market continued

In response we're helping individuals within the sector to share their insight and experiences through our Thought Leader conferences, the first of which looked at the Efficiency Agenda.

Our strategy

Social housing continues to offer the biggest and best long term growth opportunities. Our focus is firmly on this sector, with particular emphasis on larger, longer term contracts and other forms of innovative partnerships.

Our specific strategic priorities are:

- To recruit, retain and develop excellent people.
- To develop close partnerships with clients and communities.
- To constantly search for new and better ways to support clients and help tenants.

In 2005 we strengthened our approach across all areas of the business in line with our strategy. Here are some examples:

→ *We established a Group Executive*

Set up in March, the Group Executive is responsible for all day-to-day operations. The members of this team are drawn from our key operational units and our support functions. The team is responsible to the PLC Board for delivering the Group's strategic business objectives and reports every month.

→ *We enhanced our operating units*

Our operating units are three regional social housing operating units covering the North and Scotland, the Midlands and Wales, and the South; Haydon, our mechanical and electrical business; and United Fleet Distribution. Each operating unit now has its own dedicated Managing Director who is part of the Group Executive. This integrated management structure has created opportunities for cross-selling Haydon's services within social housing, generating excellent new business for Haydon outside its established London market.

→ *We further strengthened the senior team*

We made senior appointments in Marketing and Sales, HR, IT, Procurement and Operations. This has increased the breadth of our management team and is a major step forward in terms of introducing experienced management and robust processes across all areas of the business.

→ *We linked incentives to performance*

The rewards for our management teams are based on a clear set of performance criteria. These include progress against the achievement of defined financial and strategic objectives, including customer and employee satisfaction levels.

→ *We integrated our acquisitions*

We are very pleased with the progress of recently acquired businesses. We have now integrated Scion and the smaller painting companies into our core activities. Scion operates as part of Haydon and the painting companies are now part of our social housing team.

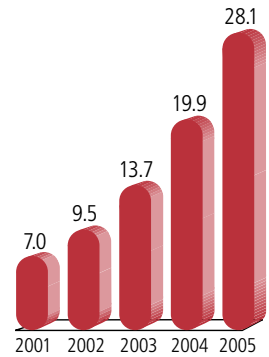
→ *We improved our support infrastructure*

We introduced a number of new systems and processes in HR, Finance, Sales and IT helping us to manage and support growth and generate more effective and efficient ways of working.



Net assets
£m

+41.2%



“Our belief that community should be at the heart of Mears is stronger than ever. You can see it in the way we recruit, the way we carry out work and the time we all give to supporting community projects.”

People – our most valuable differentiator

We said this last year and we will say it again: what really sets us apart as a business is the quality and spirit of our people.

This is extremely important for two key reasons. First, Mears people are face-to-face with clients, tenants and the wider community each day, so our work makes an immediate and lasting impression. Second, there is a skills shortage and it is vital that we can attract new people, retain good people and have the training and development programmes in place to turn good people into great people.

In 2005 we started an initiative whereby our 1,500 tradespeople can all now train for a professional qualification. We also launched a national programme of employee development, together with structured work experience and training for prospective employees.

Most of our employees live in the community they support. Recruiting locally enables us to grow quickly, to attract people with local understanding and to give something back to our communities, many of which have profound unemployment problems. Our belief that community should be at the heart of Mears is stronger than ever. You can see it in the way we recruit, the way we carry out work and the time we all give to supporting community projects.

Outlook

The social housing market is robust. The forward order book is extremely healthy both in terms of quantity and quality of future work. Our relationships with clients are excellent. We are a powerful competitor for all new contracts, especially those based on scale, quality and innovation. We have a well-balanced business involved in Decent Homes and repairs and maintenance work.

We have opportunities for strong organic growth and growth through acquisition. The Mears appetite for hard work is as strong as ever.

We believe we are in good shape and we are looking forward to another year of Improving Homes, Improving Neighbourhoods, Improving Lives.

Stuart Black
stuart.black@mearsgroup.co.uk
 Chief Executive
 18 April 2006

David Robertson
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 Finance Director
 18 April 2006



Caring for different generations of the community in Wigan and Leigh.

Corporate social responsibility

12 Corporate social responsibility



Helping to improve facilities at Howe Lodge flats in Richmond.

Our communities

We work in some of the most socially deprived areas of the country. Along with our professional commitment to tenants, we feel a strong sense of responsibility towards the wider community and we work towards achieving three specific aims:

- To support and strengthen the communities in which we work.
- To recruit employees locally whenever we can.
- To encourage employees to volunteer their time and skills to specific community projects.

Helping a local community to thrive increases the quality of life for tenants and makes our job that little bit easier. It's also rewarding for our employees, especially as 90% of our people live in the community they support.

Helping the community

In 2005 we carried out 120 projects designed to improve a local community. We pay for our employees to devote 16 hours a year to community work – here are some examples of that in action:

- *Whirlow Farm, Sheffield*
Few of the children in inner city social housing communities get to experience rural life. Mears employees in Sheffield and Barnsley volunteered to improve the facilities at Whirlow Farm, a working farm with educational facilities, and then paid for children from our communities to have a week's holiday on the farm.
- *Reading and breakfast clubs*
Mears employees in the South have volunteered to go into schools to support reading schemes and prepare breakfast for children. We know from our work with similar initiatives that these clubs help to get more children to school, reducing truancy and the problems associated with truancy.



Wigan and Leigh Housing Partnership

Mears' kitchen replacement programme for Wigan and Leigh Housing will be completed 18 months ahead of schedule in June 2006. This performance has been achieved through an innovative approach to all aspects of the work from planning through to cost management.

Tenant customer satisfaction levels of 99% were achieved.

Customer care was at the heart of the operation with clear, friendly communication being supported by innovative support mechanisms such as comfort homes.

Mears success in Wigan continues as we handle some 500 responsive repairs per week for 11,500 homes in the area.

Top 20

in Europe for employment growth

Supporting good causes

Our commitment to the community is recognised in Mears attaining the Business in the Community 'Percent Standard'. This benchmark measures the contributions made by companies through cash donations, staff time, gifts in kind and management time, calculated as a percentage of pre-tax profit. The Percent Club recognises those companies who put the equivalent of at least 1% of their pre-tax profit into community work. In 2005 we contributed 3.9%.

Towards the end of 2005 we developed new relationships with two charities involved in housing, agreeing a major national partnership programme with Shelter and joining Crash (Construction and Property Industry Charity for the Homeless). These organisations help those in greatest need when it comes to accommodation. Homelessness, together with projects that address education and skills development, will be the main focus of our community work in 2006.

Our workplace

We are one of the fastest growing companies in Europe in terms of employee numbers. During the year the Group was recognised as one of the top 20 companies within the European Union for employment growth over the last three years. We want to become a recognised 'Employer of Choice' within our sector with a workforce that fully reflects the communities we serve. To help us achieve this, we have three key aims:

- To develop a culture of good communication and trust within the business, so every employee shares the same values and works towards the same business objectives.
- To manage change in a fast-growing, high-performance organisation by anticipating the people and resources we will need well before they are needed.
- To encourage our employees to work together effectively in all situations.



Working to help improve life for homeless people at the Whitechapel Mission.



Supporting community football activities in Richmond.



We have responded to the skills shortages in housing maintenance and repair trade by offering local tenants the opportunity to develop new capabilities.

In our market we have constantly been innovative:

- Introduction of greater choice for tenants with mobile show homes.
- Provision of translation services for tenants.
- Producing videos for tenants explaining the repairs process.
- Provision of mobile comfort homes during repairs and refurbishments.
- Daily rubbish clearance to keep worksites safe.
- Paperless systems for clients and tenants.
- National apprenticeship schemes for local people.

Corporate social responsibility

Continued

Our workplace continued

Training and development

We are an established Investor in People and we're meeting the challenge of the skills shortage in our sector through a comprehensive national programme of employee development, together with structured work experience and training programmes for prospective employees.

During 2005, we started an initiative whereby all 1,500 tradespeople will have the opportunity to train for a professional qualification – an NVQ in a trade based skill.

We opened the first Mears Training Foundation in 2005 in Hackney. This provides a base for people on a structured work experience programme who are considering a career in one of the trades. We also use the space to train existing Mears staff to improve their range of skills.

Culture and diversity

For us diversity is about having a group of employees who reflect the community they serve. It's about having the right blend of age, sex, race and cultural background required to understand the needs of the people we support. We strive to make our workforce reflect the communities in which we work.

We operate in a sector that has been very male-orientated for many years, but we're addressing that imbalance. Women now have roles within Mears from apprentice to executive director, but we have more work to do in this area. We will continue to address the issues involved and support the Women in Construction programme.

Support for employees

In 2005 we introduced a free 24 hour, 365 days per year confidential helpline called Mears Assist. This provides employees with advice on a wide range of personal and work-related matters and is available to their immediate families. We see Mears as a community in its own right and initiatives such as this are intended to help people get the most from their life while working here.

Our market

We are the market leader in the social housing sector and we believe we have a responsibility to help improve knowledge, understanding and the overall performance of our market. In particular, we set out:

- To find and work with partners who share our values.
- To help clients and other organisations meet and learn from one another.
- To look for innovative ways to improve efficiency and effectiveness – for the benefit of clients, tenants, local communities and tax payers.

Thought leadership

In 2005 we launched the first in a series of Thought Leader conferences designed to bring key players in the social housing market together to debate topics important to the sector. The first conference focused on the Efficiency Agenda and you can see the very useful results of this event at www.thoughtleader.org.uk. More Thought Leader conferences are planned for 2006.

Procurement policies

In 2005 we established a National Procurement Group. This team is developing a set of consistent practices related to suppliers that are based on our Mears Values and is working in partnership with our Corporate Social Responsibility Group to help manage every aspect of the supply chain.



Safe as Houses – Launch of Mears New Health and Safety Initiative

In March, Mears launched its new health and safety initiative for children at Manchester City Stadium.

The Mears guide to health and safety booklets are aimed at children aged five to seven years. The booklets teach kids about the dangers of handling tools that they might see in their home during repairs and maintenance visits by Mears tradespeople.

The new pack also features Mears' new health and safety mascot – Menda.

Menda comes complete with his own tool kit and shows children how to be safe through puzzles, pictures and word searches.

Menda is a fun character with a serious message and helps children to understand the dangers in an informative and educational way.

Local schools from Manchester and Stockport, who took part in the Mears health and safety competition, attended the launch event and were awarded prizes for their schools by Children's BBC presenters – Dick and Dom.

The Mears health and safety guide is also endorsed by the Children's Safety Education Foundation and supported by the Royal Society for the Prevention of Accidents.



Our environment

We take our environmental performance very seriously and work continuously to improve our practices. Our aims are:

- To have a positive effect where we work, always trying to improve a location.
- To minimise waste and follow good environmental practice throughout the business, from our work in people's homes and neighbourhoods to the way we run our offices.

In 2005 we launched a pilot programme moving us towards achievement of ISO 14001. This sets high standards for improved waste management, greater efficiency and better reporting. We intend to achieve ISO 14001 on a national level by December 2006.

Achieving ISO 14001 certification has many potential benefits. It further reduces the already limited potential risk of us damaging the environment through our operations and that reduces the risks associated with environmental prosecution, litigation and adverse publicity. It also enables us to make financial gains through responsible resource management and avoidance of costs. Specifically, it will enable us to:

- Help to create a cleaner and safer environment.
- Reduce our impact on the natural environment.
- Demonstrate responsible environmental management to existing and future clients.
- Reduce our environmental and social liabilities.
- Enhance our industry and public reputation.
- Help the UK Government reach its environmental improvement targets for industry.

Health and safety

Safety in the workplace is paramount. We are committed to providing the highest standards possible for our employees and subcontractors and we expect them to meet those same standards in their work.

We are pleased with the very low rates of accidents experienced by Mears employees, with an average per employee figure 42% lower than the average in our industry (Source HSE).

In 2005 we obtained the RoSPA Gold Award – a terrific recognition of the commitment of our health and safety management team.

Board of Directors



From left to right: Reginald B Pomphrett, Robert Holt, Stuart J Black, David J Robertson, Michael A Macario

Robert Holt (51)

Chairman

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 (41)

Chief Executive

Stuart joined the Board in 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 (50)

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.

Reginald B Pomphrett (62)

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 (68)

Senior Independent 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.

Shareholder and corporate information

Internet

The Group operates a website which can be found at www.mearsgroup.co.uk. This site is regularly updated to provide information about the Group. In particular all of the Group's press releases and announcements can be found on the site.

Registrar

Any enquiries concerning your shareholding should be addressed to the Company's Registrar:

Neville Registrars
Neville House
18 Laurel Lane
Halesowen
West Midlands B63 3DA
Tel: 0121 585 1131

The Registrar should be notified promptly of any change in a shareholder's address or other details.

Payment of dividend

The final dividend on ordinary shares in respect of the year ended 31 December 2005 will be payable on 3 July 2006 to shareholders on the register at 16 June 2006.

Investor relations

For further copies of the annual report and accounts or other investor relations enquiries, please contact:

The Company Secretary
1390 Montpellier Court
Gloucester Business Park
Brockworth
Gloucester GL3 4AH
Tel: 01453 511 911
www.mearsgroup.co.uk

Registered office

1390 Montpellier Court
Gloucester Business Park
Brockworth
Gloucester GL3 4AH
Tel: 01453 511 911
www.mearsgroup.co.uk

Company registration number
3232863

Bankers

Barclays Bank
18 Southgate Street
Gloucester GL1 2DJ
Tel: 01452 365353

Solicitors

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

Auditors

Grant Thornton
Registered Auditors
Chartered Accountants
The Quadrangle
Imperial Square
Cheltenham GL50 1PZ
Tel: 0845 026 1250

Nominated adviser and stockbroker

Arbuthnot
Arbuthnot House
20 Ropemaker Street
London EC2Y 9AR
Tel: 020 7012 2000

Advisers

Zeus Capital
3 Ralli Courts
West Riverside
Manchester M3 5FT
Tel: 0161 831 1512

Registrar

Neville Registrars
Neville House
18 Laurel Lane
Halesowen
West Midlands B63 3DA
Tel: 0121 585 1131

Report of the Directors

The Directors present their report together with the consolidated financial statements for the year ended 31 December 2005.

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.

Transition to International Financial Reporting Standards (IFRS)

The Group has adopted IFRS for the first time in these financial statements. Details of the transition to IFRS are presented in the principal accounting policies and in note 1.

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 £721m (2004: £5.36m).

The Directors recommend dividends absorbing £1.53m (2004: £1.11m). The final dividend of 1.9p per share has not been included within the Group financial statements as no obligation existed at 31 December 2005.

Directors

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

The beneficial interests of the Directors in the shares of the Company at 31 December 2005 and 31 December 2004 are detailed below. The Directors' emoluments are detailed on page 21.

	Ordinary shares	
	31 December 2005 Number	31 December 2004 Number
R Holt	500,000	5,209,687
S J Black	100,000	—
D J Robertson	100,000	200,000
M A Macario	200,000	200,000
R B Pomphrett	200,000	200,000

P L Molloy resigned as a Director on 10 June 2005.

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 6 to the Group financial statements.

Directors' responsibilities for the financial statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and IFRS as adopted by the European Union in respect of the Group and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) for the Company.

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 Group and the Company and of the profit or loss of the Group for that period. In preparing these 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial risk management

The Group's financial risk management is based upon sound economic objectives and good corporate practice.

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.

The Group does not undertake any trading activity in financial instruments. All activities are transacted in Sterling. The Group does not engage in any hedging activities.

The Group reviews the credit quality of customers and limits credit exposures accordingly. The credit risk on trade receivables within the mechanical and electrical division are insured.

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 entering into a transaction and to ensure suppliers are aware of these terms. Group trade creditors during the year amounted to 42 days (2004: 41 days) of average supplies for the year.

Substantial shareholdings

On 5 April 2006 the Company has been notified of, or is aware of, the following shareholders holding 3% or more of the issued share capital of the Company:

	Number of ordinary shares (m)	Percentage of issued ordinary shares %
AEGON Asset Management UK	8.11	13.8
P L Molloy	3.48	5.9
Unicorn Asset Management	2.56	4.3
Standard Life Investment Management	2.49	4.2
Old Mutual Asset Management	2.44	4.2
Rathbone	1.95	3.3

A total of 2.39m ordinary 1p shares representing 4.1% of the issued share capital are held by 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.

Charitable donations

During the year the Group made charitable donations of £0.03m (2004: £0.02m). Further details relating to the Group's commitment to the community and good causes is detailed on pages 12 to 15.

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 website and the intranet to ensure that employees are kept well informed of the performance and objectives of the Group.

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 and senior employees. 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.

CREST

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

Auditors

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

On behalf of the Board

R B Pophrett

Director and Secretary
18 April 2006

Corporate governance

Introduction

The Board 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 as set out in the Combined Code and the Revised Combined Code. However, the Group has taken steps to comply 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 comprises three Executive Directors and two Non-Executive Directors. The Non-Executive Directors are considered by the Board to be independent of management and free from any relationship which might materially interfere with the exercise of 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.

During the year, S J Black was appointed as Chief Executive. Separating the roles of Chairman and Chief Executive has ensured 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 fulfil their responsibilities effectively.

The Board meets regularly throughout the year as well as on an ad hoc basis, as required by time critical business needs. 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.

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 M A Macario and R B Pomphrett, its Chairman. 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 R B Pomphrett, M A Macario and R Holt. The Committee meets two 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:

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings	6	2	2	1
R Holt	6	2	2	—
S J Black	6	—	—	—
D J Robertson	6	—	—	—
M A Macario	6	2	2	1
R B Pomphrett	6	2	2	1

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.

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 website (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.

Internal control and risk management continued

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 and fees – 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 incentive payments – the Chairman, Chief Executive and Finance Director are entitled to bonuses related solely to the real increase in earnings per share. 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;
- benefits in kind – such as car and health benefits; and
- defined contribution pension schemes.

The Directors' emoluments in 2005 are detailed below:

	Annual salary and fees		Annual incentive payments		Benefits in kind and other emoluments		Total	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000
R Holt	250	220	85	81	109	98	444	399
S J Black	200	20	51	8	27	4	278	32
D J Robertson	165	145	56	52	42	41	263	238
M A Macario	24	24	—	—	—	—	24	24
R B Pomphrett	24	24	—	—	—	—	24	24
P L Molloy	30	160	—	18	4	24	34	202
	693	593	192	159	182	167	1,067	919

In addition to the emoluments detailed above, P L Molloy received £196,800 in respect of payment in lieu of notice and termination.

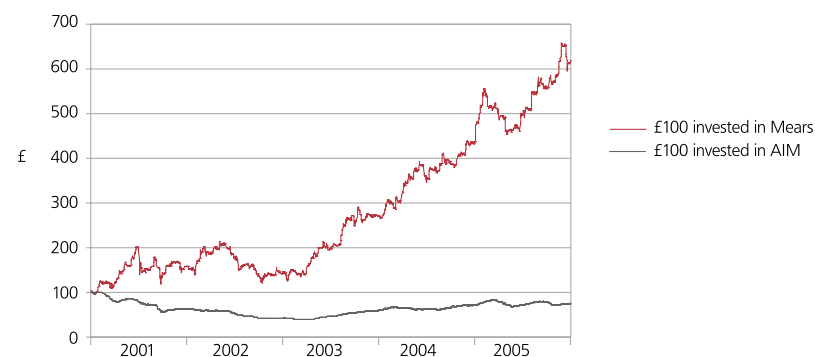
Details of share options issued to Directors are included within note 6 to the Group financial statements.

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 Group.

Historical total shareholder return performance

Growth in value of a hypothetical £100 holding in Mears Group PLC shares over five years plotted against the AIM Index.



Group accounts

Report of the independent auditors – Group

To the members of Mears Group PLC

We have audited the Group financial statements of Mears Group PLC for the year ended 31 December 2005 which comprise the principal accounting policies, the consolidated income statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the consolidated cash flow statement and notes 1 to 25. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Parent Company financial statements of Mears Group PLC for the year ended 31 December 2005 that is described as having been audited.

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 Directors and auditors

The Directors' responsibilities for preparing the annual report and the Group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' report is not consistent with the Group financial statements, 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 other transactions is not disclosed.

We read other information contained in the annual report and accounts and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group 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 Group 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 Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs at 31 December 2005 and of its profit for the year then ended; and
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Grant Thornton UK LLP

Registered Auditors
Chartered Accountants
Cheltenham
18 April 2006

Principal accounting policies – Group

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as developed and published by the International Accounting Standards Board and as adopted by the European Union and under the historical cost convention.

Mears Group PLC has adopted IFRS for the first time in its consolidated financial statements for the year ended 31 December 2005.

The transition to IFRS has resulted in a number of changes in the reported financial statements, notes thereto and accounting principles compared to previous annual reports which were prepared under applicable United Kingdom Generally Accepted Accounting Principles (UK GAAP). The comparative information has been restated in accordance with IFRS. Note 1 provides further details on the transition from UK GAAP to IFRS. The date of transition to IFRS was 1 January 2004 (transition date).

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reported period. In the preparation of these consolidated financial statements, estimates and assumptions have been made by management concerning the selection of useful lives of fixed assets, provisions necessary for certain liabilities, when to recognise revenue on long term contracts, actuarial assumptions, discount rates used within impairment reviews, the underlying share price volatility for valuing equity-based payments and other similar evaluations. Actual amounts could differ from those estimates.

IFRS 1 exemptions

IFRS 1, 'First-time Adoption of International Financial Reporting Standards', permits those companies adopting IFRS for the first time to take some exemptions from the full requirements of IFRS in the transition period:

- business combinations – any business combinations prior to the transition date have not been restated on an IFRS basis;
- employee benefits – all cumulative actuarial gains and losses have been recognised in equity at the transition date; and
- share-based payments – IFRS 2, 'Share-based Payments' applies to equity instruments. This has been applied to all share options granted since 7 November 2002. All cumulative charges have been recognised in equity at the transition date.

Basis of consolidation

The consolidated balance sheet includes the assets and liabilities of the Company and its subsidiaries and is made up to 31 December 2005. Entities over which the Group has the ability to exercise control are accounted for as subsidiaries. Control is obtained and exercised through voting rights so as to obtain benefits from its activities. Interests acquired in entities are consolidated from the effective date of acquisition and interests sold are consolidated up to the date of disposal.

Business combinations are accounted for using the purchase method.

Balances between Group companies are eliminated; no profit is taken on sales between Group companies.

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.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents any excess of the cost of the acquired entity over the Group's interest in the fair value of the entity's identifiable assets and contingent liabilities acquired and is capitalised as a separate item. Goodwill is recognised as an intangible asset.

Under the business combinations exemption of IFRS 1, goodwill previously written off direct to reserves under UK GAAP is not recycled to the income statement on calculating a gain or loss on disposal.

Impairment

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

An impairment loss is recognised to the extent that an asset's carrying value exceeds its recoverable amount, which represents the higher of the asset's fair value less costs to sell and its value in use. The recoverable amount of goodwill is determined by reference to the discounted future cash flows expected to be derived from the cash-generating unit to which it is allocated.

Impairment losses are recognised in the income statement.

Property, plant and equipment

Items of property, plant and equipment are included at cost, net of depreciation. Depreciation is calculated to write down the cost less estimated residual value of all property, plant and equipment, 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

The carrying value of property, plant and equipment is reviewed for impairment in the period if events or changes in circumstances indicate the carrying value may not be recoverable.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes materials and direct labour.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and bank deposits available at less than 24 hours' notice. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances. Money market instruments are financial assets carried at fair value through profit or loss.

Accounting for taxes

Current tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year.

Where an item of income or expense is recognised in the income statement, any related tax generated is recognised as a component of tax expense in the income statement. Where an item is recognised directly to equity and presented within the consolidated statement of recognised income and expense, any related tax generated is treated similarly.

Deferred taxation

Deferred taxation is the tax expected to be repayable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred taxation liabilities are generally recognised on all taxable temporary differences. Deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. The carrying value of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available against which taxable temporary differences can be utilised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Revenue

Social housing and vehicle distribution services – when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of the transaction is deemed to be able to be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the balance sheet date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Where a contract for goods or services involves delivery of several different elements and is not fully delivered or performed by the year end, revenue is recognised based on the proportion of the fair value of the elements delivered to the fair value of the overall contract.

Construction contracts – revenue from the mechanical and electrical sector reflects the contract activity during the year and is measured at the fair value of consideration received or receivable. When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion of the contract at the balance sheet date is assessed by comparing the value of work certified to date with the total value of the contract. Where the outcome of a construction contract cannot be estimated reliably revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable, and contract costs are recognised as an expense in the period in which they are incurred.

In the case of a fixed price contract, the outcome of a construction contract is deemed to be estimated reliably when all the following conditions are satisfied:

- it is probable that economic benefits associated with the contract will flow to the Group;
- both the contract costs to complete the contract and the stage of completion at the balance sheet date can be measured reliably; and
- the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

The gross amount due from customers for contract work is presented as an asset for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. The gross amount due to customers for contract work is presented as a liability for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less losses).

Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

Principal accounting policies – Group

Continued

Employee benefits

Pensions to employees are provided through a defined benefit plan as well as several defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity. The Group has no legal obligations to pay further contributions after payment of the fixed contribution.

The contributions recognised in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligations for any benefits from this kind of pension plan remain with the Group.

The Group has applied the Amendment to IAS 19, 'Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures', from its date of transition to IFRS. The Group has taken advantage of the exemption in IFRS 1 and has elected to recognise all cumulative actuarial gains and losses at the date of transition to IFRS.

Scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates that have terms to maturity approximating to the terms of the related liability. Appropriate adjustments are made for past service costs. Past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that benefits are already vested the Group recognises past service cost immediately.

Actuarial gains and losses are recognised immediately through the statement of recognised income and expense. The net surplus or deficit is presented with other net assets on the balance sheet. Any related deferred tax is shown with other deferred tax balances. A surplus is recognised only to the extent that it is recoverable by the Group.

Share-based employee remuneration

All share-based payment arrangements that were granted after 7 November 2002 are recognised in the consolidated financial statements.

The Group operates equity-settled share-based remuneration plans for its employees. All employee services received in exchange for the grant of any share-based remuneration are measured at their fair values. These are indirectly determined by reference to the fair value of the share options awarded. Their value is determined at the date of grant and is not subsequently remeasured unless the conditions on which the award was granted are modified. The fair value at the date of the grant is calculated using the Binomial Option pricing model and the cost is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period to satisfy service conditions.

All share-based remuneration is ultimately recognised as an expense in the income statement with a corresponding credit to additional paid-in capital, net of deferred tax where applicable.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as additional paid-in capital.

Leases

In accordance with IAS 17 (rev 2003), the economic ownership of a leased asset is transferred to the lessee if they bear substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

Subsequent accounting for assets held under finance lease agreements, i.e. depreciation methods and useful lives, correspond to those applied to comparable acquired assets. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed to finance costs. Finance charges represent a constant periodic rate of interest on the outstanding balance of the finance lease liability.

All other leases are treated as operating leases. Payment on operating lease agreements is recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred. The Group does not act as a lessor.

Financial liabilities/assets

The Group's financial liabilities are overdrafts, trade and other payables and finance leasing liabilities. They are included in the balance sheet line items 'Short term borrowings and overdrafts', 'Long term financial liabilities' and 'Trade and other payables'.

Financial liabilities are recognised when the Group becomes party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in 'finance cost' in the income statement.

Finance lease liabilities are measured at initial value less the capital element of lease repayments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Equity instruments

Share capital is determined using the nominal value of shares that have been issued. Equity settled share-based employee remuneration is credited to the share-based payment reserve until the related share options are exercised.

Consolidated income statement

For the year ended 31 December 2005

	Note	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Sales revenue	2		203,543		173,685
Cost of sales			(144,954)		(128,766)
Gross profit			58,589		44,919
Other administrative expenses		(48,302)		(37,417)	
Operating result before share-based payments		10,287		7,502	
Share option charges	6	(515)		(315)	
Total administrative costs			(48,817)		(37,732)
Operating result	2		9,772		7,187
Share of operating result in associate			—		4
Finance income	4		70		16
Finance costs	4		(92)		(84)
Result for the year before tax	3		9,750		7,123
Tax expense	7		(2,540)		(1,760)
Net result for the year			7,210		5,363
Attributable to minority interests			—		5
Attributable to shareholders of Mears Group PLC			7,210		5,358
			7,210		5,363
Earnings per share					
Basic	9		12.40p		9.32p
Diluted	9		11.45p		8.71p

All activities are continuing.

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

Consolidated balance sheet

At 31 December 2005

	Note	2005 £'000	2004 £'000
Assets			
Non-current			
Goodwill	10	10,647	11,069
Property, plant and equipment	11	5,827	4,450
Equity accounted investments	12	—	49
Deferred tax asset	18	3,500	2,100
		19,974	17,668
Current			
Inventories	13	5,363	4,628
Trade and other receivables	15	29,511	28,996
Construction contracts	14	2,341	1,414
Cash at bank and in hand		9,774	8,078
		46,989	43,116
Total assets		66,963	60,784
Equity			
Equity attributable to the shareholders of Mears Group PLC			
Called up share capital	19	588	579
Share premium account	20	3,960	3,362
Share-based payment reserve	20	1,040	525
Retained earnings	20	22,466	15,312
		28,054	19,778
Minority interests	20	—	95
Total equity		28,054	19,873
Liabilities			
Non-current			
Long term financial liabilities	17	—	7
Other liabilities	17	855	2,953
		855	2,960
Current			
Short term borrowings and overdrafts		2,832	5,260
Trade and other payables	16	33,215	31,184
Current tax liabilities		1,764	1,365
Pension and other employee benefits	24	243	142
Current liabilities		38,054	37,951
Total liabilities		38,909	40,911
Total equity and liabilities		66,963	60,784

The financial statements were approved by the Board of Directors on 18 April 2006.

S J Black
Director

D J Robertson
Director

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

Consolidated statement of recognised income and expense

For the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Actuarial losses on defined benefit pension scheme	24	(101)	(54)
Increase in deferred tax asset	18	1,270	1,105
Net income recognised directly to equity		1,169	1,051
Profit for the financial period		7,210	5,363
Total recognised income and expense for the period		8,379	6,414
Attributable to:			
Equity shareholders		8,379	6,409
Minority interests		—	5
		8,379	6,414

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

Consolidated cash flow statement

For the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Operating activities			
Result for the year before tax		9,750	7,123
Adjustments	21	1,974	1,494
Change in inventories		(735)	(2,043)
Change in operating receivables		(1,442)	(5,235)
Change in operating payables		1,120	5,322
Cash inflow from operating activities before taxes paid		10,667	6,661
Taxes paid		(2,271)	(1,312)
		8,396	5,349
Investing activities			
Additions to property, plant and equipment		(3,125)	(2,540)
Proceeds from disposals of property, plant and equipment		330	11
Acquisition of subsidiary undertaking, net of cash		(755)	(1,088)
Interest received		67	16
		(3,483)	(3,601)
Financing activities			
Proceeds from share issue		607	330
Discharge of finance lease liability		(75)	(210)
Interest paid		(96)	(87)
Dividends paid		(1,225)	(864)
		(789)	(831)
Cash and cash equivalents, beginning of year		2,818	1,901
Net increase in cash and cash equivalents		4,124	917
Cash and cash equivalents, end of year		6,942	2,818
Cash and cash equivalents is comprised as follows:			
Cash at bank and in hand		9,774	8,078
Short term borrowings and overdrafts		(2,832)	(5,260)
Cash and cash equivalents		6,942	2,818

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

Notes to the financial statements – Group

For the year ended 31 December 2005

1. Transition to International Financial Reporting Standards (IFRS)

The transition from United Kingdom GAAP to IFRS has been made in accordance with IFRS 1, 'First-time Adoption of International Financial Reporting Standards'.

The Group's consolidated financial statements for 2005 and the comparatives presented for 2004 comply with all presentation and disclosure requirements of IFRS applicable for accounting periods commencing on or after 1 January 2005.

The following reconciliations and explanatory notes thereto describe the effects of the transition on the IFRS opening balance sheet as at 1 January 2004 and for the financial year 2004. All explanations should be read in conjunction with the IFRS accounting policies of Mears Group PLC as disclosed on pages 24 to 26. Note 1.1 comments on the Group's new balance sheet structure.

The remeasurement of the consolidated balance sheet items at the IFRS opening balance sheet date and at 31 December 2004, together with the reconciliation of the Group's equity reported under previous UK GAAP to its equity under IFRS as at 1 January 2004 and 31 December 2004, may be summarised as follows:

	Note	UK GAAP £'000	Effect of transition £'000	IFRS £'000
At 1 January 2004				
Pension obligation	1.3	—	(88)	(88)
Proposed dividend creditor	1.4	(573)	573	—
Deferred tax asset	1.5	—	900	900
Total adjustment to equity			1,385	
Total equity – UK GAAP			12,292	
Total equity – IFRS			13,677	
At 31 December 2004				
Goodwill	1.2	10,406	663	11,069
Equity accounted investments	1.2	48	1	49
Pension obligation	1.3	—	(142)	(142)
Proposed dividend creditor	1.4	(815)	815	—
Deferred tax asset	1.5	—	2,100	2,100
Total adjustment to equity			3,437	
Total equity – UK GAAP			16,436	
Total equity – IFRS			19,873	

Profit and loss reported under UK GAAP for the year ending 31 December 2004 is reconciled to IFRS as follows:

	UK GAAP £'000	Goodwill amortisation £'000	Share-based payments £'000	Deferred tax £'000	IFRS £'000
Sales revenue	173,685	—	—	—	173,685
Cost of sales	(128,766)	—	—	—	(128,766)
Gross profit	44,919	—	—	—	44,919
Administrative expenses	(38,081)	664	(315)	—	(37,732)
Operating result	6,838	664	(315)	—	7,187
Share of operating result in associate	4	—	—	—	4
Finance costs	(68)	—	—	—	(68)
Result for the year before tax	6,774	664	(315)	—	7,123
Tax expense	(1,855)	—	—	95	(1,760)
Net result for the year	4,919	664	(315)	95	5,363

1.1 Revised structure of balance sheet and income statement

Mears Group PLC has modified its former balance sheet and income statement structure on transition to IFRS. The main change is that assets classified as 'Amounts recoverable on contracts' under previous UK GAAP are now presented under the separate balance sheet line item 'Construction contracts'.

Notes to the financial statements – Group

Continued

1. Transition to International Financial Reporting Standards (IFRS) continued

1.2 Goodwill

Under IFRS, goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

As required by IFRS 1, 'First-time Adoption of International Financial Reporting Standards', goodwill recognised under UK GAAP has been tested for impairment at the transition date of 1 January 2004. No impairment loss was required to be recognised. In accordance with IFRS 1, this amount has been considered the carrying amount of goodwill in the opening IFRS balance sheet.

For the year ending 31 December 2004, goodwill is not amortised under IFRS. As a result, the amortisation of goodwill as required under UK GAAP is reversed in the reconciliation from UK GAAP to IFRS with a corresponding reduction in expenses.

1.3 Pension obligation

Under IFRS, pension obligations are recognised as a liability in the balance sheet based on the defined benefit obligation at the balance sheet date. In accordance with the transitional provisions of IFRS 1 the deficit has been recognised in the balance sheet at the transition date of 1 January 2004. Under UK GAAP the pension costs charged against profits were designed to spread the anticipated pension costs over the service lives of employees in the scheme.

1.4 Proposed dividend creditor

Under IAS 10, 'Events After the Balance Sheet Date', dividends approved after the balance sheet date should not be recognised as a liability at the balance sheet date since the liability did not represent a present obligation at that date. Under UK GAAP, proposed dividends were recognised as a liability in the period to which they related.

1.5 Deferred tax asset

Under IAS 12, 'Income Taxes', deferred tax is provided on temporary differences between the book carrying value and tax base of assets and liabilities (a balance sheet approach). Under UK GAAP, deferred tax was provided on timing differences between the accounting and taxable profit (an income statement approach).

1.6 Share-based payments

Under IFRS 2, 'Share-based Payments', the cost of employee share schemes, including SAYE schemes, is based on the fair value of the awards. Under UK GAAP, the cost of awards made under the Group's employee share schemes was based on the intrinsic value of the awards, with the exception of SAYE schemes for which no cost was recognised.

1.7 Cash flow statement

The conversion from UK GAAP to IFRS does not change any of the cash flows of the Group. The IFRS cash flow format is similar to UK GAAP but presents various cash flows in different categories and in a different order from the UK GAAP cash flow statement. All of the IFRS adjustments net out within cash generated from operating activities.

2. Segment reporting

The Group operates three business segments: social housing, mechanical and electrical (M&E) and vehicle distribution. All of the Group's activities are carried out within the United Kingdom.

Business segments	2005				2004			
	Social housing £'000	M&E £'000	Vehicle distribution £'000	Total £'000	Social housing £'000	M&E £'000	Vehicle distribution £'000	Total £'000
Revenue	144,086	50,820	8,637	203,543	104,086	58,684	10,915	173,685
Operating result pre share-based payments	7,964	1,908	415	10,287	5,391	1,653	458	7,502
Share-based payments	(400)	(75)	(40)	(515)	(245)	(45)	(25)	(315)
Operating result	7,564	1,833	375	9,772	5,146	1,608	433	7,187
Finance costs, net	(237)	94	121	(22)	(262)	88	110	(64)
Tax expense	(1,970)	(470)	(100)	(2,540)	(1,270)	(380)	(110)	(1,760)
Net result for the year	5,357	1,457	396	7,210	3,614	1,316	433	5,363
Segment assets	44,908	18,351	3,704	66,963	39,340	17,473	3,971	60,784
Segment liabilities	(26,091)	(11,361)	(1,457)	(38,909)	(24,807)	(13,846)	(2,258)	(40,911)
Depreciation	860	475	123	1,458	610	375	97	1,082

3. Result for the year before tax

Result for the year before tax is stated after:

	2005 £'000	2004 £'000
Auditors' remuneration		
– audit services	115	95
– non-audit services	50	55
Share option charges	515	315
Depreciation	1,458	1,082
Hire of plant and machinery	780	675
Other operating lease rentals	5,224	4,233

Included within non-audit services are tax compliance fees of £30,000, tax advice fees of £10,000 and other advice fees of £10,000.

4. Finance income and finance costs

	2005 £'000	2004 £'000
Interest charge on overdrafts	(82)	(58)
Finance charges in respect of finance leases	(10)	(26)
Finance costs	(92)	(84)
Interest income resulting from short term bank deposits	70	16
Finance income	(22)	(68)

5. Directors and employees

Staff costs during the year were as follows:

	2005 £'000	2004 £'000
Wages and salaries	56,411	47,364
Social security costs	5,398	4,601
Other pension costs	596	512
	62,405	52,477

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

	2005	2004
Site workers	1,423	1,233
Office and management	826	613
	2,249	1,846

Remuneration in respect of Directors was as follows:

	2005 £'000	2004 £'000
Emoluments	932	813
Gains made on the exercise of share options	–	35
Pension contributions to personal pension schemes	135	106
Compensation for loss of office	197	–
	1,264	954

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

	2005 £'000	2004 £'000
Emoluments	369	332
Gains made on the exercise of share options	–	11
Pension contributions to personal pension schemes	75	67

During the year contributions were paid to personal pension schemes for three Directors (2004: four).

During the year no Director (2004: three) exercised their share options.

Notes to the financial statements – Group

Continued

6. Share-based employee remuneration

As at 31 December 2005 the Group maintained four share-based payment schemes for employee remuneration.

The maximum term of current arrangements under the Executive Share Option Scheme (ESOP), the Enterprise Management Incentive Scheme (EMI) and Unapproved Share Option Scheme ends on 7 April 2015, 9 April 2013 and 24 October 2015 respectively. Upon vesting, each option allows the holder to purchase one ordinary share at the market price determined at grant date.

The maximum term of current arrangements under the Save As You Earn Scheme (SAYE) ends on 5 October 2010. Upon vesting, each option allows the holder to purchase one ordinary share at a 20% discount to the market price determined at grant date.

All share-based employee remuneration will be settled in equity. The Group has no legal obligation to repurchase or settle the options.

Share options and weighted average exercise price are as follows for the reporting periods presented:

	2005		2004	
	Number '000	Weighted average exercise price p	Number '000	Weighted average exercise price p
Outstanding at 1 January	8,217	87.5	7,479	62.9
Granted	1,065	232.1	1,869	157.1
Forfeited	(673)	95.6	(300)	44.0
Exercised	(945)	64.7	(831)	38.5
Outstanding at 31 December	7,664	109.8	8,217	87.5

The options exercised during 2005 resulted in an equal number of ordinary shares (see also note 19). The weighted average share price of these shares at the date of exercise was 64.7p per share. All share options as at 31 December 2005 have been accounted for under IFRS 2.

As at 31 December 2005 the Group has granted the following outstanding share options and exercise prices:

Exercise date based on maximum term	Number '000	Weighted average exercise price p	2005 Weighted average remaining contractual life Months	Number '000	Weighted average exercise price p	2004 Weighted average remaining contractual life Months
2005	—	—	—	171	82.5	7
2006	177	84.6	7	223	86.0	19
2007	264	136.7	21	299	135.5	33
2008	323	166.6	32	141	100.0	44
2009	178	149.0	45	201	149.0	57
2010	108	216.0	57	110	19.3	63
2011	1,123	50.0	63	1,658	50.0	75
2012	1,637	67.5	82	1,776	67.5	94
2013	1,870	77.0	87	2,208	76.1	99
2014	1,240	160.5	99	1,430	159.6	111
2015	744	238.5	112	—	—	—
	7,664			8,217		

The fair values of options granted were determined using the Binomial Option pricing model. Significant inputs into the calculation include the market price at the date of grant and exercise prices. Furthermore, the calculation takes into account the future dividend yield, the share price volatility rate and the risk-free interest rate.

The underlying expected share price volatility was determined by reference to historical data. The Company expects the volatility of its share price to reduce as it matures. The risk-free interest rate was determined by the implied yield available on a zero-coupon government bond at the date of grant. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions.

In total, £0.5m of employee remuneration expense has been included in the consolidated income statement for 2005 (2004: £0.3m), which gave rise to additional paid-in capital. No liabilities were recognised due to share-based payment transactions.

The fair values of options granted during 2005, together with the significant inputs into the calculations, are detailed below:

Option scheme	Date of grant	Number granted	Share price at date of grant	Exercise price	Volatility	Risk-free rate	Exit rate	Vesting conditions	Estimate of option fair value
ESOP	Apr 2005	622,500	231p	231p	22%	4.75%	20%	3 years' service	45p
ESOP	Oct 2005	150,000	268p	268p	20%	4.50%	—	3 years' service	66p
SAYE	Oct 2005	184,711	269p	216p	20%	4.50%	30%	3 years' service	59p
SAYE	Oct 2005	107,910	269p	216p	20%	4.50%	30%	5 years' service	56p

6. Share-based employee remuneration continued

The following options have been granted to continuing Directors:

Director	1 January 2005	Number of options during the year		31 December 2005	Exercise price	Exercise dates
		Granted	Exercised			
R Holt	435,000	—	—	435,000	77p	2006–2013
	50,000	—	—	50,000	154p	2007–2014
S J Black	200,000	—	—	200,000	194p	2007–2014
	—	50,000	—	50,000	231p	2008–2015
	—	150,000	—	150,000	268p	2008–2015
D J Robertson	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
	—	40,000	—	40,000	231p	2008–2015

673,000 options lapsed during the year. The market price at 31 December 2005 was 293p and the range during 2005 was 206p to 312p.

7. Tax expense

The tax charge represents:

	2005 £'000	2004 £'000
United Kingdom corporation tax effective rate 27.4% (26.0%)	2,670	1,855
Share of tax charge of associate	—	—
Total current tax	2,670	1,855
Reversal of deferred tax timing differences	(130)	(95)
Tax expense	2,540	1,760

The charge for the year can be reconciled to the income statement as follows:

	2005 £'000	2004 £'000
Result for the year before tax	9,750	7,123
Result for the year multiplied by standard rate of corporation tax in the United Kingdom of 30% (2004: 30%)	2,925	2,134
Effect of:		
Expenses not deductible for tax purposes	145	76
Depreciation in excess/(deficit) of capital allowances	(49)	14
Tax relief on exercise of share options	(391)	(332)
Utilisation of tax losses	(90)	(132)
Actual tax expense, net	2,540	1,760

8. Dividends

The following dividends were declared on ordinary shares in the year:

	2005 £'000	2004 £'000
Final 2004 dividend of 1.40p (2004: final 2003 dividend of 1.00p) per share	815	573
Interim dividend of 0.70p (2004: 0.50p) per share	410	290
	1,225	863

The proposed final dividend of 1.9p per share has not been included within the Group financial statements as no obligation existed at 31 December 2005.

Notes to the financial statements – Group

Continued

9. Earnings per share

Basic earnings per share is based on equity earnings of £7.21m (2004: £5.36m) and 58.16m (2004: 57.57m) 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 62.97m (2004: 61.56m) to reflect the potential dilution effect of employee share schemes.

A normalised pre share-based payments earnings per share is disclosed in order to show performance undistorted by share-based payments and the tax effect of share options. The normalised pre share-based payments earnings per share is based on equity earnings of £7.19m (2004: £5.20m).

	Basic		Diluted	
	2005 p	2004 p	2005 p	2004 p
Earnings per share	12.40	9.32	11.45	8.71
Effect of eliminating share-based payments	0.66	0.38	0.61	0.36
Effect of full tax adjustment	(0.70)	(0.66)	(0.65)	(0.62)
Normalised pre share-based payments earnings per share	12.36	9.04	11.41	8.45

10. Goodwill

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Gross carrying amount			
At 1 January 2005	10,580	489	11,069
Additions	30	—	30
Revision to previous year acquisition	(452)	—	(452)
At 31 December 2005	10,158	489	10,647
Accumulated impairment losses			
At 1 January 2005 and at 31 December 2005	—	—	—
Carrying amount			
At 31 December 2005	10,158	489	10,647
At 31 December 2004	10,580	489	11,069

Scion Group was acquired in 2003. The contingent consideration included within the Group financial statements represents the Directors' best estimate of contingent consideration payable. The contingent consideration is based on a multiple of post tax profits generated in 2004 and 2005 less initial consideration paid upon acquisition. The Directors do not consider that any further monies will be payable. The deferred consideration of £0.5m has been released. The impact of this adjustment is to reduce the value of goodwill arising in respect of this acquisition by £0.5m to £3.4m.

Additions relate to the purchase of the remaining 10% in Mears Facility Management Limited.

The carrying value of goodwill is primarily comprised of the following cash-generating units:

	Goodwill arising on consolidation £'000	Purchased goodwill £'000	Total £'000
Social housing	4,197	489	4,686
M&E	4,331	—	4,331
Vehicle distribution	1,630	—	1,630
	10,158	489	10,647

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

An asset is impaired if its carrying value exceeds the unit's recoverable amount which is based upon value in use.

The value in use is calculated based upon the cash flow projections over ten years discounted at the Mears weighted average cost of capital of 9%. The cash flow projections assumed an annual growth rate of 2.5% for years one to five with no further growth beyond this. The projections assume a corporation tax rate of 30%.

11. Property, plant and equipment

The Group	Freehold land and buildings £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Gross carrying amount						
At 1 January 2005	69	631	2,543	5,130	959	9,332
Additions	—	1,535	369	1,137	84	3,125
Disposals	(60)	—	(299)	(23)	(279)	(661)
At 31 December 2005	9	2,166	2,613	6,244	764	11,796
Depreciation						
At 1 January 2005	9	391	1,590	2,304	588	4,882
Provided in the year	2	205	215	927	109	1,458
Eliminated on disposals	(4)	—	(180)	(19)	(168)	(371)
At 31 December 2005	7	596	1,625	3,212	529	5,969
Carrying amount						
At 31 December 2005	2	1,570	988	3,032	235	5,827
At 31 December 2004	60	240	953	2,826	371	4,450

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

	Plant and machinery £'000
Net book amount	
At 31 December 2005	69
At 31 December 2004	353
Depreciation provided in the year	51

12. Equity accounted investments

	Associated undertaking		
	Share of net assets £'000	Goodwill £'000	Total £'000
Cost			
At 1 January 2005	31	20	51
Disposals	(31)	(20)	(51)
At 31 December 2005	—	—	—
Amounts written off			
At 1 January 2005	—	2	2
Disposals	—	(2)	(2)
At 31 December 2005	—	—	—
Net book amount			
At 31 December 2005	—	—	—
At 31 December 2004	31	18	49

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

Notes to the financial statements – Group

Continued

12. Equity accounted investments continued

The principal undertakings within the Group where the Parent Company held 20% or more of the equity share capital at 31 December 2005 are shown below:

	Proportion held	Nature of business
Mears Limited	100%	Provision of maintenance services
United Fleet Distribution Limited	100%	Vehicle collection and delivery
Haydon Mechanical & Electrical Limited	100%	Provision of mechanical and electrical services
Powersave Limited	100%	Provision of heating and air conditioning services
Scion Group Limited	100%	Provision of maintenance, mechanical, electrical and grounds maintenance
Mears Decorating Services Limited	100%	Provision of decorating services
Mears Insurance Captive Limited	99.99%	Provision of insurance services

All subsidiary undertakings prepare accounts to 31 December. All subsidiary undertakings are registered in England and Wales with the exception of Mears Insurance Captive Limited which is registered in Guernsey.

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

13. Inventories

	2005 £'000	2004 £'000
Materials and consumables	717	601
Work in progress	4,646	4,027
	5,363	4,628

14. Construction contracts

Revenue of £35.0m (2004: £35.4m) relating to construction contracts has been included in revenue.

	2005 £'000	2004 £'000
Contract costs incurred	27,274	28,671
Recognised gross profits	7,693	6,763
Recognised gross losses	—	—
	34,967	35,434

Balances outstanding comprise:

Retentions	1,649	1,578
Due from customers for construction contract work	2,341	1,414
Due to customers for construction contract work	(2,408)	(3,027)

Retentions will be payable upon acceptance of the work performed by the customer. The amounts due to customers for construction work are included in 'Trade and other payables'.

15. Trade and other receivables

	2005 £'000	2004 £'000
Trade receivables	22,900	23,747
Amounts recoverable on non-construction contracts	4,866	3,955
Other receivables	—	321
Prepayments and accrued income	1,745	973
	29,511	28,996

Trade receivables are normally due within 30 to 60 days and do not bear any effective interest rate. All trade receivables are subject to credit risk exposure. However, there is no specific concentration of credit risk as the amounts recognised represent a large number of receivables from various customers. Included in trade receivables is an amount of £0.8m (2004: £0.7m) which is due after more than one year and represents retention balances.

16. Trade and other payables

	2005 £'000	2004 £'000
Trade payables	15,930	17,643
Accruals and deferred income	7,682	5,919
Social security and other taxes	5,556	3,846
Due to customers for construction contract work	2,408	3,027
Other creditors	1,593	635
Amounts due under finance lease contracts	46	114
	33,215	31,184

The fair value of trade payables has not been disclosed as due to their short duration, management considers the carrying amounts recognised in the balance sheet to be a reasonable approximation of their fair value.

The amounts due under construction contract work will generally be utilised within the next reporting period.

The amounts due under finance lease contracts are secured on the assets to which they relate.

17. Long term financial liabilities

	2005 £'000	2004 £'000
Other creditors	855	2,953
Amounts due under finance lease contracts	—	7
	855	2,960

Included in other creditors is £2.2m (2004: £3.5m), of which £1.3m (2004: £0.6m) is included within trade and other payables and falls due within one year, relating to deferred consideration on the acquisitions of M&T Group Limited, Sheffield Décor Services, Powersave Limited and R Carter & Sons Limited.

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 2005 was:

	Interest rate			Total £'000
	Fixed £'000	Floating £'000	Zero £'000	
Financial liabilities – 2005	46	2,832	2,175	5,053
Financial liabilities – 2004	121	5,260	3,503	8,884

Included above in floating interest rate exposure is a £2.8m bank overdraft. The interest rate risk on this liability is directly offset by cash at bank of £9.8m.

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

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

18. Deferred taxation

The Group asset for deferred tax as at 31 December 2005, which relates entirely to share-based payments, is £3.5m (2004: £2.1m).

	2005 £'000	2004 £'000
At 1 January 2005	2,100	900
Credit to income statement	130	95
Credit to consolidated statement of recognised income and expense	1,270	1,105
	3,500	2,100

In accordance with IFRS 2, 'Share-based Payments', the Group has recognised an expense for the consumption of employee services received as consideration for share options granted. A tax deduction will not arise until the options are exercised. The tax deduction in future periods is dependent upon the Company's share price at the date of exercise. The estimated future tax deduction is based on the options' intrinsic value at the balance sheet date.

The cumulative amount credited to the income statement is limited to the tax effect of the associated cumulative share-based payment expense. The excess has been credited directly to equity. This is presented in the consolidated statement of recognised income and expense.

The deferred tax asset that arises on pre 7 November 2002 grants, even though the grants themselves are not accounted for within the income statement, is credited directly to equity.

Notes to the financial statements – Group

Continued

19. Share capital

	2005 £'000	2004 £'000
Authorised		
100,000,000 ordinary shares of 1p each	1,000	1,000
Allotted, called up and fully paid		
58,828,199 (2004: 57,883,146) ordinary shares of 1p each	588	579

During the year 945,053 ordinary shares of 1p each were issued for consideration of £0.61m as a result of share options being exercised. The difference between the nominal value of £0.01m and the total consideration of £0.61m has been credited to the share premium account.

20. Reconciliation of movement in equity

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Retained earnings £'000	Minority interest £'000	Total equity £'000
At 1 January 2004	570	3,041	210	9,766	90	13,677
Net result for the year	–	–	–	5,358	5	5,363
Deferred tax	–	–	–	1,105	–	1,105
Pension obligation	–	–	–	(54)	–	(54)
Total recognised income and expense for the year	–	–	–	6,409	5	6,414
Issue of shares	9	321	–	–	–	330
Share option charges	–	–	315	–	–	315
Dividends	–	–	–	(863)	–	(863)
At 31 December 2004	579	3,362	525	15,312	95	19,873
Net result for the year	–	–	–	7,210	–	7,210
Deferred tax	–	–	–	1,270	–	1,270
Pension obligation	–	–	–	(101)	–	(101)
Total recognised income and expense for the year	–	–	–	8,379	–	8,379
Acquisition of minority interests	–	–	–	–	(95)	(95)
Issue of shares	9	598	–	–	–	607
Share option charges	–	–	515	–	–	515
Dividends	–	–	–	(1,225)	–	(1,225)
At 31 December 2005	588	3,960	1,040	22,466	–	28,054

21. Notes to consolidated cash flow statement

The following non operating cash flow adjustments have been made to the pre-tax result for the year:

	2005 £'000	2004 £'000
Depreciation	1,458	1,082
(Profit)/loss on disposal of fixed assets	(21)	33
Share-based payments	515	315
Result from equity accounted investments	–	(4)
Finance income	(70)	(16)
Finance cost	92	84
Total	1,974	1,494

22. Capital commitments

The Group had no capital commitments at 31 December 2005 or at 31 December 2004.

23. Contingent liabilities

The Group has guaranteed that it will complete the contracts it has commenced with 18 (2004: 14) local authorities. At 31 December 2005 these guarantees amounted to £2.11m (2004: £1.95m).

The Group had no other contingent liabilities at 31 December 2005 or at 31 December 2004.

24. 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 senior 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.

IAS 19, 'Employee 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 2005 by a qualified independent actuary using the projected unit method.

The Group has adopted the amendment to IAS 19 in the current year.

The amounts recognised in the balance sheet are:

	2005		2004	
	%	£'000	%	£'000
Equities	7.1	836	7.5	522
Bonds	4.7	32	4.9	57
Cash	4.5	71	4.8	73
Group's estimated asset share		939		652
Present value of scheme liabilities		(1,182)		(794)
Net pension liability		(243)		(142)

The amounts recognised in the income statement are as follows:

	2005 £'000	2004 £'000
Current service cost	120	121
Past service cost	—	5
Total operating charge	120	126
Amount that would have been charged to net interest payable:		
Expected return on pension scheme assets	51	38
Expected return on pension scheme liabilities	(46)	(33)
Interest on obligation	5	5
Total charged to the result for year	125	131

Notes to the financial statements – Group

Continued

24. Pensions continued

IAS 19, 'Employee Benefits' continued

The movements in the net pension liability and the amount recognised in the balance sheet are as follows:

	2005 £'000	2004 £'000
Deficit at 1 January 2005	(142)	(88)
Current service cost	(120)	(121)
Contributions	115	121
Past service costs	—	(5)
Other finance income	5	5
Actuarial loss	(101)	(54)
Deficit in scheme at end of year	(243)	(142)

The principal actuarial assumptions at the balance sheet date are as follows:

	2005 %	2004 %
Rate of increase of salaries	3.3	3.3
Rate of increase for pensions in payment	2.8	2.8
Discount rate	4.8	5.5
Inflation	2.8	2.8

25. Leasing commitments

Operating lease payments amounting to £4.76m (2002: £3.23m) are due within one year. The leases to which these relate expire as follows:

	2005		2004	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
In one year or less	35	191	92	263
Between one and five years	682	3,243	727	1,894
In five years or more	604	—	253	—
	1,321	3,434	1,072	2,157

Company accounts

Report of the independent auditors – Company

To the members of Mears Group PLC

We have audited the Parent Company financial statements of Mears Group PLC for the year ended 31 December 2005 which comprise the principal accounting policies, the balance sheet and notes 1 to 11. These Parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Mears Group PLC for the year ended 31 December 2005.

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 Directors and auditors

The Directors' responsibilities for preparing the Parent Company financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities on page 18.

Our responsibility is to audit the Parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Parent Company financial statements give a true and fair view and whether the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the Parent Company 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 other transactions is not disclosed.

We read other information contained in the annual report and accounts and consider whether it is consistent with the audited Parent Company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Parent Company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Parent Company financial statements, and of whether the accounting policies are appropriate to the Company'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 Parent Company 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 Parent Company financial statements.

Opinion

In our opinion:

- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs at 31 December 2005; and
- the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton UK LLP

Registered Auditors
Chartered Accountants
Cheltenham
18 April 2006

Principal accounting policies – Company

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 Company are set out below. Except as stated below, the following accounting policies have remained unchanged from the previous year and continue to be the most appropriate.

Turnover

Turnover is the total amount receivable by the Company for goods supplied and services provided during the year, excluding VAT.

Investments

Investments are included at cost net of any provision for impairment.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Company 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.

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.

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.

Accounting for dividends

Following the issue of FRS 21, 'Events after the balance sheet date', the Company has amended its accounting policy for accounting for dividends. This has resulted in dividends approved after the balance sheet date being no longer recognised as a liability at the balance sheet date since the liability did not represent a present obligation at that date. As a result it has been necessary to restate the comparative figure. The effect of the change in accounting policy has been to increase the net assets at 31 December 2005 by £1.12m (2004: £0.82m).

Parent Company balance sheet

As at 31 December 2005

	Note	2005 £'000	2004 restated £'000
Fixed assets			
Investments	3	12,440	12,767
Current assets			
Debtors	4	4,839	5,500
Cash at bank and in hand		46	—
		4,885	5,500
Creditors: amounts falling due within one year	5	(1,802)	(4,838)
Net current assets		3,083	662
Total assets less current liabilities		15,523	13,429
Creditors: amounts falling due after more than one year	6	(600)	(2,243)
		14,923	11,186
Capital and reserves			
Called up share capital	7	588	579
Share premium account	8	3,960	3,362
Shares to be issued	8	90	90
Profit and loss account	8	10,285	7,155
Equity shareholders' funds		14,923	11,186

The financial statements were approved by the Board of Directors on 18 April 2006.

S J Black
Director

D J Robertson
Director

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

Notes to the financial statements – Company

1. 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 £4.4m (2004: £4.9m) which is dealt with in the financial statements of the Company. This result is stated after charging auditors' remuneration of £15,000 relating to audit services and £10,000 relating to non-audit services.

2. Directors and employees

Employee benefits expense

All staff costs relate to Directors. Staff costs during the year were as follows:

	2005 £'000	2004 £'000
Wages and salaries	932	813
Social security costs	102	82
Other pension costs	135	106
	1,169	1,001

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

	2005	2004
Office and management	3	3

Details relating to the remuneration in respect of the highest paid Director are detailed in note 5 of the notes to the consolidated financial statements.

3. Fixed asset investments

Investment in subsidiary undertakings £'000

Cost

At 1 January 2005	12,767
Additions	125
Revision to previous acquisition	(452)
At 31 December 2005	12,440

Additions relate to the purchase of the remaining 1% of equity share capital of Mears Decorating Services Limited. The revision to a prior year acquisition is detailed in note 10 of the notes to the consolidated financial statements. The principal undertakings held by the Company are detailed in note 12 of the notes to the consolidated financial statements.

4. Debtors

	2005 £'000	2004 £'000
Amounts owed by Group undertakings	4,839	5,500

5. Creditors: amounts falling due within one year

	2005 £'000	2004 restated £'000
Bank overdraft	–	1,984
Corporation tax	10	9
Social security and other taxes	133	25
Amounts owed to Group undertakings	–	2,141
Other creditors	1,316	550
Accruals	343	129
	1,802	4,838

Notes to the financial statements – Company

Continued

6. Long term financial liabilities

	2005 £'000	2004 £'000
Other creditors	600	2,243

Included in Other creditors is deferred consideration of £1.79m (2004: £2.79m), of which £1.19m (2004: £0.55m) falls due within one year, relating to deferred consideration on the acquisitions of M&T Group Limited and Powersave Limited. These are payable by instalments over a three year period.

Interest rate risk

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

The interest rate exposure of the financial liabilities of the Company as at 31 December 2005 was:

	Interest rate			Total £'000
	Fixed £'000	Floating £'000	Zero £'000	
Financial liabilities – 2005	–	–	1,790	1,790
Financial liabilities – 2004	–	1,984	2,793	4,777

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

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

7. Share capital

	2005 £'000	2004 £'000
Authorised		
100,000,000 ordinary shares of 1p each	1,000	1,000
Allotted, called up and fully paid		
58,828,199 (2004: 57,883,146) ordinary shares of 1p each	588	579

During the year 945,053 ordinary shares of 1p each were issued for consideration of £0.61m as a result of share options being exercised. The difference between the nominal value of £0.01m and the total consideration of £0.61m has been credited to the share premium account.

8. Share premium account and reserves

	Share capital £'000	Share premium account £'000	Shares to be issued £'000	Profit and loss account £'000
At 1 January 2005 as originally stated	579	3,362	90	6,340
Prior year adjustment	–	–	–	815
At 1 January 2005 as restated	579	3,362	90	7,155
Issue of shares	9	598	–	–
Retained profit for the year	–	–	–	3,130
At 31 December 2005	588	3,960	90	10,285

9. Capital commitments

The Company had no capital commitments at 31 December 2005 or at 31 December 2004.

10. Contingent liabilities

The Company had no contingent liabilities at 31 December 2005 or at 31 December 2004.

11. Pensions

Defined contribution schemes

The Company contributes to personal pension schemes of the Directors.

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 noon on 7 June 2006 when the following ordinary business will be considered:

1. To receive and adopt the accounts for the year ended 31 December 2005, together with the reports of the Directors and auditors thereon.
2. To declare a final dividend of 1.9p 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 R Holt as a Director who, in accordance with the Articles of Association, retires by rotation.
5. To re-appoint D J Robertson as a Director who, in accordance with the Articles of Association, retires by rotation.

And the following special business:

Ordinary resolution

6. THAT the report of the Board in relation to remuneration policy and practice (as referred to on pages 20 and 21 of the annual report and accounts for the year ended 31 December 2005) be approved.
7. THAT in substitution for the authority to allot relevant securities conferred on the Directors by the ordinary resolution passed on 1 June 2005, 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 £272,738 provided that the authority hereby conferred shall expire five years from the date of this resolution unless previously renewed, varied or revoked by the Company in General Meeting and so that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities of the Company to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such agreements as if the authority hereby conferred had not expired. In relation to the grant of any rights to subscribe for, or to convert any security into, shares in the Company, the reference in this paragraph to the maximum amount of relevant securities that may be allotted is to the maximum amount of shares which may be allotted pursuant to such rights.

Special resolution

8. THAT:
 - (a) the Directors be authorised to allot securities of the Company (pursuant to the authority conferred on the Directors by resolution 7 above) at any time up to the conclusion of the Company's next Annual General Meeting following the date of the passing of this resolution or, if earlier, the expiry of 15 months from the date of the passing of this resolution as if section 89(1) of the Companies Act 1985 did not apply to any such allotment, provided that such power shall be limited to the allotment of equity securities:
 - (i) in connection with any rights issue; and
 - (ii) otherwise than under sub-paragraph (a) (i) of this resolution, with an aggregate nominal amount of up to £29,414.
 - (b) such power shall permit and enable the Company to make an offer or agreement before the expiry of such power which would or might require equity securities to be allotted after such expiry and shall permit the Directors to allot such securities pursuant to any such offer or agreement as if such power had not expired; and
 - (c) in this resolution:
 - (i) "rights issue" means an offer of equity securities open for acceptance for a period fixed by the Directors to holders of ordinary shares on the register on a fixed record date in proportion to their respective holdings of such shares or in accordance with the rights attached thereto (but subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of any regulatory body or any stock exchange in any territory);
 - (ii) the nominal amount of any securities should be taken to be, in the case of a right to subscribe for or convert any securities into shares of the Company, the nominal amount of the shares which may be allotted pursuant to such right; and
 - (iii) words and expressions defined in or for the purposes of sections 89 to 96 inclusive of the Companies Act 1985 shall bear the same meanings.

By order of the Board

R B Pomphrett
Secretary
9 May 2006

1390 Montpellier Court
Gloucester Business Park
Brockworth
Gloucester GL3 4AH

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 2 June 2006 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: the Register of members; the Register of Directors' interests in the share capital of the Company; the Memorandum and Articles of Association; details of proxies received; and copies of the Directors' Contracts of Service with the Company or its subsidiaries.



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