

CLUGSTON GROUP LIMITED

Annual Report
Year ended
29 January

2000

CONTENTS**Page**

| | |
|---|----|
| Notice of Annual General Meeting | 2 |
| Directors, officers and advisers | 3 |
| Chairman's statement | 4 |
| Chief Executive's Review | 5 |
| Directors' report | 7 |
| Statement of directors' responsibilities | 9 |
| Report of the auditors | 9 |
| Group profit and loss account | 10 |
| Group balance sheet | 11 |
| Parent company balance sheet | 12 |
| Cash flow statement | 13 |
| Accounting policies | 14 |
| Notes on accounts | 15 |
| Principal subsidiaries, joint ventures and associates | 23 |



CLUGSTON GROUP LIMITED

NOTICE OF ANNUAL GENERAL MEETING

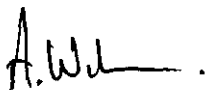
Notice is hereby given that the sixty third Annual General Meeting of the Company will be held at St Vincent House, Scunthorpe on 22 June 2000 at 12.30 pm for the transaction of the following business, namely:

1. To receive the directors' report and audited accounts for the 52 weeks ended 29 January 2000.
2. To declare a final dividend of 10 pence per share in respect of the 52 weeks ended 29 January 2000, payable on 8 September 2000 to members on the register on 22 June 2000.
3. To re-elect Mr J A B Kelly, who retires by rotation in accordance with the Company's Articles of Association.
4. To re-appoint the auditors and to authorise the directors to fix their remuneration.

As special business to consider and, if thought fit, to pass the following resolutions, of which resolutions 5 and 7 will be proposed as ordinary resolutions and resolution 6 will be proposed as a special resolution:

5. That the directors of the Company be and they are hereby generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 at any time during the period of five years from the date of this resolution to allot any relevant securities of the Company (as defined in section 80(2) of that Act) up to an aggregate nominal amount of the authorised but unissued share capital of the Company provided that this authority shall be in substitution for all former authorities under Section 80 of the said Act, which are hereby revoked, provided that such revocation shall not have retrospective effect.
6. That the directors of the Company be and they are hereby empowered (pursuant to Section 95 of the Companies Act 1985) to exercise the authority conferred on them by ordinary resolution generally to allot equity securities (as defined in Section 94(2) of the Companies Act 1985) of the Company as if Section 89(1) of that Act did not apply thereto, provided that this power shall expire at the end of the Annual General Meeting in 2001, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry, and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.
7. That the directors be and they are authorised to offer the holders of, and persons entitled by transmission to, ordinary shares the right to elect to receive in respect of all or part of their holdings of ordinary shares, additional ordinary shares, credited as fully paid up, instead of cash in accordance with the provisions of Article 129A of the Company's Articles of Association in respect of any or all dividends declared, resolved or payable within the period ending at the conclusion of the Annual General Meeting of the Company to be held during 2001.

By Order of the Board



A WILSON
Secretary

St Vincent House
Normanby Road
Scunthorpe
North Lincolnshire
DN15 8QT

27 April 2000

NOTE

A member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member.

CLUGSTON GROUP LIMITED

DIRECTORS, OFFICERS AND ADVISERS

| | |
|-------------------------|---|
| Executive directors | JOHN WESTLAND ANTONY CLUGSTON DL FIHT AMIQ (Chairman) ROY BUTCHER FCMA (Chief Executive) |
| Non-executive directors | GERRARD HUGH CAMAMILE MA FCA (Deputy Chairman) ANTHONY CRAIG LONGDEN OBE FIHT JOHN ANTHONY BRIAN KELLY RD LLB FCA |
| Secretary | ALAN WILSON FCA |
| Registered office | ST VINCENT HOUSE NORMANBY ROAD SCUNTHORPE NORTH LINCOLNSHIRE DN15 8QT Tel 01724 843491 www.clugston.co.uk |
| Auditors | ERNST & YOUNG CLOTH HALL COURT 14 KING STREET LEEDS LS1 2JN |
| Bankers | NATIONAL WESTMINSTER BANK PLC 119 HIGH STREET SCUNTHORPE NORTH LINCOLNSHIRE DN15 6LT HSBC BANK PLC STONEBOW BRANCH 221 HIGH STREET LINCOLN LN1 1TS |
| Solicitors | PINSENT CURTIS 1 PARK ROW LEEDS LS1 5AB |

CLUGSTON GROUP LIMITED

CHAIRMAN'S STATEMENT

The year to 29 January 2000 has been a difficult year for the Group in some parts of the business.

Overall Group turnover was £110.6 million, which was a reduction of 6.2% or £7.3 million on the previous year. The resulting loss was £426,000 compared to a profit of £1,505,000 in the previous year.

Reduced turnover in Construction together with some loss making contracts and delays in agreeing final accounts have been the major factors affecting our results. Prospects in the medium term, however, are more encouraging. Our order book is looking strong, although project delays due to planning issues are still being experienced.

The Group has continued to invest in the future. During the year, an investment of £875,000 was made in Century Health (Nottingham) Limited, a Private Finance Initiative project at the Queens Medical Centre, Nottingham. Also the Group acquired the share capital of Ferro Monk Systems Limited, drainage and renovation specialists, and the business assets of G L Quine Limited, a specialist in concrete spraying, underpinning and mini-piling.

In addition, we have continued to invest in joint venture property opportunities and have also maintained capital investment in the core businesses.

The Board is maintaining the dividend at last year's rate. A final dividend of 10p per share is recommended which, with the interim dividend paid on 7 April 2000, retains the rate at 17p per share.

The current trading environment is difficult but the Board and management are optimistic for the future. I would like to thank all our employees for their efforts during the past year.



J W A CLUGSTON
Chairman

27 April 2000

CLUGSTON GROUP LIMITED

CHIEF EXECUTIVE'S REVIEW

The period to January 2000 has been a most disappointing year. Turnover and margins have been affected by the results of our construction related activities due to delayed projects and a high number of outstanding settlements on final accounts. The overall result has masked a good contribution from Clugston Estates and a consistent performance from Distribution Services.

Capital expenditure and investment in new activities have resulted in a reduced cash balance but these investments should provide additional growth in the future.

The analysis by sector shows:

| | 2000 £000 | 1999 £000 |
|---|--------------|--------------|
| Operating profit/(loss) | | |
| Construction | (1,575) | 566 |
| Ferro Monk Systems | 44 | - |
| Distribution Services/HS Atec | 1,034 | 1,104 |
| Own property activities and central costs | (489) | (1,024) |
| Continuing activities | (986) | 646 |
| Discontinued activities | 417 | - |
| | (569) | 646 |
| Profit on sale of investments | - | 582 |
| Net interest receivable | 143 | 277 |
| Profit/(loss) before taxation | (426) | 1,505 |

CLUGSTON CONSTRUCTION

A disappointing year characterised by lower turnover and ongoing disputes on final accounts. A reasonably prudent judgement has been taken on claims but we are hopeful of achieving a "successful" outcome on the majority of outstanding accounts.

Harlow Office was opened during the year which should help strengthen the company's image in the South-East of England.

We have also invested in our own Private Finance Initiative project at Queens Medical Centre, Nottingham. This project is currently under construction and will provide future facilities management opportunities.

St Vincent Plant has progressed with a relocated depot in Lincoln which opened in November and a new depot in Hull opened just after the year end. Further depot sites are being sought.

The business of G L Quine Limited was purchased in July 1999. This activity, engaged in concrete spraying, underpinning and mini-piling is an interesting niche development for the Group.

FERRO MONK SYSTEMS LIMITED

In November 1999, the Group acquired the share capital of this company which undertakes sewer renovation and repair through both man entry and non-man entry methods. A small contribution was received in the year but the full benefit should be seen in the current year.

CLUGSTON GROUP LIMITED

CHIEF EXECUTIVE'S REVIEW (continued)

CLUGSTON DISTRIBUTION SERVICES

The steel-related activities have developed into the West Midlands with contracts awarded towards the end of 1998 contributing for a full year. In the longer term, we hope further work will be available from Corus Service Centres in the West Midlands and that this will lead to an improvement in returns.

Industrial powders had a good year. Further growth is dependent upon our main customer expanding their production facilities at the Scunthorpe Works.

Flour, either through Spot Hire or through our contracts with Rank Hovis, has maintained a reasonable return although this sector is under margin threat from market reorganisation.

HS ATEC

A slightly disappointing year following the purchase of Atec (Yorks) Limited. Margins are under pressure and the overall market is not growing. Marketing initiatives have now been identified and are being implemented.

CLUGSTON ESTATES

An excellent year, exemplified by the sale of Lisbon House. Other ventures are developing well but, more importantly, a number of key new opportunities have been identified and are being progressed for the future.

CAPITAL INVESTMENT AND EXPENDITURE

A number of investment decisions have been taken in 1999/2000, the benefits of which will not be fully realised in the current year but will provide for growth in the longer term.

Capital expenditure on the base businesses amounted to £3 million for the year. The acquisition of Quine cost £349,000 including borrowings and Ferro Monk Systems cost approximately £1 million together with taking over borrowings of £376,000. Additional net investment in joint venture property opportunities absorbed a further £267,000.

The investment in Century Health (Nottingham) Limited, relating to the PFI venture at Queens Medical Centre, involved an investment of £875k through equity and loan stock.

The overall impact is to utilise cash in the short term but returns in the longer term should provide a meaningful contribution to Group profit.

OUTLOOK

After the difficulties of last year, we need to look ahead. We have a good order book for Construction and the task is to realise its profit potential to the full. Distribution Services can, and will, build on its recent successes.

Property has found interesting and profitable opportunities for future growth and, equally importantly, has made a significant contribution to turnover for Construction.



R BUTCHER
Chief Executive

27 April 2000

CLUGSTON GROUP LIMITED

DIRECTORS' REPORT

The directors present their report and the audited accounts for the 52 weeks ended 29 January 2000.

RESULTS AND DIVIDENDS

The loss for the financial period was £180,000 and, subject to approval of the proposed final dividend, is dealt with as shown in the Group profit and loss account.

The directors recommend the payment of a final dividend on 8 September 2000 of 10p per share on the ordinary shares, making a total of 17p for the period under review, which is consistent with the previous period.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Group during the period was the provision of industrial services, including civil engineering and building contracting, plant and tool hire, drainage renovation and repair, distribution and warehousing services, steelwork services, commercial vehicle and trailer spares and property development and management.

The statutory information required concerning the review of the business and future developments is contained in the Chairman's statement and Chief Executive's review.

HEALTH, SAFETY AND THE ENVIRONMENT

The Group recognises its responsibilities towards both its employees and the general public regarding health, safety and environmental issues. Careful consideration is given to such matters and appropriate action is taken.

EMPLOYEES

Applications for employment received from disabled people, with appropriate qualifications and experience, are given full and fair consideration. Should employees suffer disabilities they will retain their jobs, wherever possible, or will be offered suitable alternative work if it is available.

It is appreciated that the success of any business is dependent upon the abilities and capabilities of its employees and our personnel are encouraged to acquire qualifications and skills for the mutual benefit of themselves and the Group. It is also part of our objective for employees to attain professional, managerial and technical skills and this is encouraged through internal training courses.

Good communication at all levels is accepted as being an essential factor in relationships with our employees. The "Clugston Bulletin" continues to be published at regular intervals and copies are distributed to all employees in the Group.

DIRECTORS AND THEIR INTERESTS

The directors of the Company during the 52 weeks ended 29 January 2000 were those listed on page 3.

In accordance with the articles of association, Mr J A B Kelly retires by rotation and, being eligible, offers himself for re-election.

The only directors' interests in the share capital of the Company were as follows:

| | 29 January 2000 | | | 30 January 1999 | | |
|----------------|-----------------|----------------|---------|-----------------|----------------|---------|
| | Beneficial | Non-beneficial | Options | Beneficial | Non-beneficial | Options |
| J W A Clugston | 75,000 | 398,342 | 32,000 | 75,000 | 398,342 | 32,000 |
| G H Camamile | - | 51,671 | - | - | 51,671 | - |
| R Butcher | 60,000 | - | - | 52,000 | - | 8,000 |

The share options are exercisable at a price of £5.00 per share up to 23 August 2002.

CHARITABLE AND POLITICAL DONATIONS

During the period the Company made various charitable contributions totalling £13,000, including a payment of £10,000 to the Clugston Charitable Settlement, and a political contribution of £500 to the Lincolnshire Conservative Group.

AUDITORS

A resolution proposing the re-appointment of Ernst & Young as auditors will be submitted at the Annual General Meeting.

CLUGSTON GROUP LIMITED

DIRECTORS' REPORT (continued)

YEAR 2000 COMPLIANCE

The implementation of the Group's Year 2000 programme was completed successfully. No disruptions to the business operations occurred, nor is any expected to occur, as a result of the date change. The incremental costs were subsumed into the normal replacement and upgrade cycle of hardware and software involved.

CORPORATE GOVERNANCE

As a private limited company we are not under any obligation to comply with the Combined Code on Corporate Governance published in 1998. However the Board of directors consider it appropriate to include in their report the following outline of procedures.

Board of directors

The Board meets on a regular basis throughout the year. The executive directors have service contracts which do not exceed three years, whilst the non-executive directors do not have specified terms of office but are subject to appointment or removal by a decision of the Board. The Board has a formal schedule of matters specifically reserved to it for decision to ensure that it controls the direction of the Company.

Internal financial control

The Board continues to review and report on the effectiveness of the Group's system of internal financial controls. The Group operates formal systems of internal control, the main elements of which are financial reporting and control procedures.

Financial reporting

The Group operates strict internal financial planning and reporting procedures including three-year plans, annual forecasts, monthly management accounts and a daily treasury function.

Control procedures

The Group controls are exercised through an organisational structure with clearly defined levels of responsibility and authority and are laid down in policy documents covering finance, legal and general administration, health, safety and environmental matters, capital expenditure and employment requirements.

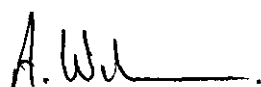
The Group does not operate a system of internal audit but the Board is responsible for the operation and effectiveness of internal financial control systems. There are inherent limitations in any system of financial controls but the directors are of the opinion that it provides reasonable, but not absolute, assurance with regard to the preparation of financial information and the safeguarding of assets.

Remuneration committee

The committee is chaired by Mr G H Camamile and consists of Mr J W A Clugston, Mr R Butcher, Mr A C Longden and Mr J A B Kelly.

The committee considers the emoluments and terms and conditions of employment of the Board members and the directors of Clugston Limited. Its aims are to ensure that remuneration packages are sufficiently competitive to attract, retain and motivate executive directors and management of the right calibre. No director takes part in discussions regarding his own remuneration.

Approved by the Board of Directors and signed on its behalf.



A WILSON
Secretary
27 April 2000

CLUGSTON GROUP LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES in respect of the accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and 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 accounts
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Group will continue in business

The directors confirm that the accounts comply with the above requirements.

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

REPORT OF THE AUDITORS to the members of Clugston Group Limited

We have audited the accounts on pages 10 to 23, which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and on the basis of the accounting policies set out on page 14.

Respective responsibilities of directors and auditors

As described above, the Company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

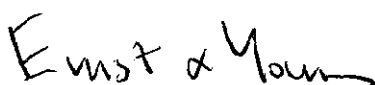
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 29 January 2000 and of the loss of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



ERNST & YOUNG
Registered Auditor
Leeds

27 April 2000

CLUGSTON GROUP LIMITED

GROUP PROFIT AND LOSS ACCOUNT for the 52 weeks ended 29 January 2000

| | Note | 2000 £000 | 1999 £000 |
|---|------|---------------------|-------------------|
| Turnover | | 115,509 | 118,092 |
| Share of joint ventures' turnover | | (4,902) | (141) |
| Group turnover | 1 | <u>110,607</u> | <u>117,951</u> |
| Cost of sales | | (101,729) | (108,295) |
| Gross profit | | <u>8,878</u> | <u>9,656</u> |
| Income from listed investments | | - | 58 |
| Administrative expenses | | (9,447) | (9,068) |
| Operating profit/(loss) | 2 | <u>(569)</u> | <u>646</u> |
| Profit on sale of listed investments | | - | 582 |
| Profit/(loss) on ordinary activities before interest | | <u>(569)</u> | <u>1,228</u> |
| Net interest receivable | 5 | 143 | 277 |
| Profit /(loss) on ordinary activities before taxation | | <u>(426)</u> | <u>1,505</u> |
| Tax on profit/(loss) on ordinary activities | 6 | 246 | (376) |
| Profit /(loss) for the financial period | | <u>(180)</u> | <u>1,129</u> |
| Dividends | 7 | (164) | (163) |
| Retained profit /(loss) for the period | 18 | <u><u>(344)</u></u> | <u><u>966</u></u> |

All of the Group's operations are continuing.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the 52 weeks ended 29 January 2000

| | | |
|--|---------------------|---------------------|
| Profit/(loss) for the financial period | (180) | 1,129 |
| Unrealised surplus on revaluation of tangible fixed assets | - | 716 |
| Total recognised gains and losses for the period | <u><u>(180)</u></u> | <u><u>1,845</u></u> |

CLUGSTON GROUP LIMITED

GROUP BALANCE SHEET at 29 January 2000

| | Note | 2000 £000 | 1999 £000 |
|---|------|---------------|---------------|
| Fixed assets | | | |
| Intangible assets | 9 | 645 | 194 |
| Tangible assets | 10 | 12,650 | 10,994 |
| Investments | | | |
| Share of gross assets of joint ventures | | 7,363 | 3,202 |
| Share of gross liabilities of joint ventures | | (7,330) | (3,169) |
| | | 33 | 33 |
| Other investments | 11 | 1,883 | 741 |
| | | 1,916 | 774 |
| | | <u>15,211</u> | <u>11,962</u> |
| Current assets | | | |
| Stocks | 12 | 1,392 | 1,700 |
| Debtors | 13 | 24,082 | 22,547 |
| Cash at bank and in hand | | 1,247 | 3,001 |
| | | <u>26,721</u> | <u>27,248</u> |
| Creditors - amounts falling due within one year | | | |
| Trade and other creditors | 14 | 23,931 | 21,106 |
| Dividends | | 164 | 163 |
| | | <u>24,095</u> | <u>21,269</u> |
| Net current assets | | 2,626 | 5,979 |
| Total assets less current liabilities | | <u>17,837</u> | <u>17,941</u> |
| Creditors - amounts falling due after more than one year | 15 | (101) | - |
| Provisions for liabilities and charges | 16 | (99) | - |
| | | <u>17,637</u> | <u>17,941</u> |
| Capital and reserves | | | |
| Called up share capital | 17 | 968 | 960 |
| Share premium | 18 | 157 | 125 |
| Revaluation reserve | 18 | 2,036 | 2,093 |
| Capital redemption reserve | | 56 | 56 |
| Profit and loss account | 18 | 14,420 | 14,707 |
| Equity shareholders' funds | | <u>17,637</u> | <u>17,941</u> |

J W A CLUGSTON
Chairman



R BUTCHER
Chief Executive

27 April 2000

CLUGSTON GROUP LIMITED

BALANCE SHEET at 29 January 2000

| | Note | 2000 £000 | 1999 £000 |
|---|------|---------------|---------------|
| Fixed assets | | | |
| Tangible assets | 10 | 5,322 | 425 |
| Investments | 11 | 9,891 | 8,824 |
| | | <u>15,213</u> | <u>9,249</u> |
| Current assets | | | |
| Debtors | 13 | 636 | 177 |
| Cash at bank and in hand | | 1,247 | 3,001 |
| Amounts owed by group undertakings: | | | |
| falling due within one year | | 5,849 | 4,956 |
| falling due after more than one year | | 2,139 | 1,997 |
| | | <u>9,871</u> | <u>10,131</u> |
| Creditors - amounts falling due within one year | | | |
| Trade and other creditors | 14 | 1,158 | 1,137 |
| Dividends | | 164 | 163 |
| | | <u>1,322</u> | <u>1,300</u> |
| Net current assets | | <u>8,549</u> | <u>8,831</u> |
| Total assets less current liabilities | | <u>23,762</u> | <u>18,080</u> |
| Creditors - amounts falling due after more than one year | 15 | (5,995) | (489) |
| | | <u>17,767</u> | <u>17,591</u> |
| Capital and reserves | | | |
| Called up share capital | 17 | 968 | 960 |
| Share premium | 18 | 157 | 125 |
| Revaluation reserve | 18 | 199 | 204 |
| Capital redemption reserve | | 56 | 56 |
| Profit and loss account | 18 | 16,387 | 16,246 |
| Equity shareholders' funds | | <u>17,767</u> | <u>17,591</u> |


J W A CLUGSTON
Chairman


R BUTCHER
Chief Executive

27 April 2000

CLUGSTON GROUP LIMITED

GROUP CASH FLOW STATEMENT for the 52 weeks ended 29 January 2000

| | Note | 2000 £000 | 1999 £000 |
|--|------|----------------|----------------|
| Net cash inflow/(outflow) from operating activities | 20 | 3,994 | (2,186) |
| Returns on investments and servicing of finance | | | |
| Interest received | | 156 | 282 |
| Interest element of finance lease and hire purchase payments | | (13) | (5) |
| Net cash inflow from returns on investments and servicing of finance | | <u>143</u> | <u>277</u> |
| Taxation paid | | (893) | (297) |
| Capital expenditure and financial investment | | | |
| Payments to acquire tangible fixed assets | | (2,872) | (2,311) |
| Payments to acquire investments | | (1,050) | (282) |
| Receipts from sale of tangible fixed assets | | 639 | 404 |
| Receipts from sale of listed investments | | - | 3,400 |
| Net cash in/(out)flow from capital expenditure and financial investment | | <u>(3,283)</u> | <u>1,211</u> |
| Acquisitions and disposals | | | |
| Purchase of business undertakings | 21 | (1,089) | (594) |
| Net overdrafts acquired | | (480) | (288) |
| Net cash outflow from acquisitions and disposals | | <u>(1,569)</u> | <u>(882)</u> |
| Equity dividends paid | | (163) | (154) |
| Net cash outflow before Management of liquid resources and financing | | <u>(1,771)</u> | <u>(2,031)</u> |
| Management of liquid resources and financing | | | |
| Withdrawals from short term deposits | | - | 269 |
| Issue of ordinary share capital | | 40 | - |
| Repayments of capital element of finance leases and hire purchase contracts | | (23) | - |
| Net cash inflow from financing | | <u>17</u> | <u>269</u> |
| Decrease in cash | | <u>(1,754)</u> | <u>(1,762)</u> |

CLUGSTON GROUP LIMITED

ACCOUNTING POLICIES

1 Accounting convention

The accounts are prepared in accordance with applicable accounting standards and under the historical cost convention modified by the revaluation of certain freehold and leasehold property.

2 Basis of consolidation

The Group accounts incorporate the accounts of the Company and each of its subsidiary undertakings made up to the last Saturday in January. The results of subsidiary undertakings acquired or disposed of during the period are included in the Group profit and loss account from or up to the effective date of acquisition or disposal. Entities in which the Group holds an interest on a long term basis and are jointly controlled by the Group and one or more joint venturers under a contractual arrangement are treated as joint ventures. In the Group accounts, joint ventures are accounted for using the gross equity method. Entities, other than subsidiary undertakings or joint ventures, in which the Group has a participating interest and over whose operating and financial policies the Group exercises a significant influence are treated as associates. In the Group accounts, associates are accounted for using the equity method. No profit and loss account is presented for the Company as permitted by Section 230 of the Companies Act 1985.

3 Leased assets

Rentals in respect of operating leases are charged to the profit and loss account as incurred. Assets held under finance leases, where substantially all the risks and rewards of ownership have passed to the Group, and hire purchase contracts are capitalised in the balance sheet and depreciated over their useful lives. The capital element of future obligations is included as liabilities in the balance sheet and the interest element of the rentals is charged in the profit and loss account over the period of the contracts.

4 Depreciation

Freehold land is not depreciated. The cost or valuation of other fixed assets is written off, mainly on a straight line basis, over their expected useful lives as follows:

| | |
|-------------------------------------|------------------------------|
| Freehold buildings | 10 - 50 years |
| Leasehold property | Over the length of the lease |
| Plant, equipment and motor vehicles | 1 - 10 years |

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Investment property is not depreciated but is revalued annually in accordance with SSAP19. Although the Companies Act would normally require the systematic annual depreciation of fixed assets, the directors believe that the policy of not providing depreciation is necessary in order for the accounts to show a true and fair view, since the current value of investment properties, and changes to that current value, are of prime importance rather than a calculation of systematic annual depreciation. Depreciation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been included cannot be separately identified or quantified.

5 Goodwill

Goodwill arising on the acquisition of businesses since 1 February 1998, representing the excess of the purchase consideration over the fair value ascribed to the net assets acquired, is written off through the profit and loss account over its expected useful life but was previously written off to reserves in the accounting period in which it arose. All goodwill capitalised in the balance sheet is being written off over a period of 5 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or circumstances indicate that the carrying value may not be recoverable.

6 Stocks

Stocks are valued at the lower of cost and estimated net realisable value.

7 Long term contracts

Long term contracts are valued at cost plus attributable profit less foreseeable losses and less amounts invoiced on account. Income from contract claims is not included in trading income until the settlement of the claim has been certified or paid.

8 Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences which are not expected to continue in the future.

9 Foreign currency

Normal trading activities denominated in foreign currencies are recorded in sterling at actual exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange prevailing at that date.

10 Pension costs

Contributions to pension schemes and variations from regular cost are charged to the profit and loss account on a basis which spreads the cost of providing pensions over the employees' working lives with the Group.

CLUGSTON GROUP LIMITED

NOTES ON ACCOUNTS

| 2000 | 1999 |
|------|------|
| £000 | £000 |

1 TURNOVER

Turnover comprises the total value of work carried out and goods sold in the UK after deducting VAT and all inter-group transactions and includes £1,493,000 (1999 - £1,803,000) in respect of operating lease rentals. Turnover can be analysed between the Group's continuing operations as follows:

| | | |
|-------------------------------------|----------------|----------------|
| Construction and related activities | 88,011 | 98,027 |
| Industrial Services | 22,299 | 19,136 |
| Property and other activities | 297 | 788 |
| | <u>110,607</u> | <u>117,951</u> |

2 OPERATING PROFIT/(LOSS)

Operating profit/(loss) can be analysed between the Group's operations as follows:

| | | |
|---------------------------------------|--------------|------------|
| Construction and related activities | (1,531) | 566 |
| Industrial Services | 1,451 | 1,104 |
| Property activities and central costs | (489) | (1,024) |
| | <u>(569)</u> | <u>646</u> |

There was no share of operating profit in joint ventures in either year.

Operating profit is stated after charging:

| | | |
|---|-------|-------|
| Auditors' remuneration: | | |
| Audit fees | 60 | 58 |
| Other fees | 57 | 51 |
| Depreciation of tangible fixed assets: | | |
| owned | 1,629 | 1,573 |
| held under finance leases and hire purchase contracts | 14 | - |
| Operating lease rentals: | | |
| plant and machinery | 1,781 | 1,919 |
| land and buildings | 263 | 159 |

3 STAFF COSTS

| | | |
|-----------------------|---------------|---------------|
| Wages and salaries | 16,056 | 15,387 |
| Social security costs | 1,402 | 1,449 |
| Other pension costs | 648 | 598 |
| | <u>18,106</u> | <u>17,434</u> |

Number of employees

| | | |
|---|------------|------------|
| Average monthly number of employees during the period | <u>848</u> | <u>906</u> |
|---|------------|------------|

4 DIRECTORS EMOLUMENTS

| | | |
|---|------------|------------|
| | £000 | £000 |
| Aggregate emoluments | 471 | 470 |
| Payments to third parties | 25 | 24 |
| | <u>496</u> | <u>494</u> |
| Emoluments of the highest paid director | <u>237</u> | <u>254</u> |

Number of directors

| | | |
|---|----------|----------|
| Retirement benefits accruing to directors under defined benefit schemes | <u>1</u> | <u>1</u> |
|---|----------|----------|

CLUGSTON GROUP LIMITED

NOTES ON ACCOUNTS (continued)

2000

1999

4 DIRECTORS EMOLUMENTS (continued)

The emoluments shown above do not include any amounts for the value of options to subscribe for ordinary shares in the Company at £5.00 each. Mr R Butcher exercised his option to purchase 8,000 shares on 12 October 1999. Details of the options in existence were as follows:

J W A Clugston
R Butcher

Number of options

| | |
|--------|--------|
| 32,000 | 32,000 |
| - | 8,000 |

£000

£000

5 NET INTEREST RECEIVABLE

Bank interest payable
Finance charges payable under finance leases and hire purchase contracts
Bank interest receivable
Other interest receivable

| | |
|------------|------------|
| - | (1) |
| (13) | (4) |
| 111 | 260 |
| 45 | 22 |
| <u>143</u> | <u>277</u> |

6 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

The charge/(credit) based on the profit/(loss) for the period comprises:

UK corporation tax
Deferred taxation
Prior year adjustments

| | |
|--------------|------------|
| (110) | 799 |
| 39 | (391) |
| (175) | (32) |
| <u>(246)</u> | <u>376</u> |

The 1999 tax charge included £98,000 in respect of the exceptional item.

7 DIVIDENDS

Interim paid on 7 April 2000
Proposed final

| | |
|------------|------------|
| 67 | 67 |
| 97 | 96 |
| <u>164</u> | <u>163</u> |

8 PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The profit for the period dealt with in the accounts of the Company is £300,000 (1999 - £160,000).

9 INTANGIBLE ASSETS

GROUP

Goodwill
£000

Cost

Goodwill at 30 January 1999
Goodwill arising on acquisitions
Goodwill at 29 January 2000

| |
|------------|
| 212 |
| 595 |
| <u>807</u> |

Amortisation

Amount written off at 30 January 1999
Amount written off during the period
Amount written off at 29 January 2000

| |
|------------|
| 18 |
| 144 |
| <u>162</u> |

Net book amount at 29 January 2000

| |
|------------|
| <u>645</u> |
|------------|

CLUGSTON GROUP LIMITED

NOTES ON ACCOUNTS (continued)

10 TANGIBLE FIXED ASSETS

| | Land and buildings £000 | Plant, equipment and vehicles £000 | Total £000 |
|--|-------------------------------|---|---------------|
| GROUP | | | |
| Cost or valuation | | | |
| At 30 January 1999 | 6,491 | 12,227 | 18,718 |
| Additions | 1,206 | 1,666 | 2,872 |
| Disposals | | (2,345) | (2,345) |
| Acquisition of businesses | | 840 | 840 |
| At 29 January 2000 | <u>7,697</u> | <u>12,388</u> | <u>20,085</u> |
| At 2000 valuation | 2,157 | - | 2,157 |
| At 1999 valuation | 3,990 | - | 3,990 |
| Depreciation | | | |
| At 30 January 1999 | 207 | 7,517 | 7,724 |
| Charge for period | 121 | 1,522 | 1,643 |
| Disposals | | (2,132) | (2,132) |
| Acquisition of businesses | | 200 | 200 |
| At 29 January 2000 | <u>328</u> | <u>7,107</u> | <u>7,435</u> |
| Net book amounts at 29 January 2000 | <u>7,369</u> | <u>5,281</u> | <u>12,650</u> |
| Net book amounts at 30 January 1999 | <u>6,284</u> | <u>4,710</u> | <u>10,994</u> |
| COMPANY | | | |
| Cost or valuation | | | |
| At 30 January 1999 | 395 | 127 | 522 |
| Additions | 1,206 | 118 | 1,324 |
| Transfers from group companies | 3,885 | 286 | 4,171 |
| Disposals | | (217) | (217) |
| At 29 January 2000 | <u>5,486</u> | <u>314</u> | <u>5,800</u> |
| At 1999 valuation | 395 | | 395 |
| Depreciation | | | |
| At 30 January 1999 | - | 97 | 97 |
| Charge for period | 118 | 36 | 154 |
| Transfers from group companies | 204 | 215 | 419 |
| Disposals | | (192) | (192) |
| At 29 January 2000 | <u>322</u> | <u>156</u> | <u>478</u> |
| Net book amounts at 29 January 2000 | <u>5,164</u> | <u>158</u> | <u>5,322</u> |
| Net book amounts at 30 January 1999 | <u>395</u> | <u>30</u> | <u>425</u> |

The net book amount of group plant, equipment and motor vehicles above includes £311,000 in respect of assets held under finance leases and hire purchase contracts (1999 - nil).

CLUGSTON GROUP LIMITED

NOTES ON ACCOUNTS (continued)

10 FIXED ASSETS (continued)

| | Group | | Company | |
|--|-------|-------|---------|------|
| | 2000 | 1999 | 2000 | 1999 |
| | £000 | £000 | £000 | £000 |
| Plant, equipment and motor vehicles above includes the following amounts in respect of assets held for use under operating leases: | | | | |
| Cost | 2,143 | 2,128 | - | - |
| Depreciation | 1,309 | 1,277 | - | - |
| Net book amounts | 834 | 851 | - | - |

If properties had not been revalued they would have been carried in the balance sheet as follows:

| | | | | |
|------------------|-------|-------|-------|-----|
| Cost | 7,064 | 5,858 | 5,332 | 241 |
| Depreciation | 1,531 | 1,467 | 367 | 50 |
| Net book amounts | 5,533 | 4,391 | 4,965 | 191 |

The net book amount of land and buildings comprises:

| | | | | |
|--------------------------------------|--------|-------|-------|-----|
| Freehold property | 4,702 | 3,616 | 4,702 | - |
| Investment property | 2,157 | 2,157 | - | - |
| Leases with under 50 years unexpired | 510 | 511 | 462 | 395 |
| | 18,817 | 6,284 | 5,164 | 395 |

The investment property was valued at 29 January 2000 at open market value, determined by an employee of the Company, who is a Fellow of the Royal Institution of Chartered Surveyors.

11 INVESTMENTS

| GROUP | Loans to joint associated ventures undertakings | | Total |
|-------------------------------------|---|------|-------|
| | £000 | £000 | £000 |
| Cost | | | |
| At 30 January 1999 | 741 | 181 | 922 |
| Advances | 1,417 | - | 1,417 |
| Repayments | (275) | (92) | (367) |
| At 29 January 2000 | 1,883 | 89 | 1,972 |
| Provisions | | | |
| At 30 January 1999 | - | 181 | 181 |
| Reductions | - | (92) | (92) |
| At 29 January 2000 | - | 89 | 89 |
| Net book amounts at 29 January 2000 | 1,883 | - | 1,883 |
| Net book amounts at 30 January 1999 | 741 | - | 741 |

| | 2000 | 1999 |
|--|---------|---------|
| | £000 | £000 |
| The Group's share in its joint ventures at 29 January 2000 was as follows: | | |
| Fixed assets | 3,414 | - |
| Current assets | 3,949 | 3,202 |
| Liabilities due within one year | (3,919) | (3,169) |
| Liabilities due after more than one year | (3,411) | - |
| Net assets | 33 | 33 |

CLUGSTON GROUP LIMITED

NOTES ON ACCOUNTS (continued)

11 INVESTMENTS (continued)

| COMPANY | Subsidiary undertakings £000 | Associated undertakings £000 | Total £000 |
|---|------------------------------------|------------------------------------|---------------|
| Cost at 30 January 1999 | 9,424 | 225 | 9,649 |
| Additions | 1,059 | 8 | 1,067 |
| Cost at 29 January 2000 | 10,483 | 233 | 10,716 |
| Provisions at 29 January 2000 and 30 January 1999 | 600 | 225 | 825 |
| Net book amounts at 29 January 2000 | 9,883 | 8 | 9,891 |
| Net book amounts at 30 January 1999 | 8,824 | - | 8,824 |

No dividends were receivable from associated undertakings during the period (1999 - nil).

A list of principal subsidiaries, joint ventures and associates is given on page 23.

| | Group | | Company | |
|--|--------------|--------------|--------------|--------------|
| | 2000 £000 | 1999 £000 | 2000 £000 | 1999 £000 |
| 12 STOCKS | | | | |
| Properties held for sale | 50 | 435 | - | - |
| Goods for resale | 975 | 1,138 | - | - |
| Raw materials | 177 | - | - | - |
| Stores and other | 190 | 127 | - | - |
| | 1,392 | 1,700 | - | - |
| 13 DEBTORS | | | | |
| Trade debtors | 16,498 | 11,660 | 158 | - |
| Amounts recoverable on contracts | 6,797 | 9,882 | - | - |
| Prepayments and accrued income | 456 | 1,005 | 136 | 177 |
| Taxation | 331 | - | 342 | - |
| | 24,082 | 22,547 | 636 | 177 |
| 14 TRADE AND OTHER CREDITORS | | | | |
| Trade creditors | 20,071 | 17,757 | 57 | 37 |
| Payments received in advance | 1,074 | 201 | - | - |
| Social security and PAYE | 458 | 462 | 266 | 258 |
| Accrued charges | 1,446 | 1,067 | 709 | 386 |
| Finance lease and hire purchase obligations | 121 | - | - | - |
| Other creditors | 761 | 740 | 126 | - |
| Taxation | - | 879 | - | 337 |
| Amounts due to subsidiary undertakings | - | - | - | 119 |
| | 23,931 | 21,106 | 1,158 | 1,137 |
| 15 CREDITORS - amounts falling due after more than one year | | | | |
| Amounts due to subsidiary undertakings | - | - | 5,995 | 489 |
| Finance lease and hire purchase obligations payable within two to five years | 101 | - | - | - |
| | 101 | - | 5,995 | 489 |

CLUGSTON GROUP LIMITED

NOTES ON ACCOUNTS (continued)

16 PROVISIONS FOR LIABILITIES AND CHARGES

| | Deferred taxation £000 |
|---------------------------------------|------------------------------|
| GROUP | |
| At 30 January 1999 | - |
| Transfer from profit and loss account | 99 |
| At 29 January 2000 | <u>99</u> |

Deferred taxation represents accelerated capital allowances.

There are no further potential liabilities to deferred taxation.

17 CALLED UP SHARE CAPITAL

| | 2000 £000 | 1999 £000 |
|------------------------------------|--------------|--------------|
| Ordinary shares of £1 each | | |
| Authorised | 1,250 | 1,250 |
| Allotted, called up and fully paid | <u>968</u> | <u>960</u> |

Options have been granted under the Clugston Group Limited 1995 Unapproved Share Option Scheme to subscribe for 40,000 shares at £5.00 each up to 23 August 2002. On 12 October 1999 options to acquire 8,000 ordinary shares were exercised.

18 RESERVES

| | Share premium £000 | Revaluation reserve £000 | Profit and loss account £000 |
|-------------------------------------|--------------------------|--------------------------------|------------------------------------|
| GROUP | | | |
| At 30 January 1999 | 125 | 2,093 | 14,707 |
| Deficit for the period | - | - | (344) |
| Share issue | 32 | - | - |
| Transfer in respect of depreciation | - | (57) | 57 |
| At 29 January 2000 | <u>157</u> | <u>2,036</u> | <u>14,420</u> |

Cumulative goodwill written off since February 1980, the earliest date from which figures are reasonably available, amounts to £2,505,000 (1999 - £2,505,000).

COMPANY

| | | | |
|-------------------------------------|------------|------------|---------------|
| At 30 January 1999 | 125 | 204 | 16,246 |
| Profit for the period | - | - | 136 |
| Share issue | 32 | - | - |
| Transfer in respect of depreciation | - | (5) | 5 |
| At 29 January 2000 | <u>157</u> | <u>199</u> | <u>16,387</u> |

CLUGSTON GROUP LIMITED

NOTES ON ACCOUNTS (continued)

| | Group | |
|---|--------|--------|
| | 2000 | 1999 |
| | £000 | £000 |
| 19 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS | | |
| Profit/(deficit) for the financial period | (180) | 1,129 |
| Dividends | (164) | (163) |
| Share issue | 40 | - |
| Revaluation surplus | - | 716 |
| Net addition to shareholders' funds | (304) | 1,682 |
| Opening shareholders' funds | 17,941 | 16,259 |
| Closing shareholders' funds | 17,637 | 17,941 |

| | | |
|--|-------|---------|
| 20 RECONCILIATION OF OPERATING PROFIT TO NET CASHFLOW | | |
| Operating profit/(loss) | (569) | 646 |
| Depreciation of fixed assets | 1,643 | 1,579 |
| Profit on sale of tangible fixed assets | (426) | (215) |
| Provisions against fixed asset investments | (92) | 189 |
| Amortisation of goodwill | 144 | 18 |
| Movement in provisions | - | 38 |
| Decrease in stocks and work in progress | 503 | 328 |
| Decrease in debtors | 227 | 1,268 |
| Increase/(decrease) in creditors | 2,564 | (6,037) |
| Net cash inflow/(outflow) from operating activities | 3,994 | (2,186) |

21 ACQUISITION OF BUSINESSES

On 9 November 1999 the Company acquired the whole of the issued share capital of Ferro Monk Systems Limited and on 1 July 1999 a subsidiary company acquired the business, assets and liabilities of G L Quine Limited.

The aggregate net assets at the dates of acquisition were as follows:

| | Book value and fair value to the Group |
|--|--|
| | £000 |
| Tangible fixed assets | 640 |
| Stocks | 195 |
| Debtors | 1,431 |
| Creditors due within one year | (1,140) |
| Taxation | (28) |
| Creditors due after more than one year | (124) |
| Net bank borrowings | (480) |
| | 494 |
| Goodwill | 595 |
| Cash consideration | 1,089 |

The results and cashflows of the acquired businesses for the current and prior periods are not considered sufficiently material to report separately in these accounts.

CLUGSTON GROUP LIMITED

NOTES ON ACCOUNTS (continued)

22 PENSION COMMITMENTS

The Group operates several pension schemes for eligible employees. The principal scheme is a contributory defined benefit pension scheme for employees and the assets are invested in a managed fund. The Group makes contributions to the scheme based on the advice of its actuary. The latest triennial actuarial valuation was carried out by a professionally qualified actuary as at 1 April 1997 using the projected unit credit method and this revealed the scheme to be over-funded on an ongoing basis. The market value of the scheme's assets at that date was £13,437,000. The annual growth rate assumptions used to calculate the pension costs under SSAP 24, revealing an over-funding of approximately 16%, were:

| | |
|-------------------|------|
| Investment return | 8.0% |
| Pay increases | 6.5% |
| Pension increases | 4.0% |

23 LEASING COMMITMENTS

| | Group | |
|--|-------|------|
| | 2000 | 1999 |
| | £000 | £000 |

At 29 January 2000 the Group had the following annual commitments under non-cancellable operating leases expiring:

Plant, machinery etc

| | | |
|---------------------|--------------|--------------|
| next year | 343 | 328 |
| within 2 to 5 years | 1,190 | 1,396 |
| | <u>1,533</u> | <u>1,724</u> |

Land and buildings

| | | |
|---------------------|------------|------------|
| next year | - | 1 |
| within 2 to 5 years | 75 | 30 |
| after 5 years | 79 | 103 |
| | <u>154</u> | <u>134</u> |

CLUGSTON GROUP LIMITED

NOTES ON ACCOUNTS (continued)

PRINCIPAL SUBSIDIARIES, JOINT VENTURES & ASSOCIATES at 29 January 2000

SUBSIDIARY UNDERTAKINGS

(all wholly owned)

ACTIVITIES

CLUGSTON LIMITED comprising:

Construction

Building
Civil engineering
Plant and tool hire

Industrial Services

Distribution and warehousing services
Steelwork services

ST VINCENT SERVICES LIMITED

Commercial vehicle and trailer spares
(part of the Industrial Services division)

FERRO MONK SYSTEMS LIMITED

Sewer renovation

CLUGSTON ESTATES LIMITED

Property development

THE MOORS LIMITED

Property management

JOINT VENTURES AND ASSOCIATED UNDERTAKINGS

| | Percentage holding of ordinary share capital | Accounting date |
|---|---|------------------|
| JOINT VENTURES | | |
| Lakeside Partnership Limited (Property development) | 50.0 | 31 December 1999 |
| Teeston Developments Limited (Property development) | 50.0 | 31 December 1999 |
| Brayford Partnership Limited (Property development) | 50.0 | 31 December 1999 |
| Century Health (Nottingham) Limited (Facilities provider) | 40.0 | 31 December 1999 |
| Bourne Partnership Limited (Property development) | 50.0 | 31 December 1999 |
| ASSOCIATED UNDERTAKINGS | | |
| Sunway Slag Cement SDN BHD (Industrial waste processors) (Incorporated in Malaysia) | 20.0 | 31 December 1999 |