

INTERSERVE FM LIMITED (FORMERLY
MAINTENANCE & TECHNICAL
MANAGEMENT LIMITED)

Report and Financial Statements

31 December 1998



Deloitte & Touche
Colmore Gate
2 Colmore Row
Birmingham
B3 2BN

INTERSERVE *FM* LIMITED(FORMERLY
MAINTENANCE & TECHNICAL MANAGEMENT LIMITED)

REPORT AND FINANCIAL STATEMENTS 1998

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2 - 4
Statement of directors' responsibilities	5
Auditors' report	6
Consolidated profit and loss account	7
Balance sheets	8
Notes to the accounts	9 - 16

REPORT AND FINANCIAL STATEMENTS 1998

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P D Skett (*Chairman*)
D R Gwilliams
G J Wentzell
C Gateley

SECRETARY

D R Gwilliams

REGISTERED OFFICE

Intersection House
Birmingham Road
West Bromwich
West Midlands
B70 6RX

BANKERS

Midland Bank plc
130 New Street
Birmingham
B2 4JU

AUDITORS

Deloitte & Touche
Chartered Accountants
Colmore Gate
2 Colmore Row
Birmingham
B3 2BN

REPORT OF THE DIRECTORS'

The directors present their annual report and the audited financial statements for the year ended 31st December 1998.

CHANGE OF NAME

On 29 January 1999 the company changed its name to Interserve *fm* Limited

ACTIVITIES

The principal activity of the Group continues to be the care of buildings' technical systems under contract, including provision of planned maintenance and management of facilities services, remote monitoring, heat supply and total guarantee contracts.

REVIEW OF THE BUSINESS AND FUTURE PROSPECTS

The Group continued to build its contract holdings in mechanical and electrical maintenance and within facilities service markets, whilst raising its profile through increased marketing and business development activity.

The prospects for the Group remain positive as the company continues to drive down client costs and improve performance through partnership agreements.

Interserve *fm* Limited took over the activities of its subsidiaries, and Tilbury City Limited on 1 April 1999. Interserve *fm* Limited took over the activities of Tilbury Douglas Facilities Management (a business unit of Tilbury Douglas Construction Limited) on 1 January 1999.

RESULTS

The results of the Group are as set out in the accounts on page 7.

The directors do not recommend the payment of a final dividend (1997 - £ 3,013,000).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are set out below:-

P D Skett (Chairman)
D R Gwilliams
G J Wentzell (appointed 27/08/98)
C Gateley (appointed 27/08/98)
D Summerfield (resigned 31/07/98)
T K Stead (appointed 1/04/98, resigned 16/08/98)

In accordance with the Articles of Association directors are not required to retire by rotation.

The interests of the directors at 31st December 1998 in the capital of the ultimate parent undertakings are as stated below:-

REPORT OF THE DIRECTORS (continued)

	<u>Shares of 10p each</u>		<u>Options over Shares of 10p each</u>		<u>Exercise Price p</u>	<u>Period of Exercise</u>
	<u>1.1.98*</u>	<u>31.12.98</u>	<u>1.1.98*</u>	<u>31.12.98</u>		
<u>Tilbury Douglas plc</u>						
P D Skett	-	107,205	-	14,150	212.00	07.10.01-06.10.08
				25,850	212.00	07.10.01-06.10.05
D R Gwilliams	-	26,075	-	-	-	-
G J Wentzell	8,800	8,800	19,737	19,737	216.80	13.04.95-12.04.02
			221,897	221,897	268.40	18.06.00-17.06.04
			8,657	8,657	199.20	01.01.03-30.06.03
				70,000	212.00	07.10.01-06.10.05
C Gateley	-	-	-	14,150	212.00	07.10.01-06.10.08
				850	212.00	07.10.01-06.10.05

Loan Notes of £1 each

P D Skett	-	251,708
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How Group Plc

P D Skett	24,500#	-	20,000#	-	87.00	16.02.89 - 15.02.99
			50,000#	-	68.00	08.02.90 - 07.02.00
			150,000#	-	33.00	13.06.94 - 13.06.01
			300,000#	-	33.00	08.12.98 - 08.12.05
D R Gwilliams	17,500#	-	80,000#	-	34.00	18.07.94 - 17.07.04
			15,000#	-	87.00	16.02.89 - 15.02.99
			35,000#	-	68.00	08.02.90 - 07.02.00

* or later date of appointment

on the 16th June 1998 the Recommended Offer ("the offer") for How Group Plc by Tilbury Douglas Plc was declared unconditional in all respects. In each case the Offer was accepted in full in respect of both shares and options.

The market price of Tilbury Douglas Plc shares at 31st December 1998 was 218p.
The range of closing prices during the year was 194p to 306p.

In addition to the above P D Skett and D R Gwilliams held options in respect of 75,000 and 52,500 shares respectively under How Group Plc's Cash Option Scheme at 1 January 1998 or later date of appointment as directors.

REPORT OF THE DIRECTORS (continued)

EMPLOYEES

The company has an established policy that disabled persons, especially should they become disabled in the course of their employment with the company, are employed where circumstances permit. The company endeavors to ensure that disabled employees benefit from training and career development programmes in common with other employees.

POLICY ON PAYMENT OF CREDITORS

It is the Company's normal practice to agree payment terms with its suppliers and abide by those terms. Payment becomes due when it can be confirmed that goods and/or services have been provided in accordance with the relevant contractual conditions. Trade creditors at 31 December 1998, calculated in accordance with requirements of the Companies Act 1985 were 57 days (1997 - 55 days). This represents the ratio, expressed in days, between the amounts invoiced to the Company in the year by its suppliers and the amounts due, at the year end, to trade creditors falling due for payment within one year.

YEAR 2000

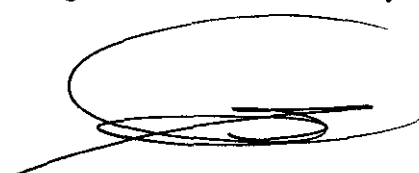
The Company continues to review its financial and operating systems in the light of the potential dangers of the "Millennium Bug". Many of the systems have already been modified or replaced in order to minimise such dangers and those areas yet to be completed are planned to have been dealt with well before the end of this year. The Board regularly considers this matter. Any costs related to those changes are not expected to have a significant effect upon Company profitability.

AUDITORS

Resolutions will be proposed at the annual general meeting to re-appoint Deloitte & Touche as auditors to the company and to authorise the directors to fix their remuneration.

Intersection House]
110 Birmingham Road]
West Bromwich]
West Midlands]
B70 6RX]

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



D R Gwilliams

8 June 1999

Secretary

STATEMENT OF DIRECTORS RESPONSIBILITIES

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed.
- 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, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS OF INTERSERVE FM LIMITED

We have audited the financial statements on pages 7 to 16 which have been prepared under the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 5 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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 financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the company and the group as at 31st December 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Deloitte & Touche
Chartered Accountants and Registered Auditors

28 June 1999
Colmore Gate
Birmingham
B3 2BN

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 1998**

	NOTE	1998 £000	1997 £000
TURNOVER	1	39,121	34,051
Cost of sales		<u>(32,529)</u>	<u>(27,661)</u>
GROSS PROFIT		6,592	6,390
Administration expenses		<u>(5,146)</u>	<u>(5,328)</u>
OPERATING PROFIT	3	1,446	1,062
Improvement to freehold property disposal	10	(174)	-
Interest receivable	7	178	2
Interest payable	8	<u>(4)</u>	<u>-</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,446	1,064
Tax on profit on ordinary activities	9	<u>(510)</u>	<u>(345)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION ATTRIBUTABLE TO SHAREHOLDERS		936	719
Equity dividend paid		<u>(130)</u>	<u>(3,013)</u>
RETAINED PROFIT/(LOSS) FOR THE YEAR TRANSFERRED TO RESERVES	18	<u>806</u>	<u>(2,294)</u>

All activities derive from continuing operations.

A statement of Total Recognised Gains and Losses is not presented as there have been no recognised gains or losses other than the profit/(loss) for the year and the preceding year set out above.

BALANCE SHEET AT 31ST DECEMBER 1998

	<u>NOTE</u>	<u>Group</u>		<u>Company</u>	
		1998 £000	1997 £000	1998 £000	1997 £000
FIXED ASSETS					
Tangible assets	10	244	369	155	77
Investments		-	-	200	200
		<u>244</u>	<u>369</u>	<u>355</u>	<u>277</u>
CURRENT ASSETS					
Work in progress	13	22	22	-	-
Debtors	14	9,506	8,274	214	78
Cash at bank and in hand		<u>2,561</u>	<u>1,430</u>	<u>81</u>	<u>183</u>
		12,089	9,726	295	261
CREDITORS FALLING DUE WITHIN ONE YEAR					
Bank loans and overdrafts		-	(51)	-	-
Trade creditors		(5,345)	(4,317)	(94)	(43)
Sundry creditors	15	<u>(4,094)</u>	<u>(3,639)</u>	<u>(311)</u>	<u>(250)</u>
		(9,439)	(8,007)	(405)	(293)
NET CURRENT ASSETS/(LIABILITIES)		<u>2,650</u>	<u>1,719</u>	<u>(110)</u>	<u>(32)</u>
NET ASSETS		<u>2,894</u>	<u>2,088</u>	<u>245</u>	<u>245</u>
CAPITAL AND RESERVES					
Called up share capital	17	50	50	50	50
Profit and loss account	18	<u>2,844</u>	<u>2,038</u>	<u>195</u>	<u>195</u>
SHAREHOLDERS' FUNDS					
Equity interest	19	<u>2,894</u>	<u>2,088</u>	<u>245</u>	<u>245</u>

These financial statements were approved by the Board of Directors on 8 June 1999

Signed on behalf of the Board of Directors.

P D Skett
DIRECTOR

8 June 1999

NOTES ON THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1998

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

ACCOUNTING CONVENTION

These financial statements have been prepared in accordance with the historical cost convention.

BASIS OF CONSOLIDATION

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings, all of which are made up to 31 December each year.

A separate profit and loss account of the Company is not presented as part of these financial statements as permitted by Section 230 of the Companies Act 1985.

TURNOVER

Turnover represents the invoiced value of goods supplied and services rendered as adjusted by the variation between opening and closing valuations of contracts in progress and after making full provision for potential claims and allowances.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Expenditure in respect of short term leasehold premises, where the freehold interest is held by a fellow subsidiary undertaking, has been classified as freehold property and depreciated appropriately.

Depreciation is provided on a straight-line basis calculated to write down their cost over their estimated useful economic lives at the following annual rates:

Freehold property	-	4%
Plant, equipment and fixtures	-	20%
Motor Vehicles	-	25%

No depreciation is provided on long leasehold residential properties as, in the opinion of the directors, the residual values would be sufficiently high to make any depreciation charge immaterial. The directors have based their estimate of residual value on prices prevailing at the time of acquisition. All repairs and any permanent diminution in value are charged to the profit and loss account.

Site equipment and other items of comparatively low value are normally written off in the year of purchase as revenue expenditure on the grounds that the life expectancy of such assets can not be predicted with reasonable certainty, although it is likely to be less than three years in most instances.

INVESTMENTS

Investments in subsidiary undertakings are valued at cost less provision for any permanent diminution in value.

NOTES ON THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1998

1. ACCOUNTING POLICIES (Continued)

OPERATING LEASES

Operating lease rentals are charged on a straight line basis over the lease terms.

CONTRACTS IN PROGRESS

Contracts in progress are valued individually at the lower of cost, including related overheads, and estimated net realisable value, provision being made for anticipated future losses where appropriate.

STOCKS

Stocks are valued at the lower of cost (ascertained on first in first out principles) and net realisable value after making due provision in respect of redundant, obsolete and defective stocks.

PENSION COSTS

The cost of the defined benefits pension arrangements are charged to the profit and loss account as the contributions become payable to the Scheme's principal employer, How Group Limited.

COMPARATIVE FIGURES

Comparative figures for work in progress have been transferred to amounts recoverable on contracts and contract provisions have been transferred to other creditors. These adjustments have been made to bring presentation in line with that of the parent undertaking Tilbury Douglas Plc.

DEFERRED TAXATION

Provision is made and relief is taken at projected rates of taxation for timing differences between the treatment of certain items for taxation and for accounting purposes to the extent that liabilities or assets are likely to crystallise in the foreseeable future. Advance Corporation tax which is available to reduce the corporation tax payable on future profits is deducted from the provision for deferred taxation.

2. SEGMENTAL ANALYSIS

The Group's turnover arises in the U.K. from its ordinary activities.

3. OPERATING PROFIT	1998	1997
	£000	£000
Operating profit is arrived at after charging:		
Depreciation (including adjustments for disposals)		
On owned assets	62	64
Rentals under operating leases		
Hire of plant machinery and vehicles	989	959
Land and buildings	145	160
Remuneration payable to auditors		
Audit fees	33	25

NOTES ON THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1998

	1998	1997
4. EMPLOYEES	Number	Number
The average number employed by the company (including directors) within each category of persons was:		
Production	508	491
Administration	169	164
	<u>677</u>	<u>655</u>
The costs incurred in respect of these employees (including directors) were:		
Wages and salaries	13,074	11,750
Social Security costs	1,255	1,139
Other pension costs	475	387
	<u>14,804</u>	<u>13,276</u>

5. PENSION COSTS

The company is a member of the How Group Staff Pension and Life Assurance Scheme. The Scheme is of the defined benefit type and is funded in advance by contributions at rates assessed by independent professionally qualified actuaries in valuation reports, normally every three years. Particulars of the actuarial valuation are contained in the financial statements of the ultimate parent undertaking, How Group Limited

	1998 £	1997 £
6. DIRECTORS		
Remuneration	181,004	48,491
Pension contributions	18,991	4,800
Value awards under long term incentive plan	52,912	-
	<u>252,907</u>	<u>53,291</u>

Two directors are members of the How Group Staff Pension and Life Assurance Scheme. (1997 Three directors).

	1998 £000	1997 £000
7. INTEREST RECEIVABLE		
Group interest	178	-
Other interest	-	2
	<u>178</u>	<u>2</u>

	1998 £000	1997 £000
8. INTEREST PAYABLE		
Bank loans and overdrafts	2	-
Other interest	2	-
	<u>4</u>	<u>-</u>

NOTES ON THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1998

	1998 £000	1997 £000
9. TAX ON PROFIT ON ORDINARY ACTIVITIES		
UK Corporation tax at 31% (1997-31.5%)	516	353
Transfer to deferred taxation	(2)	(3)
Adjustments relating to prior years		
Corporation tax	(4)	(8)
Deferred tax	-	3
	<u>510</u>	<u>345</u>

10. TANGIBLE FIXED ASSETS

	Improvement to Group Freehold Property	Long term Leasehold Property	Motor Vehicles	Plant Equip & Fixtures	Total
GROUP	£000	£000	£000	£000	£000
COST					
1st January 1998	196	25	192	466	879
Additions at cost	-	-	18	122	140
Disposals	(196)	(25)	(21)	-	(242)
31st December 1998	<u>-</u>	<u>-</u>	<u>189</u>	<u>588</u>	<u>777</u>
DEPRECIATION					
1st January 1998	19	-	111	380	510
Provided in year	3	-	22	37	62
Disposals	(22)	-	(17)	-	(39)
31st December 1998	<u>-</u>	<u>-</u>	<u>116</u>	<u>417</u>	<u>533</u>
NET BOOK VALUE					
31st December 1998					
Owned assets	<u>-</u>	<u>-</u>	<u>73</u>	<u>171</u>	<u>244</u>
31st December 1997					
Owned assets	<u>177</u>	<u>25</u>	<u>81</u>	<u>86</u>	<u>369</u>

During the year improvement to Group freehold property with net book value of £173,738 were written off to the profit and loss account.

NOTES ON THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1998

10. TANGIBLE FIXED ASSETS (continued)

COMPANY	<u>Motor Vehicles</u> £000	<u>Computer Equipment</u> £000	<u>Total</u> £000
COST			
1st January 1998	21	146	167
Additions at cost	-	108	108
31st December 1998	<u>21</u>	<u>254</u>	<u>275</u>
DEPRECIATION			
1st January 1998	1	89	90
Provided in year	<u>5</u>	<u>25</u>	<u>30</u>
31st December 1998	<u>6</u>	<u>114</u>	<u>120</u>
NET BOOK VALUE			
31st December 1998			
Owned assets	<u>15</u>	<u>140</u>	<u>155</u>
31st December 1997			
Owned assets	<u>20</u>	<u>57</u>	<u>77</u>
		1998	1997
		£000	£000
Committed future capital expenditure not provided for in the accounts		<u>380</u>	<u>-</u>

11. FIXED ASSET INVESTMENTS

Shares in subsidiary undertakings **£000**

Cost

At 1 January 1998 and 31 December 1998 200

At 31 December 1998 the Company's subsidiary undertakings, all of which are wholly owned were:-

Maintenance and Technical Management (London) Limited
Maintenance and Technical Management (Midlands) Limited
Maintenance and Technical Management (Northern) Limited
Maintenance and Technical Management (Scotland) Limited

All the above subsidiaries are engaged in the maintenance of services to buildings.

NOTES ON THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1998Cont'd

12. OPERATING LEASES

At 31st December 1998 Company had annual commitments under non-cancelable operating leases as follows:-

	<u>Land and Buildings</u>		<u>Other</u>	
	1998	1997	1998	1997
	£000	£000	£000	£000
Commitments expiring:				
within 1 year	27	16	491	130
in two to five years	-	16	377	719
after five years	103	89	29	-
	<u>130</u>	<u>121</u>	<u>897</u>	<u>849</u>

The majority of leases of land and buildings are subject to annual rent reviews.

13. STOCKS

	1998	1997
	£000	£000
Raw Materials	<u>22</u>	<u>22</u>

14. DEBTORS

	<u>Group</u>		<u>Company</u>	
	1998	1997	1998	1997
	£000	£000	£000	£000
Amounts recoverable on contracts	2,377	1,712	-	-
Trade debtors	6,324	6,209	(12)	-
Amounts owed by subsidiary undertakings	-	-	-	54
Amounts owed by group undertakings	459	97	87	13
Other debtors	46	5	18	-
Prepayments and accrued income	178	202	121	11
Taxation recoverable	70	-	-	-
Deferred taxation (see note 16)	52	49	-	-
	<u>9,506</u>	<u>8,274</u>	<u>214</u>	<u>78</u>

15. SUNDRY CREDITORS

Amounts owed to group undertakings	415	370	86	30
Amounts owed to subsidiary undertakings	-	-	-	52
Contract completion costs	-	170	-	-
Other creditors	571	336	149	145
Corporation tax	555	327	2	5
Other taxation and social security	1,272	1,762	52	9
Accruals and deferred income	1,281	674	22	9
	<u>4,094</u>	<u>3,639</u>	<u>311</u>	<u>250</u>

NOTES ON THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1998 Cont'd

	1998 £000	1997 £000
16. DEFERRED TAXATION		
Deferred taxation - provided and potential		
(a) Movement in year		
1st January 1998	(50)	(49)
Credit for year	(2)	-
31st December 1998	(52)	(49)
(b) The source of the balance on deferred tax account is as follows:		
Other timing differences	(52)	(49)
17. CALLED UP SHARE CAPITAL		
Authorised		
50,000 ordinary shares of £1 each	50	50
Allotted and fully paid		
50,000 ordinary shares of £1 each	50	50
18. PROFIT AND LOSS ACCOUNT		
1st January 1998	2,038	4,332
Retained profit/(loss) for the year	806	(2,294)
31st December 1998	2,844	2,038
The consolidated profit on ordinary activities includes £130,000 (1997 £719,000) which is dealt with in the financial statements of the company		
19. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS		
Profit attributable to shareholders	936	719
Dividends	(130)	(3,013)
	806	(2,294)
Capital subscribed	-	49
Movement in year	806	(2,245)
Opening shareholders' funds	2,088	4,333
Closing shareholders' funds	2,894	2,088
20. CONTINGENT LIABILITIES		

At 31st December 1998 there were contingent liabilities in respect of guarantees given in the ordinary course of business.

The Company has given guarantees covering banking facilities made available to the parent and fellow subsidiary undertakings. At 31 December 1998 these amounted to £41,348,000 (1997 - £20,717,728).

NOTES ON THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1998 Cont'd

21. CASH FLOW STATEMENT

The company is not presenting a cash flow statement. It has taken advantage of the exemption contained in Financial Reporting Standard 1 (Revised) - Cash Flow Statements, as the ultimate parent undertaking, Tilbury Douglas Plc, has included a consolidated cash flow statement in the group accounts.

22. ULTIMATE PARENT UNDERTAKING AND RELATED PARTY TRANSACTIONS

The company's ultimate parent undertaking and ultimate controlling party is Tilbury Douglas Plc, which is in-corporated in Great Britain. The Group accounts of Tilbury Douglas Plc are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

The Company has taken advantage of the exemption contained in Financial Reporting Standard 8 - Related Party Transactions not to report transactions with Tilbury Douglas Group related parties which are disclosed in the consolidated financial statements of Tilbury Douglas Plc.