

MITIE ENGINEERING SERVICES (SOUTH EAST) LIMITED

Report and Financial Statements

31 March 2002



**Deloitte & Touche
Queen Anne House
69-71 Queen Square
Bristol
BS1 4JP**

REPORT AND FINANCIAL STATEMENTS 2002

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D M Telling
C S Acheson
J D Cullen
P E Knapp
S J Macey
A Pearce
D L Stent
I R Stewart
M A Tivey

SECRETARIES

C K Ross
A F Waters (resigned 31 March 2002)

REGISTERED OFFICE

The Stable Block
Barley Wood
Wroughton
Bristol
BS40 5SA

BANKERS

National Westminster Bank plc
32 Corn Street
Bristol
BS99 7UG

AUDITORS

Deloitte & Touche
Queen Anne House
69-71 Queen Square
Bristol
BS1 4JP

DIRECTORS' REPORT

The directors present their annual report and audited financial statements for the year ended 31 March 2002.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- 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, which disclose with reasonable accuracy at any time the financial position of the company and to 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.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company's principal activity is the installation of electrical and mechanical services in commercial and industrial premises.

The company's business has developed satisfactorily and the directors consider that the company is in a good position to continue that development.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £452,498 (2001: £1,439,119). The directors recommend that this amount be dealt with as follows:

	£
Ordinary dividends:	
- interim proposed £17.00 per share	187,000
- final proposed £21.64 per share	238,000
Transfer to reserves	27,498
	<hr/>
	452,498
	<hr/>

DIRECTORS' REPORT (continued)**DIRECTORS AND THEIR INTERESTS**

The directors during the year and subsequently were as follows:

D M Telling	
C S Acheson	
J D Cullen	
P E Knapp	
S J Macey	
A Pearce	
D L Stent	
M A Tivey	
I R Stewart	(appointed 31 October 2001)
K Edwards	(resigned 19 June 2002)

No director had a beneficial interest in the share capital of the company.

Messrs D M Telling, C S Acheson and I R Stewart are directors of MITIE Group PLC, the parent undertaking, and their interests in the share capital of that company are shown in the financial statements of MITIE Group PLC.

Other directors' interests in the share capital of MITIE Group PLC were as follows:

	At 31 March 2002 2.5p Ordinary shares No.	At 1 April 2001 5p Ordinary shares No.
J D Cullen	1,244,800	627,200
K Edwards	274,103	22,500
S J Macey	833,000	465,000
M A Tivey	598,362	303,831

No other director had an interest in the share capital of MITIE Group PLC.

On 2 April 2001 each MITIE Group PLC 5p ordinary share was subdivided into two ordinary shares of 2.5p each.

Share Options

		At 1 April 2001	Granted during the period Options	Price	Exercise period From	To	Exercised during the period Options	Price	At 31 March 2002
P Knapp	(i)	-	1,296	£1.25	2006	-	-	-	1,296
	(ii)	-	9,000	£1.45	2004	2011	-	-	9,000
A Pearce	(i)	-	1,296	£1.25	2006	-	-	-	1,296
	(i)	1,485	-	-	2005	-	-	-	2,970
	(ii)	20,000	-	-	2001	2005	-	-	40,000
	(ii)	3,500	-	-	2002	2006	-	-	7,000

- (i) Options under the Savings Related Option Scheme
(ii) Options under the Executive Share Option Scheme

DIRECTORS' REPORT (continued)**DIRECTORS AND THEIR INTERESTS (continued)****Share Options (continued)**

		At 1 April 2001	Granted during the period Options	Price	Exercise period From To		Exercised during the period Options	Price	At 31 March 2002
D L Stent	(i)	1,191	-	-	2004	-	-	-	2,382
	(i)	1,485	-	-	2005	-	-	-	2,970
	(ii)	20,000	-	-	2001	2005	-	-	40,000
	(ii)	3,500	-	-	2002	2006	-	-	7,000

(i) Options under the Savings Related Option Scheme

(ii) Options under the Executive Share Option Scheme

No other director had options in the shares of MITIE Group PLC at the beginning or end of the year.

Further details of the MITIE Group PLC Share Schemes are given in the accounts of that company.

PAYMENT POLICY

The company's policy is to comply with the terms of payment agreed with a supplier. Where terms are not negotiated, the company endeavours to adhere with the supplier's standard terms. As at 31 March 2002 trade creditors, as a proportion of amounts invoiced from suppliers for the year, represented 75 days (2001: 60 days).

In the industry in which the company operates credit periods are frequently extended by agreement. The company's creditor days are a reflection of this custom.

EMPLOYEES

The company offers equal opportunities to all applicants for employment whatever their sex, race or religion. Disabled persons are considered for employment, training, career development and promotion on the basis of their attitudes and abilities in common with all employees, providing the disability does not make the particular employment impractical or the employee unable to conform to the stringent regulations which apply to the operations of the company.

The company recognises the importance of good communications and employee relationships. In each company there is a relationship between the Chief Executive of MITIE Group PLC and individual employees in the company. In these conditions, complex consultative procedures are seldom required to ensure that there is an understanding of the purpose of the business and the commercial realities of success. Employees are encouraged to become shareholders through the Savings Related Share Option Scheme.

DIRECTORS' REPORT (continued)

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

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

A handwritten signature in black ink, appearing to be 'C K Ross', with a stylized, cursive script.

C K Ross
Secretary

12 August 2002

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
MITIE ENGINEERING SERVICES (SOUTH EAST) LIMITED**

We have audited the financial statements of MITIE Engineering Services (South East) Limited for the year ended 31 March 2002 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

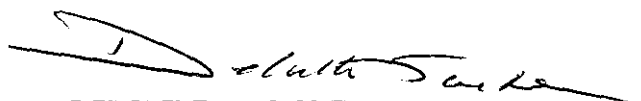
Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



DELOITTE & TOUCHE
Chartered Accountants and
Registered Auditors

12 August 2002

PROFIT AND LOSS ACCOUNT

Year ended 31 March 2002

	Notes	Continuing operations 2002 £	2001 £
TURNOVER	1	21,303,925	23,048,457
Cost of sales		(18,854,359)	(19,457,451)
GROSS PROFIT		2,449,566	3,591,006
Administrative expenses		(1,903,138)	(1,652,851)
OPERATING PROFIT	2	546,428	1,938,155
Interest receivable	3	81,291	135,673
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		627,719	2,073,828
Tax on profit on ordinary activities	4	(175,221)	(634,709)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		452,498	1,439,119
Dividends	5	(425,000)	(719,000)
RETAINED PROFIT FOR THE FINANCIAL YEAR	11	27,498	720,119

There are no recognised gains and losses for the current financial year or preceding financial year other than as stated in the profit and loss account. Accordingly, no separate statement of total recognised gains and losses is presented.

BALANCE SHEET
At 31 March 2002

	Notes	2002		2001	
		£	£	£	£
FIXED ASSETS					
Tangible assets	6		227,350		200,428
CURRENT ASSETS					
Work in progress	7	922,318		2,052,417	
Debtors	8	2,871,946		1,941,911	
Cash at bank and in hand		2,494,431		1,728,899	
		6,288,695		5,723,227	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	9	(5,367,611)		(4,802,719)	
NET CURRENT ASSETS			921,084		920,508
NET ASSETS			1,148,434		1,120,936
CAPITAL AND RESERVES					
Called up share capital	10		10,999		10,999
Share premium			19,700		19,700
Profit and loss account	11		1,117,735		1,090,237
TOTAL SHAREHOLDERS' FUNDS (including non-equity)	12		1,148,434		1,120,936

These financial statements were approved by the Board of Directors on 12 August 2002.

Signed on behalf of the Board of Directors



D M Telling
Director

CASH FLOW STATEMENT
Year ended 31 March 2002

	Notes	2002		2001	
		£	£	£	£
Net cash inflow/(outflow) from operating activities	14		2,235,730		(513,632)
Returns on investments and servicing of finance					
Interest received			68,610		136,620
Taxation					
UK corporation tax paid			(695,763)		(182,748)
Capital expenditure					
Payments to acquire tangible fixed assets		(139,870)		(122,095)	
Receipts from disposal of tangible fixed assets		15,825		30,902	
Net cash outflow from capital expenditure			(124,045)		(91,193)
Equity dividends paid			(719,000)		(131,000)
Increase/(decrease) in cash in the year	16		<u>765,532</u>		<u>(781,953)</u>

NOTES TO THE ACCOUNTS
Year ended 31 March 2002**1. ACCOUNTING POLICIES****Accounting convention**

The financial statements are prepared under the historical cost convention and are prepared in accordance with applicable accounting standards.

Turnover

Turnover represents the total, excluding sales taxes, receivable in respect of goods and services supplied and contract work completed in the year. All turnover arises within the United Kingdom, from the company's principal activity.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Plant and office equipment	4 to 10 years
Motor vehicles	4 years

Leasing commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets at the estimated net present value of underlying lease payments and are depreciated in accordance with the above policy. Obligations under such agreements are included in creditors net of finance charges allocated to future periods. The finance element of the rental payments is charged to the profit and loss account over the period of the lease or hire purchase contract. Rentals paid under other leases (operating leases) are charged against income on a straight-line basis over the lease term.

Work in progress

Work in progress is stated at the lower of cost (including appropriate overheads) and net realisable value. Provision is made for foreseeable losses.

Deferred taxation

This is the first year of adoption of FRS 19 (Deferred Tax). FRS 19 requires full provision to be made for deferred tax, as stated below. It replaces the "partial provision" rules previously allowed under Statement of Standard Accounting Practice No. 15. This change had no material impact on the company and hence there is no restatement of the opening reserves.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Pension costs

Pension costs represent amounts paid to one of the group's pension schemes. Details of the schemes are given in the financial statements of MITIE Group PLC.

NOTES TO THE ACCOUNTS
Year ended 31 March 2002

2. OPERATING PROFIT is stated after charging/(crediting):	2002	2001
	£	£
Depreciation	107,802	114,514
Operating lease rentals - land and buildings	59,921	82,451
Auditors' remuneration - audit services	4,000	4,000
Profit on disposal of tangible fixed assets	(10,679)	(4,095)

3. INTEREST RECEIVABLE	2002	2001
	£	£
Bank interest	81,291	135,673

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 30% (2001: 30%). The current tax charge for the year exceeds 30% (2001: exceeds 30%) for the reasons set out in the following reconciliation:

	2002	2001
	£	£
Profit on ordinary activities before tax	627,719	2,073,828
	£	£
Tax on profit on ordinary activities at standard rate	188,316	622,148
Factors affecting the charge:		
- disallowable expenses	9,147	5,165
- capital allowances for period in excess of depreciation	779	8,477
- profit on disposal of tangible fixed assets	(3,204)	(1,229)
UK corporation tax charge for the year	195,038	634,561
Deferred tax		
Timing differences, origination and reversal:		
- current years	2,424	-
- prior years	(22,241)	-
Prior years		
UK corporation tax	-	148
Tax on profit on ordinary activities	175,221	634,709

The company is not aware of any factors that may materially affect the future tax charge.

NOTES TO THE ACCOUNTS
Year ended 31 March 2002

5. DIVIDENDS

	2002 £	2001 £
Ordinary:		
Interim proposed of £17.00 (2001: £71.90) per share	187,000	719,000
Final proposed of £21.64 (2001: £71.90) per share	238,000	-
	<u>425,000</u>	<u>719,000</u>

6. TANGIBLE FIXED ASSETS

Summary	Plant and equipment £	Office equipment £	Motor vehicles £	Total £
Cost				
At 1 April 2001	2,801	284,054	337,135	623,990
Additions	-	10,478	112,251	122,729
Disposals	-	-	(87,406)	(87,406)
Transfers in	-	1,816	32,913	34,729
	<u>2,801</u>	<u>296,348</u>	<u>394,893</u>	<u>694,042</u>
At 31 March 2002				
Depreciation				
At 1 April 2001	1,980	239,100	182,482	423,562
Charge for the year	197	23,527	84,078	107,802
Disposals	-	-	(82,260)	(82,260)
Transfers in	-	484	17,104	17,588
	<u>2,177</u>	<u>263,111</u>	<u>201,404</u>	<u>466,692</u>
At 31 March 2002				
Net book value				
At 31 March 2002	<u>624</u>	<u>33,237</u>	<u>193,489</u>	<u>227,350</u>
At 31 March 2001	<u>821</u>	<u>44,954</u>	<u>154,653</u>	<u>200,428</u>

Capital commitments

At 31 March 2002 the directors had authorised capital expenditure of nil (2001: nil).

7. WORK IN PROGRESS

	2002 £	2001 £
Work in progress	2,784,063	3,327,114
Payments on account	(1,861,745)	(1,274,697)
	<u>922,318</u>	<u>2,052,417</u>

NOTES TO THE ACCOUNTS
Year ended 31 March 2002

8.	DEBTORS	2002 £	2001 £
	Trade debtors	2,738,486	1,712,834
	Amounts owed by group undertakings	70,000	3,919
	Other debtors	23,134	211,752
	Prepayments and accrued income	20,509	13,406
	Deferred tax asset	19,817	-
		<u>2,871,946</u>	<u>1,941,911</u>
A deferred tax asset of £19,817 has been recognised at 31 March 2002 (2001: nil). This asset relates to negative accelerated capital allowances. The directors are of the opinion that suitable profits will be available in the periods in which these differences will reverse.			
9.	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2002 £	2001 £
	Payments on account	257,675	-
	Trade creditors	4,273,670	3,350,531
	Amounts owed to group undertakings	84,530	73,116
	Corporation tax	37,436	538,161
	Other taxes and social security costs	253,951	84,239
	Other creditors	1,747	1,324
	Accruals and deferred income	33,602	36,348
	Proposed dividends	425,000	719,000
		<u>5,367,611</u>	<u>4,802,719</u>
10.	CALLED UP SHARE CAPITAL	2002 £	2001 £
	Authorised		
	10,000 10p Ordinary shares (equity)	1,000	1,000
	10,000 £1 Non-voting preferred ordinary shares (non-equity)	10,000	10,000
		<u>11,000</u>	<u>11,000</u>
		£	£
	Allotted and fully paid		
	10,000 10p Ordinary shares	1,000	1,000
	9,999 £1 Non-voting preferred ordinary shares	9,999	9,999
		<u>10,999</u>	<u>10,999</u>

Rights attached to shares

The non-voting preferred ordinary shares of £1 do not carry a right to receive a dividend. Limited voting rights also exist.

NOTES TO THE ACCOUNTS
Year ended 31 March 2002**11. PROFIT AND LOSS ACCOUNT**

	£
At 1 April 2001	1,090,237
Retained profit for the financial year	27,498
	<hr/>
At 31 March 2002	1,117,735
	<hr/>

12. TOTAL SHAREHOLDERS' FUNDS

For the purposes of Financial Reporting Standard No. 4 'Capital Instruments', these are analysed as follows:

	2002 £	2001 £
Equity funds	1,138,435	1,110,937
Non-equity funds	9,999	9,999
	<hr/>	<hr/>
	1,148,434	1,120,936
	<hr/>	<hr/>

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £	2001 £
Profit for the financial year	452,498	1,439,119
Dividends	(425,000)	(719,000)
	<hr/>	<hr/>
Net addition to shareholders' funds	27,498	720,119
Opening shareholders' funds	1,120,936	400,817
	<hr/>	<hr/>
Closing shareholders' funds	1,148,434	1,120,936
	<hr/>	<hr/>

14. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2002 £	2001 £
Operating profit	546,428	1,938,155
Depreciation charges	107,802	114,514
Profit on disposal of tangible fixed assets	(10,679)	(4,095)
Decrease/(increase) in work in progress	1,130,099	(1,798,725)
Increase in debtors	(897,537)	(541,157)
Increase/(decrease) in creditors	1,359,617	(222,324)
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	2,235,730	(513,632)
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS
Year ended 31 March 2002**15. ANALYSIS OF CHANGES IN NET FUNDS**

	At 1 April 2001 £	Cash flow £	At 31 March 2002 £
Cash at bank and in hand	<u>1,728,899</u>	<u>765,532</u>	<u>2,494,431</u>

**16. RECONCILIATION OF NET CASH FLOW TO MOVEMENT
IN NET FUNDS**

	2002 £	2001 £
Net funds at beginning of year	1,728,899	2,510,852
Increase/(decrease) in cash in the year	<u>765,532</u>	<u>(781,953)</u>
Net funds at end of year	<u>2,494,431</u>	<u>1,728,899</u>

17. FINANCIAL COMMITMENTS**Operating leases**

At 31 March 2002 the company had annual commitments under non-cancellable operating leases as follows:

Land and buildings	2002 £	2001 £
Expiry date - in over five years	<u>58,500</u>	<u>57,890</u>

Commitments on behalf of group undertakings

The company is party with other group undertakings to cross-guarantees of each other's bank overdrafts. As at 31 March 2002, the overall commitment was nil (2001: nil).

NOTES TO THE ACCOUNTS
Year ended 31 March 2002

18. DIRECTORS

	2002 £	2001 £
The emoluments of directors of the company were:		
Fees and other emoluments (excluding pension contributions)	559,866	423,855

Messrs D M Telling, C S Acheson and I R Stewart were remunerated by MITIE Group PLC and Mr M A Tivey was remunerated by MITIE Engineering Services Limited for their services to the group as a whole. It is not practicable to allocate their remuneration between their services as directors of MITIE Engineering Services (South East) Limited and their services as directors of other group companies.

	£	£
The highest paid director (excluding pension contributions)	104,710	96,805

The accrued pension of the highest paid director at 31 March 2002 was £3,908 (2001: £2,396).

	No.	No.
The number of directors who are members of a defined benefit pension scheme	4	3

Messrs D M Telling, C S Acheson and I R Stewart are directors of MITIE Group PLC and their emoluments and pension details are disclosed in the group accounts.

One of the directors exercised options in the shares of the ultimate group company, MITIE Group PLC, during the year (2001: nil).

19. EMPLOYEES

Number of employees

The average number of persons (including directors) employed by the company during the year was:

	2002 No.	2001 No.
Administration and management	53	45
Employment costs	£	£
Wages and salaries	1,944,858	1,373,822
Social security costs	207,241	172,875
Other pension costs	87,905	61,111
	2,240,004	1,607,808

NOTES TO THE ACCOUNTS
Year ended 31 March 2002

20. RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary of MITIE Group PLC, MITIE Engineering Services (South East) Limited, has taken advantage of the exemption from the requirement to disclose related party transactions with MITIE Group PLC and companies within the group.

21. PENSION ARRANGEMENTS

For the purposes of FRS 17, the company has been unable to identify its share of the underlying assets and liabilities in the main group scheme, the MITIE Group Pension Scheme, on a consistent and reasonable basis. Therefore, following full implementation of FRS 17, the company will account for contributions to the scheme as if it were a defined contribution scheme. At 31 March 2002, the valuation of the scheme for the purposes of FRS 17 showed a net pension liability as set out in note 25 of the report and accounts of MITIE Group PLC.

22. PARENT UNDERTAKING AND CONTROLLING PARTY

The directors regard MITIE Group PLC, a company registered in Scotland, as the company's ultimate parent undertaking and controlling party. MITIE Group PLC is both the smallest and largest group for which group accounts are prepared. Copies of the group financial statements can be obtained from the Company Secretary at the registered office.