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CAPITOL GROUP plc

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 MARCH 1998

Registered Number : 1698365

MORGAN BROWN & SPOFFORTH
Chartered Accountants



CAPITOL GROUP plc

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1998

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CAPITOL GROUP plc**DIRECTORS AND ADVISERS**

Directors

Kenneth Paul Dulieu (Chief Executive and Acting Chairman)
Clifford John Cavender (Finance Director)
Robert Nicholas Gatenby (Commercial Director)
Barry Gold (Non-Executive Director)
David Malcolm Thomas (Non-Executive Director)

All of

82 St John Street
London EC1M 4JN

Company Secretary

Clifford John Cavender FCMA

Registered Office

82 St John Street
London EC1M 4JN

Head Office

Anne Boleyn House
9-13 Ewell Road
Cheam
Sutton
Surrey SM3 8DD

**Financial adviser and
stockbroker**

Beeson Gregory Limited
The Registry
Royal Mint Court
London EC3N 4EY

Auditors

Morgan Brown & Spofforth
Chartered Accountants
82 St John Street
London EC1M 4JN

Solicitors

Gold Mann & Co
80 Fleet Street
London EC4Y 1EL

Principal Bankers

Lloyds Bank Plc
49 High Street
Sutton
Surrey SM1 1DX

Registrars

IRG plc
Balfour House
390/398 High Road
Ilford
Essex IG1 1NQ

CAPITOL GROUP plc**CHAIRMAN'S STATEMENT**

In my continuing capacity as Acting Chairman, I am pleased to be reporting on another excellent performance from Capitol Group plc for the year to 31 March 1998.

On 12 May 1998, it was announced that an offer had been made by Cheam Investments plc to acquire the entire issued share capital of the company not already contracted to be sold to it by myself, which was subject to tax clearances being obtained. The board does not intend to recommend the payment of a dividend subject to acceptance of the offer.

Financial overview

Our core business has continued to grow and the acquisitions made at the end of last year and in the course of this year have been integrated successfully and have already contributed to earnings. Turnover has increased by 40 per cent from £23.2 million to £32.6 million and profit before tax increased by 58 per cent from £1.7 million to £2.7 million. Earnings per share increased by 25 per cent to 16.64p, continuing to benefit from the tax position of Capitol Security Services Limited (CSS).

Net assets at 31 March 1998 amounted to £2.8 million. Acquisitions in the year of £1.3 million were funded from cash flow and existing bank facilities.

Operations

The Investigatory division has performed exceedingly well throughout the year. Specialised Investigation Services Limited (SIS), acquired in February 1997, has been fully integrated and is contributing sales and profit at a level in excess of our initial expectations. Corporate investigatory services have been broadened with the establishment of a team dedicated to personnel screening and our commitment to the exploitation of the sizeable corporate investigations market is being reflected in the strengthening of the divisional management structure and the introduction of new information and database systems.

The Uniformed Guarding division has expanded its traditional blue chip retail and port client base and has also benefited from the acquisition of four small, but profitable, businesses. Significant new contracts and the extension of our largest port contract have further improved confidence in the future growth of this division. Despite continuing pressures from a highly competitive market place, net margins have been improved.

Audit and Stocktaking continued to win new business partly from the trend in outsourcing this service which, together with operational efficiencies, ensured a healthy increase in sales and profit.

CAPITOL GROUP plc**CHAIRMAN'S STATEMENT (CONTINUED)**

Personnel

The average number of employees in the Group in 1997/98 increased to 1969. The trend established last year in reducing staff turnover in the Uniformed Guarding division has continued throughout the year as, too, has the level of unfilled vacancies. Furthermore, the rapid expansion over the past year and the continuing upgrade in our services offered to clients have entailed considerable further investment in training, particularly in the uniformed guarding division. This supports management's view that the perception of Capitol as a quality employer is now more widely recognised.

On 15 January 1998 the directors launched the Capitol Group mission statement and vision for the next three years. The launch meeting in London to senior and middle managers was the first stage of a process of cascading throughout the Group's workforce the mission statement and related company values which are encapsulated in the vision and logo, 2000³. It is intended that, through internal marketing and improved communication, this ongoing process will lead to all employees sharing a sense of common purpose and ownership of the objectives of the Board.

David Searle, Chairman of the Uniformed Guarding division, retired on 31 August 1997. David was instrumental in the development of the Maritime and Aviation Security Services (MASS) division and I wish to formally acknowledge the valuable contribution he made to the Group and wish him a long and happy retirement.

Standards

Our pursuit of the highest standards remains an integral part of the day to day management process. With the acquisition of four new businesses this year in the Uniformed Guarding division, a considerable resource has been dedicated to introducing Capitol's high standards as a matter of priority as each business has been integrated. The ISO9002 Quality Standard has now been further enhanced by the adoption by all management throughout the Group of a mission statement which incorporates "... our commitment to employing, supporting and training the best staff and management in the industry".

Current Trading and Prospects

Trading has started well across all divisions with an encouraging level of sales being achieved with the successful integration of new acquisitions which are already making a contribution to profit and this, together with the expectation that margins will be held at their current level, means that the Board is optimistic for the year ahead.

.....
Kenneth P Dulieu
Acting Chairman

19 May 1998

CAPITOL GROUP plc**OPERATIONAL REVIEW BY THE CHIEF EXECUTIVE**

Uniformed Guarding Division - Director: Peter Harvey

Turnover increased by 32 per cent from £18.9 million to £24.9 million and operating profit increased by 43 per cent from £1.35 million to £1.93 million. The operating margin increased from 7.1 per cent to 7.7 per cent of sales due primarily to improved operating efficiencies and average charge rates to clients which have been maintained at a level which reflects the specialist nature of the guarding activities undertaken.

In the first half year an important contract was won with a major vehicle importer and a three-year extension to our largest port contract was achieved at higher charge rates. Our retail security business has continued to grow, with existing clients generally electing to utilise our premium grade of guarding service which, in turn, has attracted the interest of other multiple retailers who then chose to commence business with Capitol to gain the same superior service.

Two guarding businesses based in North London were acquired in the first half year for a total consideration of £395,000 and another two businesses, one based in London, the other in Leeds, were acquired in the second half year for £643,800. All businesses were integrated immediately with existing operations upon acquisition and have made a valuable contribution to earnings.

The Group's launch of a mission statement, vision and values for the coming years has already made a notable impact on the running of the operations and the perception of our employees of how they will be able to contribute and share in the Group's success in future.

Investigatory Division - Director: John Beadle

Turnover increased by 139 per cent from £1.9 million to £4.6 million and operating profit increased by 284 per cent from £172,000 to £660,000.

This significant increase in sales and profit was largely due to the inclusion of SIS for a full year, which has exceeded initial expectations of both sales and profit. The highly satisfactory performance of SIS also accounts for an improvement in operating margin from 8.9 per cent to 14.3 per cent of sales.

New corporate investigation services have been launched and, in particular, personnel screening and intellectual property investigations are regarded as services that have considerable potential for the future based on initial responses from clients.

Scandinavia is an emerging market for our traditional services which we provide for ferry operators and, in order to properly exploit the full potential of this market, we have established a locally-managed administrative and sales headquarters in Copenhagen.

In order to support our recent growth and our plans for the future, the division has been restructured and investment made in administrative and information systems.

CAPITOL GROUP plc

OPERATIONAL REVIEW BY THE CHIEF EXECUTIVE (Continued)

Audit and Stocktaking Division - Director: Bob Gatenby

Turnover increased by 31 per cent from £2.4 million to £3.1 million and operating profit by 41 per cent from £141,000 to £198,000.

Two important contracts were signed with major national leisure companies in the first half year and these contract gains were built upon in the second half year with other new business from the leisure sector.

Net operating margins have improved as a result of better operational management control and higher sales volumes leading to a lower average total cost per audit.

The trend in outsourcing by the leisure sector is expected to continue and this, together with the increasing number of independent operators and the further enhancements to our versatile software will ensure that this division will be in a most competitive position to benefit in the future.

.....
Kenneth P Dulieu
Chief Executive

19 May 1998

CAPITOL GROUP plc**CORPORATE GOVERNANCE**

Statement of Compliance

The Directors fully support the Code of Best Practice issued by the Cadbury Committee on the Financial Aspects of Corporate Governance. The Directors have reviewed the Company's compliance with the Code of Best Practice and confirm that the Company complied throughout the year with the Code, except in respect of the following matters:

There are two non-executive Directors appointed to the Board. The Board notes that the Company complies in this respect with the CISCO recommendations on Corporate Governance.

The company's Chief Executive, K P Dulieu, is currently Acting Chairman. The Board believes that the responsibilities of existing members are sufficiently defined to ensure that decisions are made objectively.

The Directors believe that the Company's systems of Corporate Governance are appropriate having regard to the size and complexity of the Group.

Board of Directors

The Board of Directors comprises three executive and two non-executive Directors, who meet regularly to monitor trading performance and review the Group's trading strategy, particularly with regard to investment opportunities and risk management.

The Board has prescribed reporting responsibilities for subsidiary undertakings and is regularly represented at management and Board meetings of subsidiaries to monitor performance against budgets and ensure compliance with the Group's overall strategy.

The Board has delegated certain responsibilities to separate committees to deal with specific aspects of the Group's affairs.

Audit Committee

The Audit Committee comprises B Gold, D M Thomas and K P Dulieu. Meetings are usually attended additionally by C J Cavender as Group Finance Director and a representative from the Group's auditors. The Committee is chaired by B Gold and meets at least twice a year to review interim and annual financial statements. The Committee provides a line of communication between the Group's auditors and the Board, and has responsibility for ensuring the integrity of information provided to shareholders. The Committee has responsibility for a wide range of other matters, including the suitability of accounting policies and the appropriateness of accounting controls.

Remuneration Committee

The Remuneration Committee comprises both non-executive Directors, B Gold and D M Thomas. The Committee is responsible for making recommendations to the Board concerning the remuneration of executive Directors of the Company and its subsidiaries, together with consideration of contract terms, performance related bonuses and the allocation of share options to executives and employees. The report of the Remuneration Committee is on pages 8 to 10.

CAPITOL GROUP plc**CORPORATE GOVERNANCE (Continued)**

Internal Financial Control

The Board acknowledges it's responsibility for maintaining a system of internal financial control appropriate to the Group's circumstances and implementing suitable monitoring procedures. Any system of internal control can only provide reasonable but not absolute assurance against material misstatement or loss.

The key features of the Group's system of internal financial control are as follows:

- a formal schedule of matters specifically reserved for decision by the Board exists, with key management being responsible for specific aspects of the Group's operational and compliance issues within the constraints of predetermined levels of authority.
- the Group operates a detailed budgeting and reporting system whereby monthly performance is monitored. Key risk areas are identified to ensure that relevant action is taken on a timely basis, to mitigate the effects of identified risks.
- the responsibility of individuals is communicated, with clear levels of authority and proper segregation of duties.
- the Audit Committee meets to consider the system of internal financial controls, and to review it's effectiveness based on information received from the finance department and from the external auditors.

The Audit Committee has reviewed the system of internal financial controls which were in operation during the year and has reported thereon to the Board.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in the preparation of the financial statements.

CAPITOL GROUP plc**REPORT OF THE REMUNERATION COMMITTEE**

Remuneration Committee

The Remuneration Committee comprises the Company's non-executive Directors and is chaired by B Gold.

The Directors are of the opinion that the Company has complied with section A of the best practice provisions annexed to the Listing Rules of the London Stock Exchange throughout the year.

Remuneration Policy

The Committee is responsible for determining the overall remuneration package for executive Directors, which is designed to attract, motivate and retain executive Directors of the Group, without paying more than is necessary for this purpose. The Group's policy in this respect is to ensure that executive Directors and senior management are fairly rewarded, having regard to the performance and experience of individuals and packages offered by comparable companies in the industry sector and within the Group.

In framing the remuneration policy, the Committee has given full consideration to section B of the best practice provisions annexed to the Listing Rules of the London Stock Exchange.

Directors' Remuneration

Executive Directors receive a basic salary for their services as Directors, which is reviewed annually. In addition, annual performance related bonuses are available which consider achievement relative to performance targets which are tailored to individual Directors' executive responsibilities. These targets are set by the Committee annually in advance.

Executive Directors also receive benefits which comprise mainly the provision of a motor car for the use of each Director and the provision of private medical insurance.

Share Options

Options granted to Directors but not exercised at 31 March 1998 are detailed on page 10. The Group has both an Inland Revenue approved and an unapproved executive share option scheme. The Group has an established employee share option scheme whereby the employees may participate in the ownership of the Group. This is intended to act as an incentive to employees.

Service Contracts

All Executive Directors contracts of service provide for a notice period of one year or less with the exception of K P Dulieu, whose contract of service provides for a notice period of two years by the company, or one year by the Director. This notice period is considered appropriate to the position held by K P Dulieu. Compensation for termination of Directors' contracts of service is limited to that element of basic salary pertaining to the unexpired term of the notice period.

No contracts of service exist for non-executive Directors.

Non-Executive directors

The non-executive Directors are appointed by the Board, and receive fees as determined by the executive Directors. At least one third of the non-executive Directors must retire by rotation.

CAPITOL GROUP plc**REPORT OF THE REMUNERATION COMMITTEE (Continued)****Pensions**

The Company contributes in respect of executive Directors' an amount to pension schemes nominated by the relevant Director. Where contributions are made to the Group's retirement and death benefit scheme, the Director is entitled to make voluntary contributions to the scheme, which is a defined contribution scheme. No element of a Director's remuneration package other than basic salary is pensionable.

In addition to pension benefits, death in service and health care insurances are maintained in respect of Executive Directors for the benefit of the Directors and their dependents.

Long-term Incentives

The Group has two share option schemes to provide incentives to Directors, senior managers and employees.

In addition, the Group has created a new long term incentive plan to incentivise certain senior executives. The Committee may request that the Trustees of the Group's schemes make awards to reward performance under the plan for a period of ten years after the creation of the scheme. Details of the awards made to the Company's Directors under the plan are provided on page 10.

Directors Emoluments

Executive	Basic Salary £	Bonus £	Fees £	Benefits £	Total Emoluments (Excluding Pensions)		Pensions	
					1998 £	1997 £	1998 £	1997 £
K P Dulieu	100,000	5,000	-	14,975	119,975	114,705	15,000	15,000
C J Cavender	63,000	20,000	-	10,705	93,705	88,572	9,000	9,000
R N Gatenby	58,932	5,000	-	7,436	71,368	64,936	14,321	12,214

Non-Executive

M J Griffiths	-	-	-	-	-	12,500	-	-
B Gold	-	-	15,000	-	15,000	15,000	-	-
D M Thomas	-	-	17,500	-	17,500	8,750	-	-
Total	<u>221,932</u>	<u>30,000</u>	<u>32,500</u>	<u>33,116</u>	<u>317,548</u>	<u>304,463</u>	<u>38,321</u>	<u>36,214</u>

Notes

1. Pension costs for each Director represent amounts contributed by the company to schemes nominated by the Director for pension arrangements. Where amounts contributed are at a level below that provided by the Directors' contracts of service, any amounts paid in lieu of those contributions have been included as basic salary where provided within the contracts of service.

The contributions paid by the Company on behalf of the Directors are to money purchase schemes.

2. No-long term incentives have been awarded to Directors other than the share options and awards under the long term incentive plan detailed on the following page.
3. M J Griffiths retired on 9 September 1996.

CAPITOL GROUP plc**REPORT OF THE REMUNERATION COMMITTEE (Continued)****Share Options**

No options under the Group's share options schemes or under any other arrangement were exercised by the Directors during the year or since the year end to date, and no options held by Directors have lapsed unexercised. The options granted to Directors are detailed below.

	Note	At Start Of Year	Granted in the Year	At End of Year	Exercise Price	Date on which First Exercisable	Expiry Date
C J Cavender	1	40,000	-	40,000	125.0p	04.05.1997	04.05.2004
	1	50,000	-	50,000	125.0p	15.06.1998	15.06.2005
	2	90,747	-	90,747	140.5p	20.12.1999	20.12.2006
R N Gatenby	1	21,352	-	21,352	140.5p	20.12.1999	20.12.2006
	2	105,338	-	105,338	140.5p	20.12.1999	20.12.2006

Notes

1. Grants under the 1994 Inland Revenue Approved Executive Share Option Scheme.
2. Grants under the 1996 Unapproved Executive Share Option Scheme.
3. The market price of the shares of the Company on 31 March 1998 was 129p and the range of market prices during the year was between 122.5p and 164.5p.
4. In addition to the options detailed above, an award has been made to C J Cavender under the Group's Long Term Incentive Plan whereby an entitlement of 36,923 ordinary 5p shares may be taken up.

B Gold
Chairman of the Remuneration Committee

19 May 1998

CAPITOL GROUP plc**REPORT OF THE DIRECTORS**

The Directors present their report together with the audited financial statements of the Company and of the Group for the year ended 31 March 1998.

Principal Activities and Review of Business

Details regarding the principal activities of the Group and future developments are contained in the Chairman's statement on pages 2 and 3 and the operational review by the Chief Executive on pages 4 and 5.

Results of Business

The results of the Group are set out on page 17.

The Directors recommended and paid an interim dividend of 1.8p per ordinary share on 12 December 1997. No recommendation has been made with respect to a final dividend for the year under review.

Acquisitions and Disposals

During the year, the company transferred its Uniformed Guarding activities to Capitol Security Services Limited, thereby rationalising this sector of the business. A similar transfer of part of the Investigatory Division's activities was made to Specialised Investigation Services Limited to achieve the same purpose.

The Group acquired four new businesses during the year within the Uniformed Guarding Division, details of which are provided in note 26.

Directors and Directors' Interests

The Directors who served the Company during the year together with their beneficial interests (including those of close family members) in the ordinary share capital of the company were as follows:

	Ordinary 5p Shares 31 March 1998		Ordinary 5p Shares 1 April 1997	
	Shares	Options	Shares	Options
K P Dulieu	4,746,800	-	4,746,800	-
R N Gatenby	220,000	126,690	220,000	126,690
C J Cavender	-	180,747	-	180,747
B Gold	87,200	-	87,200	-
D M Thomas	-	-	-	-

D M Thomas retires by rotation and being eligible, offers himself for re-election at the forthcoming Annual General Meeting.

In addition to the options detailed above an award under the Group's long-term incentive plan has been made to C J Cavender whereby a further entitlement of 36,923 ordinary 5p shares may be taken up.

As at 19 May 1998, there have been no changes to the beneficial interests of Directors in the ordinary share capital of the Company as disclosed above.

Share Capital

On 30 July 1997, 97,854 ordinary 5p shares were issued to the Capitol Group Employee Trust at 162.5p per share.

CAPITOL GROUP plc**REPORT OF THE DIRECTORS (Continued)****Non-Executive Directors****Barry Gold: Non-Executive Director**

Barry Gold is the senior partner of Gold Mann & Co, the company's solicitors. He is a Non-Executive Director of Apollo Metals plc, Dudley Jenkins Group plc, Essex Furniture PLC and a director of a number of unquoted companies. He was appointed to the Board in January, 1994.

David Thomas: Non-Executive Director

David Thomas was appointed as Chief Executive of Whitbread PLC in June 1997. He is also a director of Gifts in Kind UK Limited, and a member of the Food from Britain Council, the London Tourist Board and a Council member of the Brewers and Licensed Retailers Association. He was appointed to the Board on 1 October 1996.

No service contracts exist in respect of the Non-Executive Directors.

Substantial interests in share capital

	Ordinary Shares of 5p each	Percentage
Rock (Nominees) Limited	1,716,963	13.9
Vidacos Nominees Limited	1,173,381	9.5
Direct Nominees Limited	749,417	6.1
Fearless Limited	515,191	4.2
N C Lombard Street Nominees Limited	468,022	3.8

As at 19 May 1998, the Directors were not aware of any other shareholding in excess of 3 per cent of the issued share capital of the Company, apart from the interests of the Directors disclosed on page 11.

Personnel

The Group continues to recognise the importance of motivating and training the workforce to ensure that the requirements of clients are satisfied and the level of service provided is of the highest level.

The Group's employment policies are designed to attract and retain a well trained and professional workforce without discrimination of any kind, and to ensure that individuals are suited to the requirements of the job, having regard to personal ability and competence.

Directors' Liability

The company maintains liability insurance covering the directors and officers of the Group.

CAPITOL GROUP plc**REPORT OF THE DIRECTORS (Continued)**

Year 2000 Compliance

The implications of the year 2000 with respect to many computer and digital storage systems have been well publicised in recent months. The problem is complex in that it will impact on our own systems as well as those of our suppliers and customers, and this may expose the Group to risk if outside parties fail to address the year 2000 issue.

From the Group's perspective, the issue will require the modification or replacement of systems to avoid potential malfunctions. The Board has recognised this problem and a group wide appraisal of the impact of the year 2000 on the Group's systems has been implemented with the intention of designing an action plan to ensure that the key risk factors are addressed and minimal disruption is experienced by the Group as a result of failure of the internal systems and those of external parties.

The Board recognises that it is difficult to address all areas which may impact on the Group's activities, but believes that the Group will achieve an acceptable state of readiness to minimise the Group's exposure to the problem. The Board has not at this stage identified the likely cost to the Group of the required changes. The costs will be treated in accordance with accepted accounting policies.

The costs to the Group of achieving compliance with the year 2000 are being written off as incurred, although the ultimate cost is not quantifiable at this stage. The Directors aim to be in a position to report that the Group is fully compliant at 31 March 1999.

Policy on payments to suppliers

The Group agrees terms and conditions with suppliers wherever practical and endeavours to abide by those terms, subject to the terms and conditions being met by the supplier. No standard code applies for settlement of liabilities where terms are not agreed in advance. At 31 March 1998, the average period for making payments to suppliers was 30 days.

Auditors

The auditors, Morgan Brown & Spofforth, retire and being eligible, offer themselves for reappointment at the forthcoming Annual General meeting in accordance with Section 385 of the Companies Act 1985.

Annual General Meeting


A separate notice will be issued advising the date of the Annual General Meeting.

Registered Office:

82 St John Street
London
EC1M 4JN

19 May 1998

By order of the board


C. Cavender
Secretary

CAPITOL GROUP plc**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 of the Group and of the profit or loss of the company and of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- follow applicable accounting standards, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

CAPITOL GROUP plc**REPORT OF THE AUDITORS TO CAPITOL GROUP plc ON CORPORATE GOVERNANCE MATTERS**

In addition to our audit of the Financial Statements, we have reviewed the Directors' statements on pages 6 and 7 on the Group's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the consolidated financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company and Group to continue in operational existence.

With regard to the Directors' statements on internal financial control and going concern on pages 6 and 7, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the Financial Statements.

Based on enquiry of certain Directors and officers of the Group, and examination of relevant documents, in our opinion the Directors' statement on pages 6 and 7 appropriately reflects the Group's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).

82 St John Street
London
EC1M 4JN

19 May 1998

MORGAN BROWN & SPOFFORTH


Chartered Accountants
Registered Auditor

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF**CAPITOL GROUP plc**

We have audited the Consolidated Financial Statements on pages 17 to 38 which have been prepared on the basis of the accounting policies set out on pages 22 and 23. We have also examined the amounts disclosed relating to the emoluments, share options and long-term incentive scheme interests of the directors which form part of the report to shareholders by the Remuneration Committee on pages 8 to 10.

Respective Responsibilities of Directors and Auditors

As described on page 14, the Company's Directors are responsible for the preparation of the Consolidated Financial Statements. It is our responsibility to form an independent opinion, based on our audit, on those Consolidated Financial 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 Consolidated Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Consolidated 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 Consolidated Financial Statements are free from material mis-statement, 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 Consolidated Financial Statements.

Opinion

In our opinion the Consolidated Financial Statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 March 1998 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

82 St John Street
London
EC1M 4JN

19 May 1998

MORGAN BROWN & SPOFFORTH


Chartered Accountants
Registered Auditor

CAPITOL GROUP plc**CONSOLIDATED PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 MARCH 1998**

		1998		1997
	Notes	£	£	£
Turnover	2			
Continuing operations		31,013,688		
Acquisitions		<u>1,632,354</u>		
			32,646,042	23,240,071
Cost of sales			<u>23,908,751</u>	<u>17,172,504</u>
Gross profit			8,737,291	6,067,567
Administrative expenses			<u>5,946,468</u>	<u>4,405,560</u>
Operating profit	4			
Continuing operations		2,628,842		
Acquisitions		<u>161,981</u>		
			2,790,823	1,662,007
Interest receivable and similar income	5		205	83,159
Interest payable and similar charges	6		<u>(97,484)</u>	<u>(40,458)</u>
Profit on ordinary activities before taxation			2,693,544	1,704,708
Tax on profit on ordinary activities	9		<u>(692,640)</u>	<u>(272,995)</u>
Profit on ordinary activities after taxation and profit for the financial year			2,000,904	1,431,713
Dividends	10		<u>(220,068)</u>	<u>(562,408)</u>
Retained profit for the financial year			<u>1,780,836</u>	<u>869,305</u>
Earnings per share	11		<u>16.64p</u>	<u>13.28p</u>

Recognised Gains and Losses

No statement of recognised gains and losses is required as there are no recognised gains or losses other than the profit detailed above.

Continuing Operations

The turnover and operating profit derive from continuing operations.

None of the Group's activities were discontinued during the above two financial years.

Historical Cost Equivalents

There is no material difference between the profit reported above and the equivalent profit calculated on an unmodified historical cost basis.

The notes on pages 22 to 38 form part of these consolidated financial statements.

CAPITOL GROUP plc**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS****FOR THE YEAR ENDED 31 MARCH 1998**

	1998	1997
	£	£
Profit for the financial year	2,000,904	1,431,713
Dividends	<u>(220,068)</u>	<u>(562,408)</u>
Retained profit for the financial year	1,780,836	869,305
New share capital issued	154,013	3,722,193
Purchased goodwill	<u>(1,330,304)</u>	<u>(5,105,002)</u>
Net increase/(decrease) in shareholders' funds	604,545	(513,504)
Shareholders' funds at the beginning of the year	<u>2,175,112</u>	<u>2,688,616</u>
Shareholders' funds at the end of the year	<u><u>2,779,657</u></u>	<u><u>2,175,112</u></u>

The notes on pages 22 to 38 form part of these consolidated financial statements.

CAPITOL GROUP plc

CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 1998

		1998		1997	
	Notes	£	£	£	£
Fixed Assets					
Tangible assets	12		1,283,525		1,206,363
Investments	14		<u>374,265</u>		<u>215,252</u>
			1,657,790		1,421,615
Current Assets					
Work in progress	15	989,796		721,818	
Debtors	16	6,600,185		3,993,861	
Cash at bank and in hand		<u>22,974</u>		<u>1,345,296</u>	
		7,612,955		6,060,975	
Creditors: amounts falling due within one year	17	<u>6,012,442</u>		<u>5,007,650</u>	
Net Current Assets			<u>1,600,513</u>		<u>1,053,325</u>
Total Assets less Current Liabilities			3,258,303		2,474,940
Creditors: amounts falling due after more than one year	18	123,047		152,229	
Provisions for liabilities and charges	20	<u>355,599</u>		<u>147,599</u>	
			<u>478,646</u>		<u>299,828</u>
Net Assets			<u><u>2,779,657</u></u>		<u><u>2,175,112</u></u>
Capital and Reserves					
Called up share capital	21		614,391		609,498
Share premium account	22		4,630,774		4,481,654
Profit and loss account	22		<u>(2,465,508)</u>		<u>(2,916,040)</u>
Shareholders' Funds - (equity interests only)			<u><u>2,779,657</u></u>		<u><u>2,175,112</u></u>

The consolidated financial statements on pages 17 to 38 were approved by the Board of Directors on the date shown below and were signed on its behalf by:

.....
C J Cavender

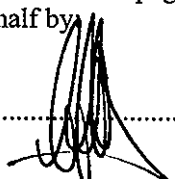
19 May 1998

CAPITOL GROUP plc**BALANCE SHEET****AS AT 31 MARCH 1998**

	Notes	1998		1997	
		£	£	£	£
Fixed Assets					
Tangible assets	13		277,015		323,494
Investments	14		<u>3,432,673</u>		<u>3,211,938</u>
			3,709,688		3,535,432
Current Assets					
Work in progress	15	277,907		317,367	
Debtors	16	4,156,998		4,485,632	
Cash at bank and in hand		<u>5,598</u>		<u>302,392</u>	
		4,440,503		5,105,391	
Creditors: amounts falling due within one year	17	<u>1,912,873</u>		<u>2,423,680</u>	
Net Current Assets			<u>2,527,630</u>		<u>2,681,711</u>
Total Assets less Current Liabilities			6,237,318		6,217,143
Provisions for liabilities and charges	20		<u>147,599</u>		<u>147,599</u>
Net Assets			<u>6,089,719</u>		<u>6,069,544</u>
Capital and Reserves					
Called up share capital	21		614,391		609,498
Share premium account	22		4,630,774		4,481,654
Profit and loss account	22		<u>844,554</u>		<u>978,392</u>
Shareholders' Funds - (equity interests only)			<u>6,089,719</u>		<u>6,069,544</u>

The financial statements on pages 17 to 38 were approved by the board of directors on the date shown below and were signed on its behalf by

.....
C J Cavender



19 May 1998

CAPITOL GROUP plc

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 1998

		1998		1997	
	Notes	£	£	£	£
Cash flow from operating activities	27(i)		2,310,405		1,639,815
Returns on investments and servicing of finance	27(ii)		(97,279)		42,701
Taxation			(494,912)		(507,235)
Capital expenditure and financial investment	27(ii)		(503,808)		126,878
Acquisitions and disposals	27(ii)		(1,291,989)		(2,664,038)
Equity dividends paid			<u>(610,928)</u>		<u>(414,685)</u>
Cash outflow before use of liquid resources and financing			(688,511)		(1,776,564)
Financing	27(ii)				
Issue of shares		154,013		2,722,193	
Decrease in debt	27(iii)	<u>(403,017)</u>		<u>(66,503)</u>	
			<u>(249,004)</u>		<u>2,655,690</u>
(Decrease)/Increase in cash in the period	27(iii)		<u><u>(937,515)</u></u>		<u><u>879,126</u></u>

The notes on pages 22 to 38 form part of these consolidated financial statements.

CAPITOL GROUP plc**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 MARCH 1998****1. ACCOUNTING POLICIES**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's consolidated financial statements.

a) Accounting conventions

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and in accordance with applicable accounting standards.

In accordance with Section 230 of the Companies Act 1985, the Company has not presented a separate profit and loss account dealing with the results of its own activities.

b) Basis of consolidation

The Group financial statements comprise the financial statements of the company and all its subsidiary undertakings made up to 31 March 1998. The results of subsidiary undertakings acquired or disposed of during the year are consolidated in the profit and loss account using the acquisition basis from the date of acquisition or to the date of disposal respectively.

c) Turnover

Turnover represents the invoiced value of services rendered exclusive of inter-group trading, net of value added tax.

d) Depreciation of tangible fixed assets

Tangible fixed assets are stated at cost or valuation less accumulated depreciation. Depreciation is calculated so as to write off the cost or valuation less estimated residual value of each asset over its estimated useful life as follows:

Freehold buildings	- 1% per annum straight line
Improvements to leasehold property	- Over length of lease
Computer and video equipment	- 33% per annum straight line
Office equipment	- 20% per annum straight line
Fixtures and fittings	- 15% per annum straight line
Motor vehicles	- 25% per annum reducing balance

e) Investments

Investments held as fixed assets are stated at cost less any provision for permanent diminution in value.

f) Work in progress

Work in progress represents the costs of procuring, renegotiating and retaining sales contracts, which are amortised evenly over the length of said contracts.

g) Deferred taxation

Deferred taxation is provided at current rates of taxation using the liability method to take account of timing differences between the recognition of income and expenditure for taxation and accounting purposes except when it can be reasonably ascertained that the benefit achieved will not reverse in the foreseeable future.

h) Foreign currencies

Transactions in foreign currency are converted into sterling at rates of exchange ruling at the date of transaction. Assets and liabilities denominated in foreign currencies are converted at rates of exchange ruling at the balance sheet date. Exchange differences are taken into account in arriving at the profit before taxation.

CAPITOL GROUP plc**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 MARCH 1998****1. ACCOUNTING POLICIES (continued)****i) Hire purchase and leasing commitments**

Assets used by the business which are subject to hire purchase or financing agreements have been capitalised in these consolidated financial statements in accordance with Statement of Standard Accounting Practice number 21. The interest element of the payments made are charged against profit proportionately over the length of the finance agreements.

Payments made under operating leases are charged against profit in the period in which the expenditure is incurred.

j) Pension payments

The Company contributes to defined contribution schemes on behalf of its directors and employees where the ultimate benefits payable under the schemes are determined by contributions made. Accordingly, the payments to these schemes are charged against profit when made.

k) Employee share ownership trust

The acquisition of the company's own shares by Capitol Group Employee Trust are recognised as fixed assets to the extent that the shares are held for the continuing benefit of the Company. This treatment is in accordance with UITF 13 "Accounting for Employee Share Ownership Trusts" and Financial Reporting Standard No 5.

Own shares are stated at cost with provision made against any permanent diminution in value. All finance and administrative costs are charged against profit when incurred.

The Capitol Group Employee Trust has waived its right to receive dividends, and accordingly, the calculation of basic earnings per share excludes the shares held on behalf of the Trust.

l) Goodwill

Goodwill representing the excess of the fair value of consideration given over the fair value of the separable net assets of subsidiary undertakings acquired is written off against reserves in the year in which it arises. Any subsequent reassessment of the fair value of assets acquired is reflected by adjustment to the goodwill previously written off.

2. TURNOVER

The turnover and profit on ordinary activities are derived from the principal activities of the Group and arise mainly from trading within the United Kingdom. An analysis of Group turnover and profit in respect of continuing operations is as follows:

	Turnover		Operating profit before interest and taxation	
	1998	1997	1998	1997
	£	£	£	£
Uniformed Guarding - existing operations	23,273,842	18,928,672	1,770,043	1,348,774
- acquisitions	1,632,354	-	161,981	-
Investigatory - existing operations	4,625,299	1,936,246	660,540	172,175
Audit and stocktaking - existing operations	<u>3,114,547</u>	<u>2,375,153</u>	<u>198,259</u>	<u>141,058</u>
	<u>32,646,042</u>	<u>23,240,071</u>	<u>2,790,823</u>	<u>1,662,007</u>

No analysis of net assets by activity has been provided since the attribution of assets and liabilities to individual activities is considered to be of no additional benefit to the members.

CAPITOL GROUP plc**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 MARCH 1998****3. ANALYSIS OF OPERATING COSTS**

An analysis of operating costs is as follows:

	Continuing Activities £	Acquisitions £	1998 Total £	1997 Total £
Cost of sales	<u>22,636,968</u>	<u>1,271,783</u>	<u>23,908,751</u>	<u>17,172,504</u>
Administrative expenses	<u>5,747,878</u>	<u>198,590</u>	<u>5,946,468</u>	<u>4,405,560</u>

4. OPERATING PROFIT

	1998 £	1997 £
The operating profit is stated after charging		
Auditors' remuneration - audit	45,000	32,000
- other services	24,514	7,545
Depreciation and other amounts written off tangible fixed assets:		
Owned assets	289,608	162,640
Leased assets	12,871	3,633
Hire of plant and machinery	660,763	432,093
Other operating lease costs	<u>150,774</u>	<u>120,893</u>

In addition to the above amounts, £55,765 was paid to the auditors in connection with the acquisition of subsidiary undertakings and unincorporated businesses during the year.

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	1998 £	1997 £
Bank interest received	205	60,732
Other loan interest	<u>-</u>	<u>22,427</u>
	<u>205</u>	<u>83,159</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £	1997 £
On advances wholly repayable by instalments within five years:		
Interest payable on bank loans and overdrafts	91,936	37,428
Interest payable on hire purchase	<u>5,548</u>	<u>3,030</u>
	<u>97,484</u>	<u>40,458</u>

CAPITOL GROUP plc**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 MARCH 1998****7. STAFF COSTS**

Aggregate staff costs, including directors, were as follows:

	1998 £	1997 £
Wages and salaries	21,315,189	15,352,153
Social security costs	1,878,434	1,369,883
Other pension costs	<u>167,492</u>	<u>148,579</u>
	<u>23,361,115</u>	<u>16,870,615</u>

The average monthly number of full-time employees during the year was:	1998	1997
Management services	114	107
Administration	90	67
Uniformed Guarding	<u>1,765</u>	<u>1,353</u>
	<u>1,969</u>	<u>1,527</u>

8. DIRECTORS' EMOLUMENTS

	1998 £	1997 £
Directors emoluments comprise:		
Remuneration (including benefits in kind)	285,048	268,213
Fees	32,500	36,250
Pension contributions	<u>38,321</u>	<u>36,214</u>
	<u>355,869</u>	<u>340,677</u>
Emoluments of the highest paid director comprises:		
Remuneration for services	119,975	114,705
Pension contribution	<u>15,000</u>	<u>15,000</u>
	<u>134,975</u>	<u>129,705</u>

Details of directors' emoluments are provided on page 9.

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998 £	1997 £
UK corporation tax at 31% (1997: 33%) on the adjusted profits for the year	484,640	343,000
Transfer to/(from) provision for deferred taxation	<u>208,000</u>	<u>(70,005)</u>
	<u>692,640</u>	<u>272,995</u>

CAPITOL GROUP plc**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 MARCH 1998****10. DIVIDENDS**

	1998 £	1997 £
Interim paid - 1.80p per share (1997: 1.50p)	220,068	171,548
Final proposed - Nil per share (1997: 3.25p)	<u>-</u>	<u>390,860</u>
	<u>220,068</u>	<u>562,408</u>

The Capitol Group Employee Trust has waived the right to receive dividends on shares in the Company.

11. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit after taxation and interest of £2,000,904 (1997: £1,431,713) and on the weighted average of 12,026,847 (1997: 10,777,133) ordinary shares in issue and ranking for dividend during the year. Fully diluted earnings per share on exercise of options would not be materially different from the basic earnings per share.

12. TANGIBLE FIXED ASSETS - GROUP

	Land and Buildings £	Equipment fixtures and fittings £	Motor Vehicles £	Total £
Cost or valuation				
At 1 April 1997	612,711	1,042,909	402,497	2,058,117
Additions	62,110	368,746	49,501	480,337
Disposals	(57,494)	(22,573)	(176,651)	(256,698)
Arising on acquisitions	<u>-</u>	<u>10,007</u>	<u>33,655</u>	<u>43,662</u>
At 31 March 1998	<u>617,327</u>	<u>1,399,089</u>	<u>309,002</u>	<u>2,325,418</u>
Depreciation				
At 1 April 1997	41,370	598,574	211,810	851,754
Charge for the year	21,001	234,543	46,935	302,479
Eliminated on disposals	<u>(5,860)</u>	<u>(15,575)</u>	<u>(90,905)</u>	<u>(112,340)</u>
At 31 March 1998	<u>56,511</u>	<u>817,542</u>	<u>167,840</u>	<u>1,041,893</u>
Net Book Value				
At 31 March 1998	<u>560,816</u>	<u>581,547</u>	<u>141,162</u>	<u>1,283,525</u>
At 31 March 1997	<u>571,341</u>	<u>444,335</u>	<u>190,687</u>	<u>1,206,363</u>

Included in land and buildings is a freehold property which was valued by G F Singleton & Co, Chartered Surveyors, on an open market basis on 9 August 1996. At that date, the property was valued at £365,000. The net book value of this property in these financial statements is £361,028.

There is no material difference between the reported values and their historical cost equivalents for assets carried at valuation.

In the opinion of the Directors, the open market value of the properties are in excess of their carrying value within these financial statements.

CAPITOL GROUP plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 1998

12. TANGIBLE FIXED ASSETS - GROUP (Continued)

The analysis of land and buildings at 31 March 1998 is as follows:

	Freehold Property £	Short Leasehold Property and Improvements £	Total £
Cost or valuation	380,469	236,858	617,327
Accumulated depreciation	<u>19,441</u>	<u>37,070</u>	<u>56,511</u>
Net book value	<u>361,028</u>	<u>199,788</u>	<u>560,816</u>

Included in Motor Vehicles are the following assets acquired under hire purchase and finance lease agreements:

	1998	1997
Cost	<u>69,896</u>	<u>128,451</u>
Net Book Value	<u>55,882</u>	<u>88,733</u>

13. TANGIBLE FIXED ASSETS - COMPANY

	Land and Buildings £	Equipment fixtures and fittings £	Motor Vehicles £	Total £
Cost or valuation				
At 1 April 1997	146,094	481,894	77,726	705,714
Additions	-	138,289	37,103	175,392
Disposals	(57,494)	(15,125)	(56,448)	(129,067)
Transfer to Group Company	<u>-</u>	<u>(10,308)</u>	<u>(39,960)</u>	<u>(50,268)</u>
At 31 March 1998	<u>88,600</u>	<u>594,750</u>	<u>18,421</u>	<u>701,771</u>
Depreciation				
At 1 April 1997	19,777	316,006	46,437	382,220
Charge for the year	7,167	97,028	8,818	113,013
Eliminated on disposals	(5,860)	(12,663)	(19,927)	(38,450)
Transfer to Group Company	<u>-</u>	<u>(4,495)</u>	<u>(27,532)</u>	<u>(32,027)</u>
At 31 March 1998	<u>21,084</u>	<u>395,876</u>	<u>7,796</u>	<u>424,756</u>
Net Book Value				
At 31 March 1998	<u>67,516</u>	<u>198,874</u>	<u>10,625</u>	<u>277,015</u>
At 31 March 1997	<u>126,317</u>	<u>165,888</u>	<u>31,289</u>	<u>323,494</u>

Land and buildings comprise a leasehold property which was acquired in 1995 with a lease term of 15 years. The acquisition cost of this lease has been capitalised and is being amortised over the term of the lease. The net book value of this property and improvements thereto, included above is £67,516 (1997: £74,684). In the opinion of the Directors, the open market value of the property is in excess of its carrying value within these financial statements.

CAPITOL GROUP plc**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 MARCH 1998****14. INVESTMENTS**

	1998		1997	
	Group £	Company £	Group £	Company £
Shares in subsidiary undertakings (Note 25)	-	3,058,408	-	2,996,686
Listed investments - own shares	<u>374,265</u>	<u>374,265</u>	<u>215,252</u>	<u>215,252</u>
	<u>374,265</u>	<u>3,432,673</u>	<u>215,252</u>	<u>3,211,938</u>

During the year the Capitol Group Employee Trust continued to acquire shares in Capitol Group plc to allow the company to distribute its own shares to employees under remuneration schemes. The shares are distributed to employees via the granting of options from time to time. The trustees may accept the advice of the company in exercising their powers under the trust deed.

The shareholding details are as follows:

	1998	1997
Number of ordinary 5p shares	<u>261,354</u>	<u>163,500</u>
	£	£
Market value as at 31 March 1998	<u>337,147</u>	<u>272,228</u>

No provision has been made in these accounts as the directors consider the diminution in value to be of a temporary nature.

15. WORK IN PROGRESS

	1998		1997	
	Group £	Company £	Group £	Company £
Work in progress	<u>989,796</u>	<u>277,907</u>	<u>721,818</u>	<u>317,367</u>

CAPITOL GROUP plc**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 MARCH 1998****16. DEBTORS**

	1998		1997	
	Group	Company	Group	Company
	£	£	£	£
Trade debtors	4,230,205	879,982	2,930,745	1,485,707
Amounts due from subsidiary undertakings	-	2,726,564	-	2,512,306
Other debtors	390,800	203,106	209,596	135,361
Secured loans	-	-	29,272	29,272
ACT recoverable	151,205	151,205	97,715	97,715
Prepayments and accrued income	1,827,975	196,141	726,533	225,271
	<u>6,600,185</u>	<u>4,156,998</u>	<u>3,993,861</u>	<u>4,485,632</u>

Amounts due from subsidiary undertakings are as follows:

	£	£
Capitol Security Services Limited	1,599,702	2,196,641
Specialised Investigation Services Limited	383,048	-
Stuart Price & Co Limited	12,016	57,860
Tracedance Limited	250,000	250,000
Michael Nicholas & Co Limited	7,805	7,805
Bourne Security Limited	473,993	-
	<u>2,726,564</u>	<u>2,512,306</u>

Loans and other amounts totalling £1,599,702 due from Capitol Security Services Limited are secured by a fixed and floating charge over the company's assets and by a debenture dated 18 July 1995.

17. CREDITORS: Amounts falling due within one year

	1998		1997	
	Group	Company	Group	Company
	£	£	£	£
Bank overdraft and other loans	36,932	1,148,854	782,854	-
Trade creditors	125,740	74,835	245,796	174,829
Amounts due to subsidiary undertakings	-	354,941	-	580,427
Other creditors	1,326,585	19,643	1,014,604	337,906
Social security and other taxes	2,021,134	69,565	1,442,031	454,881
Dividends payable	-	-	390,860	390,860
Corporation tax	497,124	-	338,460	190,822
ACT payable	5,911	5,911	105,155	105,155
Hire purchase	16,825	-	29,545	-
Accruals and deferred income	1,982,191	239,124	658,345	188,800
	<u>6,012,442</u>	<u>1,912,873</u>	<u>5,007,650</u>	<u>2,423,680</u>

CAPITOL GROUP plc**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 MARCH 1998****17. CREDITORS: Amounts falling due within one year (continued)**

Amounts due to subsidiary undertakings are as follows:

	1998	1997
	£	£
Retail Protection Services Limited	246,160	257,118
Capitol Security Services Limited	-	176,132
Specialised Investigation Services Limited	-	14,430
Capitol Group (NI) Limited	106,221	132,598
Maritime and Aviation Security Services Limited	-	100
Capitol Consultants Limited	49	49
Roseworth Services Limited	2,511	-
	<u>354,941</u>	<u>580,427</u>

18. CREDITORS: Amounts falling due after more than one year

	1998		1997	
	Group	Company	Group	Company
	£	£	£	£
Bank loans	116,488	-	130,762	-
Hire purchase	<u>6,559</u>	<u>-</u>	<u>21,467</u>	<u>-</u>
	<u>123,047</u>	<u>-</u>	<u>152,229</u>	<u>-</u>

The hire purchase liability is wholly repayable within five years, and is secured on the assets which are financed. The bank loans are repayable by instalments and fall for repayment by 2004 (Note 19).

Financial Commitments

The maturity of obligations under hire purchase agreements are as follows:

	1998	1997
	£	£
Within one year	16,825	29,545
Between two and five years	<u>6,559</u>	<u>21,467</u>

19. SECURED CREDITORS**Capitol Group plc:**

Amounts advanced by Lloyds Bank Plc to group companies are secured under a composite banking arrangement, as detailed in note 28. Security is provided by Capitol Group plc, Capitol Security Services Limited, Specialised Investigation Services Limited, Bourne Security Limited, Retail Protection Services Limited, Roseworth Services Limited and Stuart Price & Co Limited.

Subsidiary Undertakings:

Advances from Co-operative Bank plc totalling £131,824 are secured on the freehold property and other assets of one of the subsidiary undertakings. Interest is charged at 2.5% above the bank's base rate.

The bank loan is repayable by monthly instalments inclusive of interest as follows:

	1998	1997
	£	£
Within one year including amount payable on demand	27,164	27,164
Within two to five years	81,492	81,492
After five years	<u>31,691</u>	<u>58,855</u>
	<u>140,347</u>	<u>167,511</u>

Obligations under finance leases and hire purchase agreements are secured on the assets which they finance.

CAPITOL GROUP plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 1998

20. PROVISIONS FOR LIABILITIES AND CHARGES

	Company 1998 £	Group 1998 £	1997 £
Deferred Taxation			
Balance brought forward	47,599	47,599	117,604
Transfer from/(to) profit and loss account	-	208,000	(70,005)
Balance carried forward	47,599	255,599	47,599
Deferred purchase consideration	100,000	100,000	100,000
	<u>147,599</u>	<u>355,599</u>	<u>147,599</u>

Deferred taxation arises as a result of differences in the treatment of transactions for accounting and taxation purposes. Liabilities in respect of deferred taxation have been provided in these financial statements in accordance with the accounting policy of the Group.

The deferred purchase consideration is in respect of anticipated future payments under the agreement to purchase Specialised Investigation Services Limited.

21. SHARE CAPITAL

	1998 £	1997 £
Authorised		
16,100,000 (1997 - 16,100,000) ordinary shares of 5p each	<u>805,000</u>	<u>805,000</u>
Allotted, called up and fully paid		
12,287,824 (1997 - 12,189,970) ordinary shares of 5p each	<u>614,391</u>	<u>609,498</u>

On 30 July 1997, 97,854 ordinary shares were issued to the Capitol Group Employee Trust at 162.5p per share realising proceeds of £159,013.

Options

At 31 March 1998, options exist over the unissued ordinary 5p shares as follows:

Number of Shares	Option Price (Pence)	Exercise Date
40,000	125	4 May 1997 to 4 May 2004
250,000	60	31 March 1997 to 31 March 2001
173,000	125	15 June 1998 to 15 June 2005
264,412	140½	20 December 1999 to 20 December 2006
30,581	163½	12 June 2000 to 12 June 2004

Options in respect of 21,000 ordinary 5p shares have lapsed unexercised during the year as a result of participants ceasing to be eligible under the scheme rules.

CAPITOL GROUP plc**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 MARCH 1998****22. RESERVES**

	Share Premium Account £	Profit and Loss Account Group £	Company £
Balance brought forward	4,481,654	(2,916,040)	978,392
Net proceeds of issue of shares	149,120	-	-
Retained profit/(loss) for the year	-	1,780,836	(133,838)
Goodwill written off	<u>-</u>	<u>(1,330,304)</u>	<u>-</u>
Balance carried forward	<u>4,630,774</u>	<u>(2,465,508)</u>	<u>844,554</u>

The cumulative amount of goodwill written off to the profit and loss account at 31 March 1998 is £6,829,053.

23. PROFIT ATTRIBUTABLE TO THE MEMBERS

In accordance with the provisions of s.230 of the Companies Act 1985, the company has not presented its own profit and loss account with these consolidated financial statements. The profit for the year is derived as follows:

	1998 £	1997 £
Profit dealt with in the financial statements of the parent undertaking	86,230	458,077
Retained by subsidiary undertakings	<u>1,914,674</u>	<u>973,636</u>
	<u>2,000,904</u>	<u>1,431,713</u>

24. PENSION COSTS

The Group contributes to defined contribution schemes on behalf of its directors and employees, and charges contributions payable against revenue as they fall due. The total charged in the profit and loss account during the current year was £141,745 (1997: £118,673).

The Group also contributes to a money purchase scheme on behalf of one of its Directors which is self-administered. A contribution of £15,000 (1997: £15,000) was provided for the scheme at the end of the year.

CAPITOL GROUP plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 1998

25. INVESTMENTS

The company has the following wholly owned subsidiaries, all of which are registered in England and Wales, with the exception of Mainstream Limited which is registered in the Bahamas, and all of which are included within these consolidated financial statements.

	Principal Activity	1998 £	1997 £
K & J Dulieu Limited			
3 ordinary £1 shares	Non-trading	-	-
Maritime and Aviation Security Services Limited			
100 ordinary £1 shares	Non-trading	100	100
Capitol Consultants Limited			
100 ordinary £1 shares	Non-trading	100	100
Capitol Group (NI) Limited			
2 ordinary £1 shares	Security and Investigatory	726	726
Michael Nicholas & Co Limited			
2,396,800 ordinary 1p shares	Non-trading	-	-
Stuart Price & Co Limited			
2 ordinary £1 shares	Non-trading	2	2
International Risk and Investigation Services Limited (acquired 12 December 1997)			
100 ordinary £1 shares	Investigatory	44,660	-
Tracedance Limited			
1,000 ordinary 10p shares	Holding company	2,836,094	2,800,820
and its subsidiary:			
Specialised Investigation Services Limited			
100 ordinary £1 shares	Investigatory	-	-
Capitol Security Services Limited			
21,100 ordinary £1 shares	Uniformed security	174,936	174,936
and its subsidiaries:			
Retail Protection Services Limited (Formerly Factor Management Services Limited)			
20,000 ordinary £1 shares	Retail security	-	20,000
Bourne Security Limited (Formerly Galleyflair Limited)			
2 ordinary £1 shares	Uniformed security	-	2
Mainstream Limited (acquired 14 April 1997)			
2 ordinary shares of US \$1 each	Holding company	1,790	-
and its subsidiary:			
Roseworth Services Limited (acquired 21 April 1997)			
2 ordinary shares of £1 each	Investigatory	-	-
		<u>3,058,408</u>	<u>2,996,686</u>

In the opinion of the directors, the carrying value of the investments is consistent with the value of the underlying assets of the subsidiary undertakings.

CAPITOL GROUP plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 1998

26. ACQUISITION OF SUBSIDIARY UNDERTAKINGS AND UNINCORPORATED BUSINESSES

During the year the Group made acquisitions of existing businesses:

- i. The trade and assets of Richmond Security.
- ii. The trade and assets of International Security Corporation.
- iii. The trade and assets of A Corporate Total Service.
- iv. The trade and assets of Combined Security Methods.
- v. The entire share capital of International Risk and Investigation Services Limited.

The book values of the assets and liabilities of the various businesses acquired were considered to be in line with their fair values at the dates of acquisition. A summary of the consideration and assets and liabilities is set out below:

	Richmond Security £	International Security Corporation £	Other £	Total £
Tangible fixed assets	24,425	1,000	18,237	43,662
Debtors	-	-	4,863	4,863
Creditors	<u>(20,625)</u>	<u>(31,215)</u>	-	<u>(51,840)</u>
Net Assets/(Liabilities)	3,800	(30,215)	23,100	(3,315)
Goodwill	<u>339,375</u>	<u>440,255</u>	<u>550,674</u>	<u>1,330,304</u>
	<u>343,175</u>	<u>410,040</u>	<u>573,774</u>	<u>1,326,989</u>
Satisfied by:				
Cash paid	243,800	365,000	430,000	1,038,800
Deferred consideration	-	35,000	-	35,000
Acquisition expenses	<u>99,375</u>	<u>10,040</u>	<u>143,774</u>	<u>253,189</u>
	<u>343,175</u>	<u>410,040</u>	<u>573,774</u>	<u>1,326,989</u>

CAPITOL GROUP plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 1998

27. NOTES TO THE CASH FLOW STATEMENT

i) Reconciliation of operating profit to operating cash flows

	1998 £	1997 £
Operating profit	2,790,823	1,662,007
Depreciation charges	302,479	166,273
Loss on disposal of tangible fixed assets	8,816	2,063
Increase in stocks and work in progress	(267,978)	(251,695)
(Increase)/decrease in debtors	(2,531,769)	1,324,421
Increase/(decrease) in creditors	2,008,034	(1,263,254)
Net cash flow from operating activities	<u>2,310,405</u>	<u>1,639,815</u>

ii) Analysis of cash flows for headings netted in the cash flow statement

	1998 £	1997 £
Returns on investment and servicing of finance		
Interest received	205	83,159
Interest paid	(91,936)	(37,428)
Interest element of finance lease payments	<u>(5,548)</u>	<u>(3,030)</u>
Net cash (outflow)/inflow from returns on investment and servicing of finance	<u>(97,279)</u>	<u>42,701</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(480,337)	(223,689)
Sale of freehold property	48,574	323,680
Sale of plant and machinery	86,968	127,883
Purchase of investments	<u>(159,013)</u>	<u>(100,996)</u>
Net cash (outflow)/inflow from capital expenditure and financial investment	<u>(503,808)</u>	<u>126,878</u>
	1998 £	1997 £
Acquisitions and disposals		
Purchase of subsidiary undertakings and unincorporated businesses	(1,291,989)	(2,125,757)
Net overdrafts acquired with subsidiary undertakings	<u>-</u>	<u>(538,281)</u>
Net cash outflow from acquisitions and disposals	<u>(1,291,989)</u>	<u>(2,664,038)</u>
Financing		
Issue of ordinary share capital	154,013	2,722,193
Debt due within one year	<u>(403,017)</u>	<u>(66,503)</u>
	<u>(249,004)</u>	<u>2,655,690</u>

CAPITOL GROUP plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 1998

27. NOTES TO THE CASH FLOW STATEMENT (continued)

iii) Analysis of net debt

	At 1 April 1997 £	Cash Flow £	At 31 March 1998 £
Cash at bank and in hand	1,345,296	(1,322,322)	22,974
Bank overdrafts	(394,575)	<u>384,807</u>	<u>(9,768)</u>
		<u>(937,515)</u>	
Debt due after one year	(130,762)	14,274	(116,488)
Debt due within one year	(388,279)	361,115	(27,164)
Finance leases	(51,012)	<u>27,628</u>	<u>(23,384)</u>
		<u>403,017</u>	
Total	<u>380,668</u>	<u>(534,498)</u>	<u>(153,830)</u>

Reconciliation of net cash flow to movement in net funds

	1998 £	1997 £
(Decrease)/increase in cash in the period	(937,515)	879,126
Cash outflow from decrease in debt and lease financing	<u>403,017</u>	<u>66,503</u>
Change in net funds arising from cash flows	(534,498)	945,629
Loans and finance leases acquired with subsidiary	<u>-</u>	<u>(596,311)</u>
Movement in net funds in the year	(534,498)	349,318
Net funds at 1 April 1997	<u>380,668</u>	<u>31,350</u>
Net (debt)/funds at 31 March 1998	<u>(153,830)</u>	<u>380,668</u>

CAPITOL GROUP plc**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****FOR THE YEAR ENDED 31 MARCH 1998****27. NOTES TO THE CASH FLOW STATEMENT (continued)****iv) Purchase of subsidiary undertakings and unincorporated businesses**

	£
Net assets acquired	
Tangible fixed assets	43,662
Debtors	4,863
Creditors	<u>(51,840)</u>
	(3,315)
Goodwill	<u>1,330,304</u>
	<u>1,326,989</u>
Satisfied by:	
Cash	1,291,989
Deferred consideration - cash	<u>35,000</u>
	<u>1,326,989</u>

Deferred consideration includes £35,000 which is presently unpaid and included within accruals.

**Analysis of net outflow of cash and cash equivalents in respect
of the purchase of subsidiary undertakings and unincorporated businesses**

Cash consideration paid	1,291,989
Cash at bank and in hand acquired	<u>-</u>
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries and unincorporated businesses	<u>1,291,989</u>

The unincorporated businesses acquired during the year, utilised £125,055 in respect of the Groups net operating cash flows, but did not have a material impact on the remaining headings within the cash flow statement.

28. CONTINGENT LIABILITIES

There are no material contingent liabilities that have not been provided for in these financial statements.

No provision has been made for the potential liability to taxation that would arise on disposal of the Group's land and buildings on the basis that no liability of significant amount would be payable.

The company has a composite banking arrangement with its principal bankers whereby any advances may be offset against balances in hand. Any advances are secured by a debenture dated 19 November 1997. At 31 March 1998, there was no contingent liability.

CAPITOL GROUP plc

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 1998

29. FINANCIAL COMMITMENTS

	1998		1997	
	Land and Buildings £	Plant and Equipment £	Land and Buildings £	Plant and Equipment £
Annual commitments under operating leases expiring:				
Within one year	1,500	121,129	18,225	7,416
Between two and five years	-	438,350	1,500	341,969
After five years	<u>148,005</u>	<u>-</u>	<u>206,165</u>	<u>-</u>
	<u>149,505</u>	<u>559,479</u>	<u>225,890</u>	<u>349,385</u>

There were no material capital commitments at the balance sheet date.

30. TRANSACTIONS WITH RELATED PARTIES

During the year, the Group paid fees of £119,601 (1997: £152,805) to Gold Mann and Co, the Company's solicitors. Barry Gold is a Director of the Company and a partner in Gold Mann and Co.

Mr D M Thomas is a Director of this Company and Chief Executive of Whitbread plc. During the normal course of trading, the Audit and Stocktaking Division transact business with Whitbread plc. All such transactions are on an arms length basis.