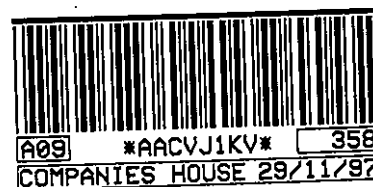
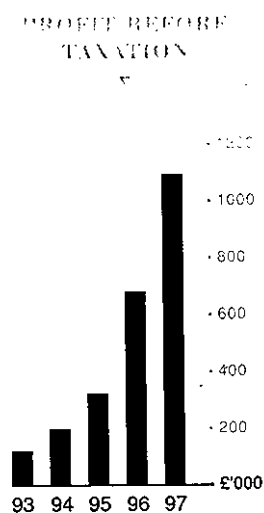
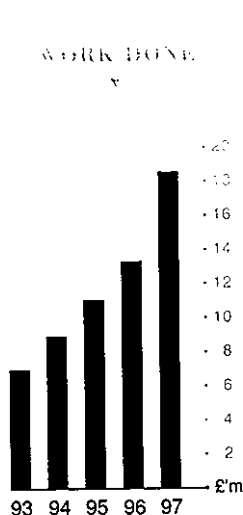



2188844.

provides a full and complementary range of consulting engineering services to clients through the activities of its subsidiary companies. These trading companies provide professional advice and design services in civil, structural, mechanical, electrical and power engineering together with all aspects of environmental engineering and project safety planning.

	93 £'000	94 £'000	95 £'000	96 £'000	97 £'000
Work Done	6,934	8,477	10,903	13,388	18,318
Profit before Taxation	124	200	332	667	1,083
Earnings per share	0.1p	0.3p	1.3p	2.6p	4.0p





Waterman companies operate throughout the UK, with the centre for Russian operations in Moscow. Joint ventures in many countries provide additional operational centres which enable the group to offer advice and design services to clients worldwide. Each Waterman company provides a complementary range of engineering expertise and independent design advice and by drawing upon it's extensive resources, specialist skills may be introduced to projects as required. The diversity of expertise available from within the group produces cost effective innovative designs that generate high volumes of repeat business.



The Group's **MECHANICAL AND ELECTRICAL ENGINEERING** company provides the full range of design expertise in building services and process engineering, including internal environmental and energy audits, commissioning and project management.



STRUCTURAL ENGINEERING encompasses the full range of design, testing and inspection of structures and cladding systems for development in both the public and private sectors.



The **CIVIL ENGINEERING** division offers design, inspection and supervision in all areas of highway, bridge, water and underground infrastructure. It is also equipped to provide full transportation, geotechnical and planning assessments.



The **ENVIRONMENTAL** division is fully qualified to advise on all aspects of environmental engineering including contaminated land assessments, waste management, decontamination and remediation design.



Our **HEALTH & SAFETY** company is fully equipped to provide planning supervisor services under the Construction (Design and Management) Regulations 1994 and to assist with all other associated Health and Safety matters.



CHAIRMAN'S STATEMENT

RESULTS

Your company continued to grow strongly during the year with work done increasing by 37% to a record level of £18.32m. Pre tax profit increased to £1,083,000 compared with £667,000 the previous year. Earnings per share increased to 4.0p, net assets per share stand at 48p and the Group continues to have no borrowings.

The Board is recommending an increased final dividend of 1.1p, which with an interim dividend of 0.75p, makes a total of 1.85p for the year. The final dividend will be payable on 26th November 1997 to shareholders on the register at 7th November 1997.

GROUP ACTIVITIES

Conditions in the property and construction sector have continued to improve during the year, with signs of increasing confidence and greater levels of activity. The Group experienced strong demand for its services in a wide range of sectors, including retail centres, commercial offices, hospitals, universities, residential developments, hotels and leisure centres.

New projects awarded during the year have been commissioned by a wide range of clients including regular group clients such as Land Securities, MEPC, Greycoat, Hammerson, Standard Life, Pillar Properties, Scottish Widows, Heron Properties, Helical Bar, Wm Morrison and Warner Bros. Further progress has been made on a number of the Group's major long term projects including Bluewater Retail Centre at Dartford, the Bull Ring Centre in Birmingham, the White City Retail Development and Imperial College of Science and Technology in London. The new UK headquarters for Banque Paribas in Marylebone, a multi discipline project, has now been successfully completed.

In April 1997 Waterman took over the Scottish operation of YRM Engineers following the receivership of its parent company, Kendell PLC. The office now trades under the name of Waterman Gore, the Group's specialist mechanical and electrical consultancy, and made a positive profit contribution in its first three months of operations. Scottish projects include the Museum of Scotland in Edinburgh, a major leisure centre at Greenock and the refurbishment of the St. Enoch Centre in Glasgow.

The Group also took on the business of Inroads Design, the Surrey based highway and transportation consultancy, and its activities have been merged with Waterman to form a new division called Waterman Inroads. The new division offers a diverse range of services to clients in the transportation field and consolidates further the Group's multi-disciplinary approach to consultancy services.

Waterman Gore has continued to expand and now competes at the highest level, handling a number of major projects and operating out of 6 offices. Work is carried out for its own client base together with joint projects with other group companies to provide an all in "one stop" engineering consultancy.

During the year the Group advised on 17 international projects in Russia, Poland, Germany, Spain, France, Portugal, Kuwait and China. In Moscow the local office of Waterman International has expanded and is now advising on commercial projects with a total floor area in excess of 75,000 m². Well established UK techniques are being successfully applied in the new emerging Russian market.

The Group is now well established in the fast growing sector of environmental consultancy, which encompasses environmental audits, impact studies, refuse disposal studies and decontamination of polluted sites. We expect environmental considerations to become increasingly important in future years and further expansion is anticipated.

STRATEGY

The Group's strategy for long term growth and development of the business is focused on diversification supported by investment.

Diversification

- To provide a wider range of engineering services
- To achieve a greater geographic area of operations
- To develop synergy between group companies leading to increased market share and greater profitability

Investment

- In new and more advanced computer technology
- In key members of staff and training
- In organic growth supported by suitable acquisitions

During the year the Group invested £455,000 in new and more advanced computer facilities, resulting in increased efficiency through networking and electronic data interchange on major projects.

EMPLOYEE RELATIONS

During the year the total number of staff employed has increased by 29% in response to our increasing workload and as a result of further diversification. The Group operates a profit sharing scheme for all members of staff, as summarised in note 22 of page 30 of this report and a profit related pay scheme has been introduced in the current year. Thanks to our position within the property and construction market we are able to offer high quality experience to our younger staff, together with excellent long term career prospects. I would like to take the opportunity of thanking all members of staff for their dedication and hard work, which has resulted in a record volume of work being successfully completed during the year.

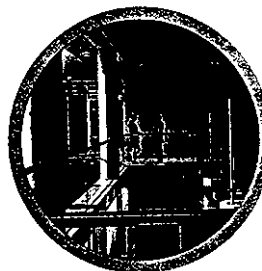
SUCCESSION

I have decided to retire as your chairman, with effect from the Annual General Meeting. I have served Watermans for a total of 38 years, as an engineer, as a partner and as your chairman since 1988, the year in which I oversaw the successful flotation of the company. The practice has certainly come a long way since the early days and I am proud to say that we are now one of the leading consulting engineers in the country. The Board has appointed Mr. William Mathieson to be your new chairman. He has served as a non-executive director of the company for 4 years, and has been well known to your directors for a long period of time. His advice has been very sound and constructive on a wide range of issues and I am delighted to leave your company in such safe and experienced hands.

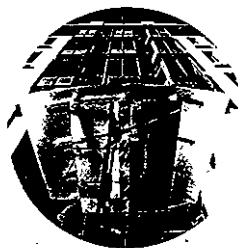
FUTURE PROSPECTS

The Group has now achieved 5 years of sustained growth, since the severe recession of the early 1990's. Our successful recovery has been achieved by providing the highest level of service to our clients within all areas of operations, by our programme of diversification into a wider range of engineering services, and by increased efficiency. Our order book, which includes many high quality commissions, stands at a record level and,

despite competitive market conditions, we expect our strategy of diversification and greater investment in people and technology to bring further benefits next year.



Andrew G Thomson
10 October 1997



REVIEW OF OPERATIONS

LONDON AND THE SOUTH

The property and construction market in London and the South of England has continued to improve during the year, with an increase in the level of new enquiries and with signs of greater confidence in all sectors. In response to the growing workload, 65 additional staff were recruited in London to assist with the design of a wide range of projects.

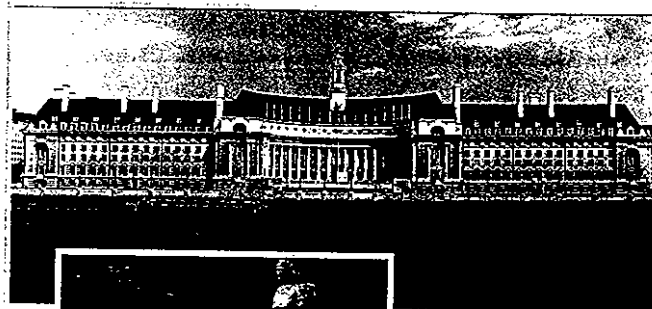
The London commercial office market has also continued to recover, with a significant number of high quality new commissions being won by the Group. Further progress has been made on a number of long term projects such as No. 1 King William Street, 31-45 Gresham Street, 14-18 Great Marlborough Street, Globe House (Embankment) and the Paternoster Square redevelopment near St. Pauls. A number of projects were successfully completed during the year including the new UK Headquarters of Banque Paribas (Marylebone) and 30 Berkeley Square in the West End.

The Group's major shopping centre projects have made excellent progress during the year. At Bluewater, near Dartford in Kent, the construction of Europe's largest retail centre is well advanced, with its major John Lewis store handed over for fitting out. Design work is now in hand on London's new White City retail development, where Waterman is responsible for the design of all engineering disciplines for the shopping centre and the new 16 track underground depot for the Central Line. Bracknell and Milton Keynes retail centres are progressing through the planning stages prior to the commencement of detailed design. Other retail projects include the refurbishment of the Burton Group's store at 214 Oxford Street and new super-store developments at Chatham and Canterbury for ASDA.

Leisure based developments are becoming more important in the 1990's and Waterman has been appointed to advise on a number of high profile projects including the Trocadero development, the London Aquarium at County Hall, Crystal Palace leisure centre and multiplex cinemas at Bluewater and Finchley Road.

Recent new projects include:-

- Bracknell Town Centre - (planning stage) retail development for Legal & General
- West India Quay - mixed development in Docklands for West India Quay Development Company
- Aldercliffe, Aldersgate Street - commercial development for Argent
- Milton Keynes Centre - retail development for London & Amsterdam
- University of Hertfordshire - art & design centre
- Imperial College of Science & Technology - multi disciplinary research building
- 100 Wood Street, London - commercial development for Helical Bar plc



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COUNTY HALL, LONDON

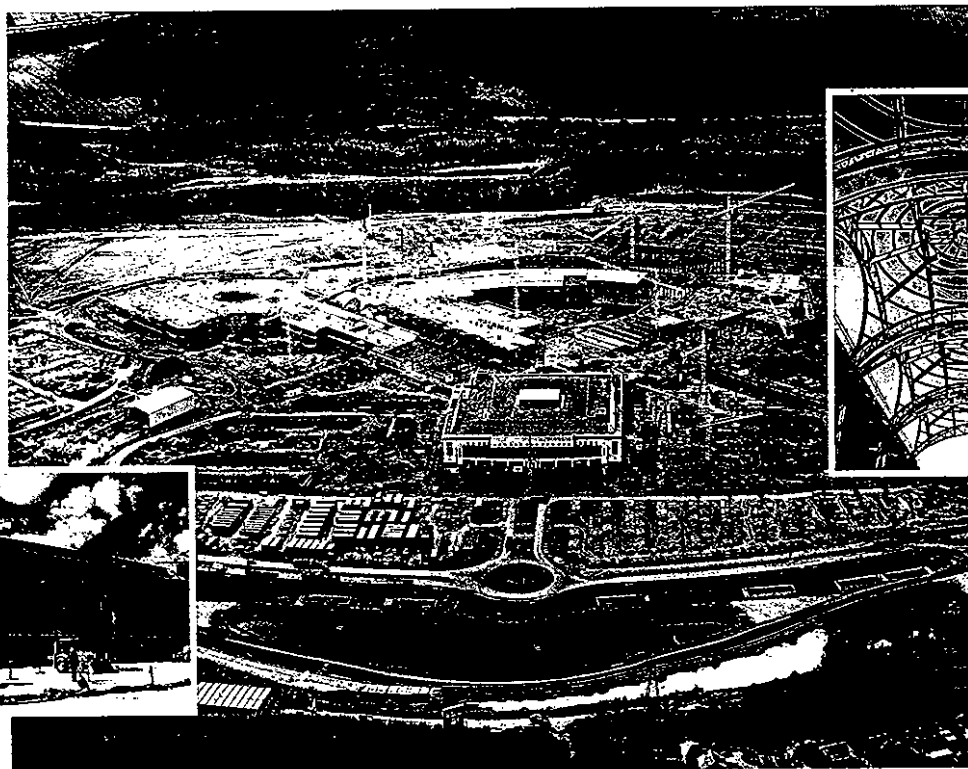


Inset left
LONDON AQUARIUM,
COUNTY HALL

►
AERIAL VIEW OF
BLUEWATER, KENT.
DUE FOR COMPLETION
SPRING 1999

Inset right
MALL STRUCTURE

Inset left
JOHN LEWIS PARTNERSHIP
STORE



REGIONAL OPERATIONS

The Group's regional offices are situated in Birmingham, Leeds, Manchester and Bristol, with a new Glasgow office added in April 1997. All offices operate on a multi-discipline basis, with the exception of the Bristol office which specialises in mechanical and electrical engineering.

In Glasgow, the Alhambra House project for Friends Provident has been successfully completed, and in Birmingham the new Oncology Unit and the Neurosciences building have been completed at The Queen Elizabeth Hospital.

Further progress has been made on the design of the Bull Ring Centre in Birmingham, with works in the area south of Edgbaston Street ready to start on site. Further progress has also been made on the design and construction of new stores for Wm Morrison Supermarkets plc at Sheffield and Banbury and the refurbishment of Debenhams department store in Briggate, Leeds. A number of studies have been carried out for a leading bus operator, First Bus plc, and a new depot has been completed in Bradford.

New regional projects for the year include:-

- Peter House commercial development, Manchester for Hammerson plc
- Newgate Street leisure complex, Newcastle for Land Securities plc
- Cherry Pink 1000 space car park, Telford for Universities Superannuation Scheme
- Major store refurbishment in Birmingham for Littlewoods
- New training establishment for the RAF.
- St. Enoch shopping centre refurbishment, Glasgow for DESPA Properties
- Centaur House commercial development in Leeds for Swan Hill plc



▲
ARTISTS IMPRESSION
OF PARRS WOOD SCHOOL,
MANCHESTER



MECHANICAL & ELECTRICAL ENGINEERING

Waterman Gore, the Group's mechanical and electrical specialist has continued to grow strongly during the year. Operating currently from six offices, Waterman Gore is now able to handle projects of substantial size and value on a multi discipline basis or as a single appointment. As part of the overall strategy, expansion into Scotland has been achieved by taking over the former YRM Engineers operation in Glasgow.



▲
ROYAL MUSEUM
OF SCOTLAND

Further progress has been made on a number of major projects including the Museum of Scotland in Edinburgh, The Royal Exchange building in Manchester, the Cine UK Multiplex in Bristol and 99 Gresham Street in London. The order book stands at a healthy level and further strong growth is expected in the current year.

An increasing number of clients have commissioned projects on a multi discipline basis, which has many advantages including improved co-ordination and reduction of lead in times. This approach enables the Group to improve its share of the overall consultancy market.

During the year new commissions include:-

- White City - retail development in London for Chelsfield Plc
- Multiplex Cinemas - 9 projects for Warner Bros.
- Marble Arch Tower - office refurbishment for Regalian
- St. Enoch Centre - refurbishment in Glasgow for DESPA
- Equitable House, King William Street - commercial development in London for Greycourt
- Point West - residential development in London for Regalian

CIVIL ENGINEERING

The planned diversification of civil engineering activities progressed well during the year with both a strengthening of the team and commissions in new areas of work.

The division undertakes work in three main areas, infrastructure planning, infrastructure design, and civil engineering structures.

The infrastructure planning team has been strengthened by the addition of Inroads Design which has introduced additional transportation planning expertise. This has been utilised in the planning work associated with Legal and General's innovative proposals for the regeneration of Bracknell Town Centre and also builds on experience of planning major developments such as Bluewater. The recent changes in government policy have resulted in an increased emphasis upon sustainable transport issues. Currently, projects being undertaken include cycleway provision, park and ride facilities, public transport infrastructure and integrated transport plans as well as traffic impact assessments. Allied to the transportation planning work, advice is also given on air quality and noise assessment on a wide range of projects. General civil engineering work has concentrated on completion of the Bluewater design work, which includes a number of innovative design solutions including the use of membranes to form large lakes, the widespread use of kerb vehicle retention systems to obviate the need for intrusive vehicle barriers, and the integration of road and car park design with electronic vehicle management systems.

The division has also been appointed as term design consultants for a series of Ministry of Defence establishments. These appointments have utilised the flexibility provided by the investment in computer facilities to provide on-site design capability which is linked back to the London base.

The civil engineering structures group has designed the complex bridge structures necessary to link the proposed Central Line depot at White City to the London Underground network. This work has been carried out in parallel with the design of the depot itself which includes extensive new structures and 16 new tracks with associated signalling works.

The division's workload is now well balanced between planning and detailed design work. This provides continuity in workload as the projects which are currently at the planning stage will enter the detailed design stage in 12 to 18 months time. New markets for the Group's civil engineering skills are being actively sought within the United Kingdom and overseas.

AWARD WINNING PROJECTS IN 1996



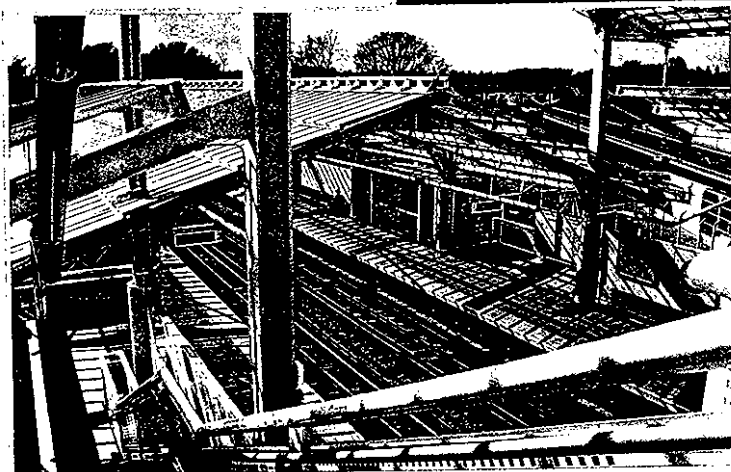
▲
CIVIC TRUST AWARD 1996
QUEEN VICTORIA MEMORIAL,
LONDON



▲
CIVIC TRUST AWARD 1996
ST. JOHN THE BAPTIST CHURCH
PINNER, MIDDLESEX



▲
BUILDING OF THE YEAR
AWARDED BY BRITISH CONSTRUCTION
INDUSTRY AWARDS
EUROPIER, HEATHROW TERMINAL 1



▲
CIVIC TRUST AWARD 1996
HILLINGDON STATION, MIDDLESEX

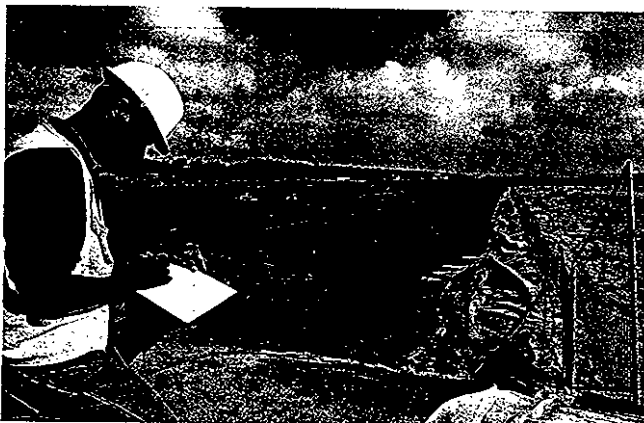


ENVIRONMENTAL ENGINEERING

Strong growth has been achieved in environmental consultancy particularly through multi-discipline projects won by the Group. During the year additional staff have been recruited in London and Leeds and Robert Dodds has been appointed to head the team in Birmingham.

The increasing public awareness of environmental issues has resulted in a greater demand for environmental impact assessments prior to the commencement of major developments. Waterman Environmental has advised on such assessments at Castlegate in York, Paternoster Square in London and Bracknell Town Centre.

The improved housing market has led to appointments from Fairclough Homes to advise on the redevelopment of the former Kingston power station site, and from Guinness plc to evaluate the former Charrington depot site at Wandsworth. The Group is currently advising the London Borough of Hackney on the geotechnical and environmental impact of the proposed new Channel Tunnel rail link.



▲
BEENHAM LANDFILL,
READING

The contaminated land team acted for a wide range of clients including Land Securities, MEPC, Chartwell Land, Chelsfield and Easter Management. Commissions included Wrexham Industrial Estate, Canary Wharf Riverside and the White City Development. Waterman Environmental continued to maintain a close involvement with British Gas in their land reclamation programme, undertaking work on 30 sites across the UK. In addition, the team advised many investment funds including PDFM, Schroders, Hill Samuel and Hambros on commissions ranging from Bristol Airport to a former steelwork foundry site in the Don Valley, Sheffield.

Waste management projects undertaken include refuse handling studies for Hampshire Waste Services, an integrated waste recycling strategy for the London Boroughs of Bexley, Bromley, Greenwich and Lewisham, the assessment of a PCB containment cell at Wrexham and landfill design work at Beenham and Tanhouse Farm for Grundon. In addition, a major chemical works de-commissioning project was completed for a batch nitration process plant at Castleford for Hickson and Welch and a study of water treatment processes was performed for the Royal Botanic Gardens at Kew.

As a result of the successful expansion of activities across the country, the Board is committed to strengthening its environmental engineering regional presence to increase long term diversification and promote multi-disciplinary opportunities.

NEW UK HEADQUARTERS
FOR BANQUE PARIBAS,
LONDON

Inset right
MAIN UPPER LIFT
LOBBY AREA



INTERNATIONAL OPERATIONS

During the year the Group has advised on over 17 international projects in countries including Russia, Poland, Germany, Spain, Portugal, France, Kuwait and China. The projects have been controlled from our International Head Office in London using local consultants as appropriate and from our Moscow Office. In line with the increased workload, the Moscow office has grown in size from 9 staff at the start of the financial year to the current level of 15 which comprises 10 Russians and 5 British staff. This growth is continuing in the current year with an increase in both the level and size of enquiries.

Major commissions for the current year include full engineering services for a 37,000 square metre new office development and for a 40,000 square metre mixed use development, both of which are in the centre of Moscow. During the year the design of the new in-flight catering facility at Domodedova Airport has been successfully completed.

In the current year a new appointment has been received for a major development in Warsaw. In France, environmental advice has been provided in connection with the land purchase for a leisure project on the outskirts of Paris and further pre-acquisition audits have been performed for Hilton International this year in Germany and Spain. In Kuwait the design work for the Health Sciences Centre has been successfully completed.

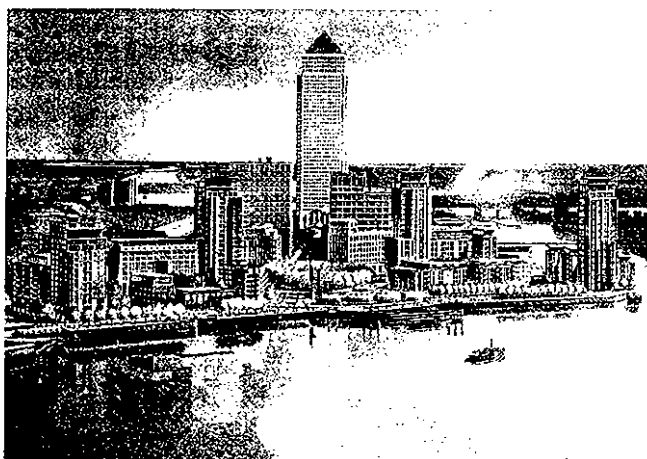
The Group has been awarded a five year contract, in joint venture with OTH of Paris, to advise on the health and safety aspects of the civil engineering works associated with the extension of the European Particle Accelerator, in France. This project, which has E.E.C. funding, has been commissioned by The European Laboratory for Particle Physics (CERN).



RESIDENTIAL PROJECTS

During the year the Group has benefited from the improving conditions in the residential property market. The Group's housing specialist, Waterman HDC, gained a number of important projects including:

- Waltham Forest - Urban Regeneration for Waltham Forest Housing Action Trust (200 units plus infrastructure)
- Church Field, Colchester for Regent New Homes Ltd (500 units plus infrastructure)
- Spaniards Park and The Elms, Hampstead, London for Riverside Properties Ltd



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ARTISTS IMPRESSION OF CANARY RIVERSIDE
DEVELOPMENT WITH FORMER WATERMAN
PROJECT CANADA TOWER IN BACKGROUND

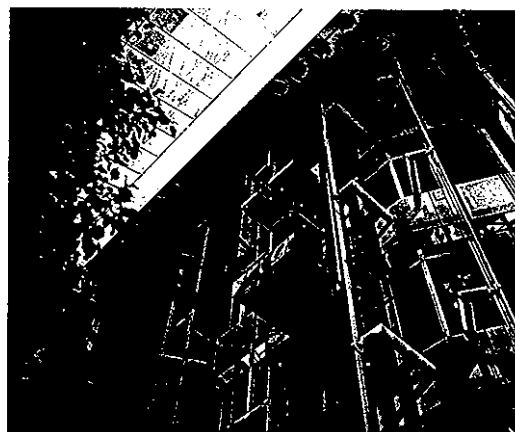
The Group's main operating company, Waterman Partnership Ltd, has been appointed by Taylor Woodrow Properties for the structural design of a major new apartment complex at Battersea, known as Montevetro. This project, which incorporates a number of innovative design solutions, has been designed in conjunction with Richard Rogers Partnership, Architects. Other residential projects include Canary Riverside, College House, Kensington and 25 Farringdon Road, London.

HEALTH & SAFETY

The health and safety aspects of construction are becoming increasingly important. In 1994 the Construction (Design and Management) Regulations were introduced, which created the role of Planning Supervisor to oversee the preparation of the safety plans for all new projects. In 1995 Waterman Safety Ltd was set up to provide this service and has acted on a range of projects during the year including 29-30 Wrights Lane, 1-3 Portland Place and 4 Harbour Exchange in Docklands.

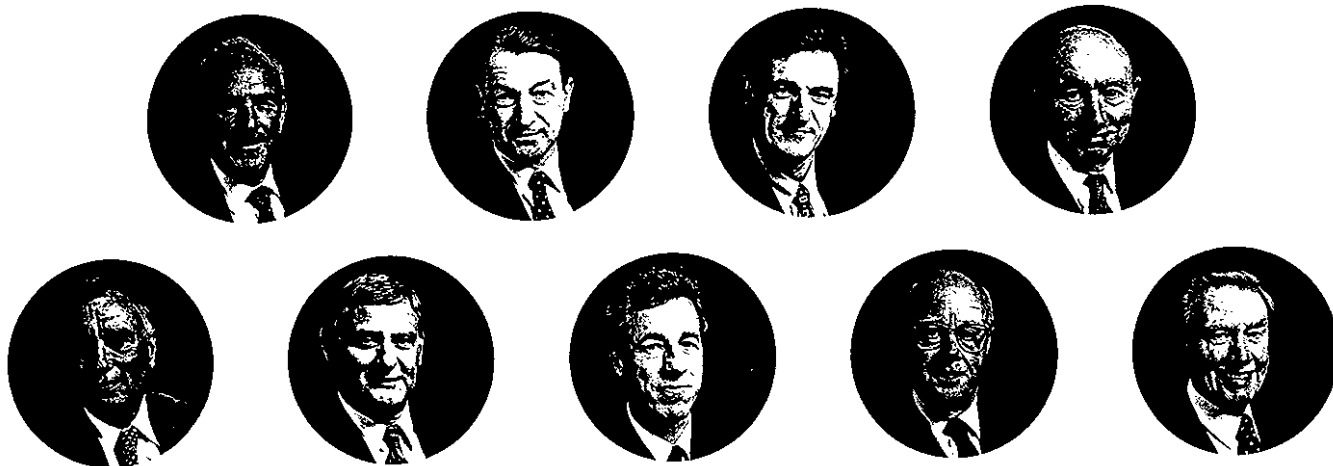
Recent new commissions include:-

- West India Quay - mixed development in Docklands for West India Quay Development Company
- 50 Finsbury Square - commercial development for Standard Life
- Tyneside incinerator demolition for NEM
- Crystal Palace leisure centre for London & Regional Properties
- Extension to European particle accelerator in France for CERN
- Retail centre at Harrogate for Scottish Widows



▲
ALHAMBRA HOUSE,
GLASGOW

D I R E C T O R S



TOP ROW (L TO R): AG Thomson, RH Campbell, AC Burton, F Clampitt
 BOTTOM ROW (L TO R): J H Mathys, J A Austin, G R Hiscocks, D O Horne, W Mathieson

Andrew G Thomson Chairman
 FStructE, MSociS (France), MConsE Aged 69

Joined Waterman in 1959 and is a qualified consulting engineer. Became senior partner in 1983 prior to flotation and chairman and chief executive upon flotation in 1988. He resigned as chief executive in January 1992.

Robert H Campbell Managing Director
 BSc, CEng, MICE, MStructE Aged 55

Managing Director since 1988 following flotation of the Company. Formerly a partner with HL Waterman & Partners from 1978. Graduated in civil engineering from Edinburgh University in 1964 and joined Waterman in 1970. Responsible for projects at Canada Tower, Docklands, 60 London Wall and the Hilton Hotel at Roissy, Charles de Gaulle airport, Paris.

Alexander C Burton
 CEng, MStructE Aged 54

Director since flotation of the Company in 1988. Formerly a partner with HL Waterman & Partners since 1973. Qualified as a chartered engineer in 1973 and winner of the BCSA steelwork award in 1965 having joined Waterman in 1964. Currently responsible for design of the Bluewater retail centre, Kent, the Bull Ring centre, Birmingham and the White City Centre, London.

Frederick Clampitt
 Aged 67

Director since flotation in 1988. Formerly a partner with HL Waterman & Partners since 1970 having joined in 1963. Awarded HNC in structural engineering. Responsible for major projects at Barkers of Kensington, Swan & Edgar, Piccadilly and Abell House, SW1.

James H Mathys
 Aged 55

Director since flotation in 1988. Formerly a partner with HL Waterman & Partners since 1973 having joined in 1963. Responsible for many major projects including Broadgate, Cutlers Gardens and Little Britain in the City of London and London Bridge City.

James A Austin
 CEng, MStructE Aged 50

Director since 1989. Formerly a partner with HL Waterman & Partners since 1984. Qualified as a chartered engineer in 1973 from Brixton School of Building having joined Waterman in 1967. Joint responsibility for engineering design of Cutlers Gardens London, London Bridge City and primary responsibility for Chelsea & Westminster Hospital and Imperial College of Science and Technology.

Graham R Hiscocks
 BA (Hons), ACA Aged 43

Finance Director and Company Secretary since 1993. Graduated in Accountancy from the City of Birmingham Polytechnic in 1977 and qualified as a chartered accountant with Arthur Andersen & Co. in 1981. Joined Waterman from RJ Reynolds Tobacco (UK) Ltd (part of RJR Nabisco) where he was CFO and Company Secretary from 1985 to 1993.

David O Horne Non-Executive
 FCA Aged 65

Joined Waterman in 1991 whilst chairman of Lloyds Merchant Bank. In addition to Waterman, he is currently a non-executive director of Black Arrow Group plc.

William Mathieson Non-Executive
 FRICS Aged 67

Joined Waterman in 1993 following retirement as a director of Land Securities plc. Is currently a non executive director of House of Fraser plc.

D I R E C T O R S ' R E P O R T

The directors present their report and audited financial statements for the year ended 30 June 1997.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of a holding company. The principal activity of all its subsidiaries are as consulting engineers in the fields of civil, structural, mechanical, electrical, power, safety and environmental engineering.

A review of the Group's activities during the year and future prospects is contained in the Chairman's Statement on pages 4 and 5 and the Review of Operations on pages 6 to 12.

RESULTS AND DIVIDENDS

The Group's results for the year are shown on page 20. The Group profit after taxation amounted to £791,000 (1996: £500,000) and the directors recommend the payment of a final dividend of 1.1p which, together with the interim of 0.75p makes a total distribution of 1.85p per ordinary share (1996: 1.2p) excluding the related tax credit. This leaves a surplus for the year of £429,000 to be transferred to reserves (1996: £266,000).

Subject to approval by members at the Annual General Meeting, the final dividend for the year will be paid on 26 November 1997 to members on the register at the close of business on 7 November 1997.

DIRECTORS

The directors, all of whom held office throughout the year, are shown below. Their interests in the Company's share capital were as follows:

	30 June 1997		30 June 1996	
	Ordinary shares	Options	Ordinary shares	Options
A G Thomson - beneficial	1,500,000	-	2,000,000	-
- non beneficial	300,000	-	300,000	-
R H Campbell	1,078,480	7,500	1,078,480	7,500
A C Burton	1,052,780	7,500	1,052,780	7,500
F Clampitt	1,840,000	-	2,590,000	-
J H Mathys	1,013,500	7,500	1,013,500	7,500
J A Austin	408,560	62,500	408,560	62,500
D O Horne	15,000	-	5,000	-
W Mathieson	5,000	-	5,000	-
G R Hiscocks	1,599	77,500	741	77,500

There have been no changes in the director's share interests since the year end. Further information on directors' share options is given in the Report of the Remuneration Committee on pages 16 and 17.

The directors retiring by rotation this year are Mr A G Thomson, Mr R H Campbell and Mr J A Austin. Mr Thomson is not seeking re-election. Mr Campbell and Mr Austin are eligible and offer themselves for re-election. The retiring directors have service contracts which do not extend beyond one year.

No other contract in which any director had a material interest subsisted at any time during the financial year.

SUBSTANTIAL SHAREHOLDINGS

Other than directors interests, as at 1 October 1997, the Company had been notified of the following interests of 3% or more in the Issued Ordinary Share Capital:

	Number of shares	%
Hermes Administration Services Ltd.	1,775,000	9.1%
B J White Esq.	922,880	4.7%
Hertfordshire County Council	900,000	4.6%

The directors are not aware of any other interest amounting to 3% or more of the share capital which requires to be reported under Section 211 of the Companies Act 1985.

POLICY ON PAYMENT OF CREDITORS

The Group agrees payment terms with its suppliers when it enters into contracts. The Group abides by the payment terms when it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

EMPLOYEES

The Group has continued with its policy of providing appropriate training and tuition to staff to enable them to improve their professional and technical skills.

The Group's recruitment policy ensures that equal consideration is given to disabled people when vacancies arise and the requirements of the position permit. In the event that an employee becomes disabled, it will endeavour to provide re-training or alternative employment.

The Group places considerable importance on the involvement of employees and continues to keep them informed on matters affecting the performance of the Group.

CHARITABLE DONATIONS

Charitable donations during the year amounted to £2,091 (1996: £2,052).

ANNUAL GENERAL MEETING

Notice of the Annual General Meeting is set out on the enclosed sheet. In addition to the ordinary business, a special resolution will be proposed to renew the directors existing authority, which expires at the conclusion of the meeting, to allot shares for cash to existing shareholders or up to a maximum nominal amount of £97,993 without first being required to offer such shares to existing shareholders. The authority, if renewed, will expire on the date of the 1998 Annual General Meeting and will provide directors with flexibility to finance business opportunities as they arise.

AUDITORS

A resolution to reappoint Price Waterhouse as the Group's auditors and authorize the directors to settle their remuneration will be proposed at the annual general meeting.

By Order of the Board

G R Hiscocks

Secretary

10 October 1997



REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee is pleased to submit its report and confirms that throughout the year, the Company has complied with Section A of the best practice provisions of the Stock Exchange Listing Rules. The committee has given full consideration to Section B of the best practice provisions in framing its remuneration policy. The committee is directly accountable to shareholders and the committee members will attend the Annual General Meeting to answer questions about directors remuneration.

The members of the Remuneration Committee are shown in the Corporate Governance Report on page 18. All members are non executive directors. They have no personal financial interests other than as shareholders, no potential conflicts of interest and no day to day responsibility for business operations.

The committee met twice during the year to review executive remuneration and benefits.

TERMS OF REFERENCE

The principal function of the Remuneration Committee is to determine, on behalf of the Board, the Group's policy on remuneration of its executive directors and senior executives and to ensure that changes are implemented. Remuneration includes basic salary, benefits in kind, performance related bonuses, share options, pension contributions and any other employment related payment.

REMUNERATION POLICY

The Group's policy is to attract, retain and motivate high quality executives who will assist the Group to develop and achieve its corporate strategy objectives. The remuneration and benefits package reflects market conditions and the individual executive's contribution to the achievement of business performance objectives.

The principal components of the remuneration packages are:

Base salary - executives are paid a basic annual salary which is reviewed annually. This reflects the executive's experience, responsibilities and performance.

The committee reviews information provided from independent sources together with comparable data from other companies within our market sector or of similar size.

Benefits in kind - these include private health insurance, life assurance, rail season ticket and provision of a company car or salary alternative.

Bonus - an executive bonus scheme was introduced in 1995 which rewards executives upon achievement of financial targets. The scheme requires a return on capital employed to be earned for the benefit of shareholders, currently at the rate of 6% per annum, before a bonus can be paid. Thereafter, 15% of profit on ordinary activities before taxation is made available for distribution to executives subject to a maximum of 25% of base salary for each participating director.

Share options - the Company operates two executive share option schemes. The earlier scheme, introduced in 1989, issued share options representing up to 5% of the issued share capital, which would be satisfied by the issue of new shares when the options were exercised. The second scheme, introduced in 1993, issues share options which, when exercised, may be satisfied from ordinary shares already in issue and held by Waterman Trustees or new shares. Further details can be found in note 22 on page 30. Options are granted to executives as an incentive to improved performance although no performance criteria are required to be met for the option to be exercised.

At 30 June 1997, the following directors held unexercised share options:

	30 June 1997	30 June 1996	Exercise price	Exercise from	Expiry date
R H Campbell	7,500	7,500	58p	28/12/96	27/12/03
A C Burton	7,500	7,500	58p	28/12/96	27/12/03
J H Mathys	7,500	7,500	58p	28/12/96	27/12/03
J A Austin	40,000	40,000	140p	13/05/91	12/05/98
	15,000	15,000	19p	30/11/95	29/11/02
	7,500	7,500	58p	28/12/96	27/12/03
G R Hiscocks	70,000	70,000	41p	24/09/96	23/09/03
	7,500	7,500	58p	28/12/96	27/12/03

No new options were granted or existing options exercised during the year. The mid market price of the Company's shares was 57½p at 30 June 1997 and ranged between 36 p and 69½p during the year.

Pensions - the Company makes contributions to its executives personal pension schemes. The contribution rate was increased from 5% to 6% of base salary from January 1997.

NON EXECUTIVE DIRECTORS

The non executive directors do not participate in the Company's bonus, share option or pension schemes. The Board approved an increase in fees to £12,000 pa for Mr Horne and Mr Mathieson from 1 October 1996.

DIRECTORS EMOLUMENTS

	Base salary/fees £000's	Benefits £000's	Bonus £000's	Total 1997 £000's	Total 1996 £000's	Pension 1997 £000's	Pension 1996 £000's
A G Thomson - Chairman	12	2	-	14	14	-	-
R H Campbell - Executive	71	8	1	80	64	4	3
A C Burton - Executive	68	11	1	80	64	4	3
J H Mathys - Executive	68	11	1	80	64	4	3
J A Austin - Executive	59	8	1	68	58	3	3
F Clampitt - Executive	36	7	1	44	39	0	1
G R Hiscocks - Executive	56	8	1	65	55	3	2
D O Horne - Non-Executive	11	-	-	11	10	-	-
W Mathieson - Non-Executive	11	-	-	11	10	-	-
	<u>392</u>	<u>55</u>	<u>6</u>	<u>453</u>	<u>378</u>	<u>18</u>	<u>15</u>

Increases to base salary awarded during the year to executive directors represent an element of restoration of salary reductions which were accepted during the recession.

SERVICE CONTRACTS

No directors currently hold service contracts extending beyond one year's notice.

W Mathieson

Chairman of the Remuneration Committee
10 October 1997



CORPORATE GOVERNANCE

The Company has complied throughout the year with the provisions of the Code of Best Practice and with Section A of the best practice provisions of the Stock Exchange Listing Rules.

BOARD OF DIRECTORS

The Board comprises nine directors, three of whom are independent non executives including the Chairman. Corporate Governance is recognized to be the responsibility of all directors.

The Board meets regularly throughout the year, on at least ten occasions. Their role is to formulate and monitor the effectiveness of Group strategy, review and monitor trading performance, ensure adequate funding, consider acquisition and disposal opportunities and approve major capital expenditure proposals and annual budgets.

The Board has delegated responsibility for day to day activities and certain material matters to the Managing Director and executive directors who report regularly to the Board on such matters.

COMMITTEES

The Board has appointed two standing committees in compliance with best practice recommendations. Each committee has terms of reference approved by the Board and the minutes of meetings are circulated to all members of the Board.

The Audit Committee, comprising the three non executive directors, Mr D O Horne (Chairman), Mr A G Thomson and Mr W Mathieson, meets at least twice each year. It is responsible for monitoring that good financial practices and controls are operated, suitable accounting policies are applied throughout the Group and for meeting with auditors to receive their reports and approve the interim and annual financial statements.

The Remuneration Committee, comprising the three non executive directors, Mr W Mathieson (Chairman), Mr A G Thomson and Mr D O Horne also meets at least twice each year. Its principal function is to determine the Group's policy on remuneration of its executive directors and senior executives.

Upon his retirement from the Company at the annual general meeting, Mr A G Thomson will resign from the Audit and Remuneration Committees.

INTERNAL FINANCIAL CONTROL

The directors are responsible for, and have considered the effectiveness of the Group's system of internal financial control. The system has been designed to provide the directors with reasonable assurance against material financial misstatement or loss. Such a system cannot provide absolute assurance but should enable the Board to monitor the Group's overall financial position and to help protect its assets.

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

Organizational Structure - a clearly defined structure exists with clearly defined levels of authority and division of responsibilities.

Management Structure - each operating company within the Group is represented by one of the executive director's who sit on its Board and conveys material information to the Group Board. Operational management has responsibility for evaluating the risks facing their business within approved guidelines and minimizing financial exposures.

Financial Management - the Group employs suitably qualified financial management who are responsible and accountable for the operation and monitoring of effective financial controls for all operating companies.

Financial Reporting - an annual budgeting process is conducted for each operating company which is consolidated into the Group budget which is approved by the Board. Actual performance is reported against budget and prior year each month for each operating company and variations explained. Group balance sheets and cash flow statements are reviewed together with financial progress summaries on major projects.

Capital Investment - the Board approves the annual capital expenditure budget and authorizes major items of capital expenditure.

GOING CONCERN

After making enquiries, the directors have a reasonable expectation that the Company and 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 preparing the accounts.

REPORT OF THE AUDITORS ON CORPORATE GOVERNANCE MATTERS

to the directors of Waterman Partnership Holdings plc

In addition to our audit of the financial statements, we have reviewed the directors' statements on pages 18 and 19 concerning the Group's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non compliance with paragraphs 12.43(j) and 12.43(v) of the Listing Rules.

BASIS OF OPINION

We carried out our review having regard to 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 Group's system of internal financial control or corporate governance procedures nor on the ability of the Group to continue in operational existence.

OPINION

In our opinion, your statement on internal financial controls on pages 18 and 19 and on going concern on page 19, have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the company, and examination of relevant documents, your statement on page 18 appropriately reflects the Group's compliance with the other aspects of the Code specified for our review by paragraph 12.43(j) of the Listing Rules.

Price Waterhouse

Price Waterhouse
Chartered Accountants
London
10 October 1997

GROUP PROFIT & LOSS ACCOUNT

for the year ended 30 June 1997

	Notes	Year ended 30 June 1997 £'000	Year ended 30 June 1996 £'000
Turnover		18,585	13,896
Movement in work in progress and accrued contract costs		(267)	(508)
WORK DONE	2	<u>18,318</u>	<u>13,388</u>
Staff costs	3	(10,945)	(7,706)
Depreciation		(424)	(310)
Other operating charges	4	(5,962)	(4,789)
OPERATING PROFIT		<u>987</u>	<u>583</u>
Interest receivable		96	84
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>1,083</u>	<u>667</u>
Taxation on profit on ordinary activities	5	(292)	(167)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>791</u>	<u>500</u>
Dividends	6	(362)	(234)
RETAINED PROFIT FOR THE YEAR	15	<u>429</u>	<u>266</u>
EARNINGS PER SHARE	7	<u>4.0p</u>	<u>2.6p</u>

STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES

for the year ended 30 June 1997

	£'000	£'000
Profit on ordinary activities after taxation	791	500
Net movement arising from exchange differences	(1)	(3)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE PERIOD	<u>790</u>	<u>497</u>

There have been no acquisitions or discontinued operations during the year; the results shown above for this year and the prior year relate to continuing operations.

The notes on pages 24 - 30 form part of these accounts.

GROUP BALANCE SHEET

30 June 1997

	Notes	30 June 1997 £'000	30 June 1996 £'000
FIXED ASSETS			
Tangible assets	9	3,620	3,119
Investments	10	165	212
		<u>3,785</u>	<u>3,331</u>
CURRENT ASSETS			
Work in progress	11	1,093	821
Debtors including amounts recoverable on contracts	12	8,985	7,035
Cash at bank and in hand		1,664	1,577
		<u>11,742</u>	<u>9,433</u>
CREDITORS (amounts falling due within one year)	13	(6,141)	(3,831)
NET CURRENT ASSETS		<u>5,601</u>	<u>5,602</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>9,386</u>	<u>8,933</u>
CAPITAL AND RESERVES - EQUITY			
Called up share capital	14	1,960	1,951
Share premium account	15	5,997	5,981
Profit and loss account	15	1,429	1,001
SHAREHOLDERS' FUNDS		<u>9,386</u>	<u>8,933</u>

Approved by the Board on 10 October 1997 and signed on its behalf by:
A G Thomson, R H Campbell Directors

The notes on pages 24 - 30 form part of these accounts.



COMPANY BALANCE SHEET

30 June 1997

	Notes	30 June 1997 £'000	30 June 1996 £'000
FIXED ASSETS			
Tangible assets	9	2,165	2,201
Investments	10	165	212
		<u>2,330</u>	<u>2,413</u>
CURRENT ASSETS			
Debtors (amounts falling due within one year)	12	57	77
Debtors (amounts falling due after one year)	12	7,067	5,796
Cash at bank and in hand		703	1,671
		<u>7,827</u>	<u>7,544</u>
CREDITORS (amounts falling due within one year)	13	(371)	(302)
NET CURRENT ASSETS		<u>7,456</u>	<u>7,242</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>9,786</u>	<u>9,655</u>
CAPITAL AND RESERVES - EQUITY			
Called up share capital	14	1,960	1,951
Share premium account	15	5,997	5,981
Profit and loss account	15	1,829	1,723
SHAREHOLDERS' FUNDS		<u>9,786</u>	<u>9,655</u>

Approved by the Board on 10 October 1997 and signed on its behalf by:
A G Thomson, R H Campbell Directors

The notes on pages 24 - 30 form part of these accounts.

GROUP CASH FLOW STATEMENT

for the year ended 30 June 1997

	Year ended 30 June 1997 £'000	Year ended 30 June 1996 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES (SEE BELOW)	1,276	772
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	90	84
TAXATION		
Taxation paid	(104)	(96)
CAPITAL EXPENDITURE		
Purchase of tangible fixed assets	(947)	(721)
Sale of tangible fixed assets	<u>29</u>	<u>32</u>
	(918)	(689)
EQUITY DIVIDENDS PAID	<u>(282)</u>	<u>(195)</u>
CASH INFLOW/(OUTFLOW) BEFORE USE OF LIQUID RESOURCES AND FINANCING	62	(124)
MANAGEMENT OF LIQUID RESOURCES		
Increase in short term cash deposits	-	(1,000)
FINANCING		
Issue of ordinary share capital	25	3
INCREASE/(DECREASE) IN CASH	<u>87</u>	<u>(1,121)</u>
RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES:		
OPERATING PROFIT	987	583
Profit on disposal of fixed assets	(7)	(7)
Depreciation	424	310
Shares granted under the profit sharing scheme	47	23
Movement in work in progress	(272)	(35)
Movement in debtors	(1,999)	(1,759)
Movement in creditors	2,096	1,657
NET CASH INFLOW FROM OPERATING ACTIVITIES	<u>1,276</u>	<u>772</u>

NOTES TO THE ACCOUNTS

30 June 1997

1 ACCOUNTING POLICIES

Accounting convention

The accounts have been prepared under the historical cost convention in accordance with applicable accounting standards.

Basis of consolidation

The accounts of the Group consolidate the accounts of the Company and all its subsidiary undertakings made up to 30 June 1997. Goodwill arising on consolidation is eliminated against reserves in the year of acquisition.

Work in progress

Work in progress on short-term contracts and contracts where the Group is remunerated on the basis of time expended is stated at cost, less provision for any foreseeable losses and progress payments received or receivable. Cost comprises direct labour, direct expenses and attributable overheads.

Amounts relating to long-term contracts are included in these accounts on the basis of the following specific policies:

a) Turnover

The proportion of contract activity that is estimated to have been completed, whether the client has been invoiced or not, has been shown as turnover, exclusive of VAT.

b) Attributable profit

In accordance with SSAP 9 (Revised), attributable profit is recognised for that part of the work performed on each contract at the accounting date when the outcome can be assessed with reasonable certainty before its conclusion, which is normally when the contract is between 30% and 40% complete.

c) Long-term contract balances

Long-term contract balances represent total costs incurred in respect of work carried out to date, after deducting cost of sales and providing for foreseeable losses. Costs comprise direct labour, direct expenses and attributable overheads.

d) Amounts recoverable on contracts

These represent the amounts by which turnover exceeds payments on account and are disclosed in debtors.

e) Accrued contract costs

These represent contract costs to be incurred and are disclosed in creditors.

Depreciation

Land is not depreciated. Other tangible fixed assets are depreciated on cost at the following rates:

Freehold buildings and long leasehold property - 2% per annum straight line

Plant, equipment and motor vehicles - 15%-25% per annum straight line

Deferred taxation

Deferred taxation is provided to take account of timing differences between the treatment of certain items for accounting and taxation purposes, only to the extent that it is probable that a liability will crystallise.

Operating Leases

Operating lease rentals are expensed as incurred.

Foreign currencies

Trading results of overseas operations are expressed in sterling at average rates of exchange ruling during the financial year. Assets and liabilities denominated in foreign currencies are expressed in sterling at the rates of exchange ruling at the balance sheet date. Unrealised exchange differences arising on the translation into sterling of net assets of overseas subsidiary undertakings and on related foreign currency borrowings are recorded as a movement on reserves.

Exchange differences arising in the normal course of trade are included within the profit and loss account.

2 SEGMENTAL INFORMATION

All work done in the years ended 30 June 1996 and 1997 arose from the Group's principal activity as consulting engineers and originated in the UK. £539,000 (1996: £731,000) of work done relates to overseas contracts, principally in Russia, China and Kuwait.

3 STAFF COSTS

	Year ended 30 June 1997 £'000	Year ended 30 June 1996 £'000
Staff costs comprise:		
Wages and salaries	9,943	6,962
Social security costs	864	641
Other pension costs (note 18)	138	103
	<u>10,945</u>	<u>7,706</u>
Average number of employees	436	339

4 OTHER OPERATING CHARGES

	£'000	£'000
Other operating charges include the following:		
Auditors' remuneration	57	55
Operating lease rentals - premises	422	344
- plant and equipment	205	205
Loss on foreign exchange	13	3
Profit on disposal of fixed assets	7	7

Remuneration in respect of other work performed by the auditors amounted to £30,000 (1996: £35,000). Auditors remuneration for the audit of the Company was £5,000 (1996: £5,000).

5 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	£'000	£'000
UK Corporation tax charge		
- Current year	382	276
- Over provision in respect of prior periods	(55)	(109)
Surplus advance corporation tax reinstated	(40)	-
Deferred tax	5	-
	<u>292</u>	<u>167</u>

6 DIVIDENDS

	£'000	£'000
Proposed final dividend of 1.1p (1996: 0.7p)	216	136
Interim paid dividend of 0.75p (1996: 0.5p)	146	98
	<u>362</u>	<u>234</u>

NOTES TO THE ACCOUNTS

30 June 1997

7 EARNINGS PER SHARE

The earnings per share has been calculated on the profit after taxation for the year and based on 19,534,449 (1996: 19,503,074) equity shares being the average number in issue and ranking for dividend during the year. Fully diluted earnings per share would not be materially different.

8 HOLDING COMPANY PROFIT AND LOSS ACCOUNT

The Company has not presented its own profit and loss account as permitted by Section 230(1) of the Companies Act 1985. The consolidated result for the year includes a loss of £61,000 which has been dealt with in the accounts of the Company (1996: loss of £61,000). At 30 June 1996 the accounts of the Company included a provision of £529,000 relating to amounts owed by subsidiary undertakings. In the year to 30 June 1997 £529,000 of that provision has been released and included in the profits of the Company which total £468,000 (note 18).

9 TANGIBLE ASSETS

GROUP	Freehold property £'000	Long Leasehold property £'000	Plant equipment & motor vehicles £'000	Total £'000
Cost				
1 July 1996	2,200	150	3,026	5,376
Additions	-	-	947	947
Disposals	-	-	(75)	(75)
30 June 1997	<u>2,200</u>	<u>150</u>	<u>3,898</u>	<u>6,248</u>
Depreciation				
1 July 1996	158	25	2,074	2,257
Charges for the year	22	3	399	424
Disposals	-	-	(53)	(53)
30 June 1997	<u>180</u>	<u>28</u>	<u>2,420</u>	<u>2,628</u>
Net book amount				
30 June 1997	<u>2,020</u>	<u>122</u>	<u>1,478</u>	<u>3,620</u>
30 June 1996	2,042	125	952	3,119
COMPANY				
Cost				
1 July 1996	2,200	150	58	2,408
Additions	-	-	3	3
Disposals	-	-	(18)	(18)
30 June 1997	<u>2,200</u>	<u>150</u>	<u>43</u>	<u>2,393</u>
Depreciation				
1 July 1996	158	25	24	207
Charge for the year	22	3	13	38
Disposals	-	-	(17)	(17)
30 June 1997	<u>180</u>	<u>28</u>	<u>20</u>	<u>228</u>
Net book amount				
30 June 1997	<u>2,020</u>	<u>122</u>	<u>23</u>	<u>2,165</u>
30 June 1996	2,042	125	34	2,201

10 INVESTMENTS

	30 June 1997	30 June 1996
GROUP AND COMPANY		
Own shares at cost (see note 19)	£165,000	£212,000
COMPANY		
Cost of shares in subsidiary undertaking	£2	£2

The Company's principal subsidiary undertakings, all of which are wholly owned, incorporated in Great Britain and registered in England, are as follows:

- Waterman Partnership Limited
- Waterman International Limited*
- Waterman BBT Limited*
- Waterman Partnership Midlands Limited*
- Waterman Gore Limited*
- Waterman HDC Limited*
- Waterman Safety Limited*
- * interest held indirectly through Waterman Partnership Limited

11 WORK IN PROGRESS

	£'000	£'000
Cost less foreseeable losses	906	684
Long-term contract balances	358	438
	<u>1,264</u>	<u>1,122</u>
Payments on account	(171)	(301)
	<u>1,093</u>	<u>821</u>

12 DEBTORS

	Company 30 June 1997 £'000	Company 30 June 1996 £'000	Group 30 June 1997 £'000	Group 30 June 1996 £'000
Amounts falling due within one year				
Trade debtors	-	-	6,278	4,868
Amounts recoverable on contracts	-	-	2,188	1,596
Taxation recoverable	49	64	49	98
Other debtors	-	-	73	82
Prepayments and accrued income	8	13	397	391
	<u>57</u>	<u>77</u>	<u>8,985</u>	<u>7,035</u>
Amounts falling due after one year				
Amounts owed by subsidiary undertakings	<u>7,067</u>	<u>5,796</u>	<u>-</u>	<u>-</u>

NOTES TO THE ACCOUNTS

30 June 1997

13 CREDITORS

	Company 30 June 1997 £'000	Company 30 June 1996 £'000	Group 30 June 1997 £'000	Group 30 June 1996 £'000
Amounts falling due within one year				
Payments received on account	-	-	1,790	599
Trade creditors	10	23	770	701
Accrued contract costs	-	-	1,133	840
Corporation tax	91	56	393	255
Other taxes and social security	-	-	1,157	734
Other creditors	-	-	212	331
Accruals	54	87	470	235
Dividends	216	136	216	136
	<u>371</u>	<u>302</u>	<u>6,141</u>	<u>3,831</u>

14 CALLED UP SHARE CAPITAL

	30 June 1997	30 June 1996
Authorised - 25,000,000 ordinary shares of 10p each	£2,500,000	£2,500,000
Allotted and fully paid - 19,598,574 (1996: 19,513,074) ordinary shares of 10p each	£1,959,857	£1,951,307

Under the Company's Executive Share Option Scheme options may be granted to Group employees (including the directors) enabling them to subscribe for ordinary shares. At 30 June 1997, options exercisable between 1996 and 2005 at prices ranging from 19 pence to 203 pence per share were outstanding in respect of 1,227,500 shares (1996: 1,313,000). Of these, 402,500 relate to options in respect of shares held by Waterman Trustees Limited (1996: 425,000). During the year, options over 85,500 ordinary shares of 10p were exercised for a total consideration of £25,000.

15 RESERVES

	Share premium account Company and Group £'000	Profit and loss account Company £'000	Group £'000
Balance brought forward at 1 July 1996	5,981	1,723	1,001
Retained profit for the year	-	106	429
Premium on the issue of new shares	16	-	-
Net movement arising from exchange differences	-	-	(1)
Balance carried forward at 30 June 1997	<u>5,997</u>	<u>1,829</u>	<u>1,429</u>

The cumulative gross amount of goodwill written off up to 30 June 1997 is £1,133,000 (1996: £1,133,000), before making allowances for Section 131 relief.

16 ANALYSIS OF NET FUNDS

	At 1 July 1996 £'000	Cashflows £'000	At 30 June 1997 £'000
Cash in hand, at bank	577	87	664
Short term cash deposit	1,000	-	1,000
Total	<u>1,577</u>	<u>87</u>	<u>1,664</u>

17 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	30 June 1997 £'000	30 June 1996 £'000
Increase/(decrease) in cash in period	87	(1,121)
Cash used to increase liquid resources	-	1,000
Change in net funds	87	(121)
Net funds at 1 July 1996	1,577	1,698
Net funds at 30 June 1997	<u>1,664</u>	<u>1,577</u>

18 MOVEMENT IN SHAREHOLDERS' FUNDS

	Company 30 June 1997 £'000	Company 30 June 1996 £'000	Group 30 June 1997 £'000	Group 30 June 1996 £'000
Profit on ordinary activities after taxation	468	413	791	500
Dividends	(362)	(234)	(362)	(234)
	<u>106</u>	<u>179</u>	<u>429</u>	<u>266</u>
Net movement arising from exchange differences	-	-	(1)	(3)
Issue of new shares	25	3	25	3
Opening shareholders' funds	9,655	9,473	8,933	8,667
Closing shareholders' funds	<u>9,786</u>	<u>9,655</u>	<u>9,386</u>	<u>8,933</u>

19 DEFERRED TAXATION

	Group 30 June 1997 £'000	Group 30 June 1996 £'000
Balance brought forward at 1 July 1996	-	-
Charge for the year	5	-
Less: ACT recoverable	(5)	-
Balance carried forward at 30 June 1997	<u>-</u>	<u>-</u>

Should deferred tax be accounted for on a full provision basis, the Group would recognise a deferred tax asset of £3,000 (1996: liability of £2,000), comprising short term timing differences of £2,000, trading losses available for offset of £5,000 offset by accelerated capital allowances of £4,000.

20 DIRECTORS EMOLUMENTS

	Year ended 30 June 1997 £'000	Year ended 30 June 1996 £'000
Aggregate emoluments	453	378
Company contributions to money purchase pension scheme	<u>18</u>	<u>15</u>
Five directors have retirement benefits accruing under the money purchase pensions schemes (1996: 5)		
Highest paid director	80	64
Company contributions to money purchase pension scheme	<u>4</u>	<u>3</u>

Further details regarding directors remuneration and interests are included in the Report of the Remuneration Committee on pages 16 to 17 and form part of these financial statements.



NOTES TO THE ACCOUNTS

30 June 1997

21 FINANCIAL COMMITMENTS

Capital expenditure

At 30 June 1997 capital expenditure authorised but not contracted for by the Group amounted to £51,000 (1996: £57,000).

Lease commitments

The Group is committed to make the following operating lease payments next year.

	Premises		Plant and Equipment	
	30 June 1997	30 June 1996	30 June 1997	30 June 1996
	£'000	£'000	£'000	£'000
Commitment expiring:				
- within one year	16	1	22	63
- between one and five years	501	274	144	161
	<u>517</u>	<u>275</u>	<u>166</u>	<u>224</u>

Pension commitments

The Group operates a defined contribution scheme for certain of its employees. Contributions to the scheme are charged to the profit and loss account in the year to which they relate. The charge for the year is shown in note 3.

22 EMPLOYEE BENEFIT TRUST

The Company operates two share schemes to reward and encourage its executives and staff:-

- The profit sharing scheme awards free Company shares to staff up to a value of 5% of the Group's profit before taxation each year.
- The executive share option scheme awards options in the Company's shares to executives periodically which can be exercised between the third and tenth year after issue at the original option price.

During the year, 78,156 shares were appropriated to staff (1996: 39,840) under the profit sharing scheme with dividends paid to staff shareholders. A charge equal to the value of the shares at the time of appropriation has been levied on the participating subsidiary companies. No new share options have been awarded during the year. 405,000 options issued in 1993 became eligible for exercise during the year. Of these, 22,500 options were exercised. A further 20,000 options were not eligible for exercise until 1998. At 30 June 1997, there were 402,500 unexercised options in issue (1996: 425,000).

The distribution of Company shares under these schemes is arranged through Waterman Trustees Limited, a related company which was formed to administer the Trust and who held 329,137 ordinary shares of 10p in the Company at 30 June 1997. Until options are exercised, dividends on these shares are paid to Waterman Trustees Limited and set against the costs of operating the schemes. The assets of the Trust at 30 June 1997 have been incorporated into the Group Balance Sheet in accordance with UITF 13, Accounting for ESOP Trusts, and are as follows:

	30 June 1997	30 June 1996
	£'000	£'000
Own shares at cost	165	212
Cash	35	18
	<u>200</u>	<u>230</u>
Represented by:		
Loan from Waterman Partnership Limited	200	230
Net surplus of dividend received over administrative expenses	-	-
	<u>200</u>	<u>230</u>

The market value of shares held as at 30 June 1997 was £189,254.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

for Preparing the Financial Statements

The directors are required by law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss and cash flows of the Group for that period. The directors consider suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year ended 30 June 1997.

The directors also confirm that applicable accounting standards have been followed and that the accounts have been prepared on a going concern basis.

The directors are responsible for ensuring that the Company and the Group maintain adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Group and which enable them to ensure that the accounts comply with the Companies Act 1985.

The directors are also responsible for safeguarding the assets of the Group and for taking reasonable steps to prevent and detect fraud or other irregularities.

AUDITORS' REPORT

to the Members of Waterman Partnership Holdings plc

We have audited the accounts on pages 20 to 30, which have been prepared under the historical cost convention and the accounting policies set out on page 24.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described above, the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with the auditing standards issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and the Group as at 30 June 1997 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants and Registered Auditors
London
10 October 1997



FIVE YEAR RESULTS SUMMARY

Years ended 30 June

	1993 £'000	1994 £'000	1995 £'000	1996 £'000	1997 £'000
Work done	6,934	8,477	10,903	13,388	18,318
Profit before taxation	124	200	332	667	1,083
Profit after taxation	21	66	251	500	791
Earnings per share	0.1p	0.3p	1.3p	2.6p	4.0p

COMPANY INFORMATION

SECRETARY & REGISTERED OFFICE

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FINANCIAL ADVISERS

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SOLICITORS

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Ashurst Morris Crisp

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PRICIPAL BANKERS

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REGISTRARS & TRANSFER OFFICE

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390/398 High Road, Ilford
Essex IG1 1NQ

REGISTERED NUMBER

2188844