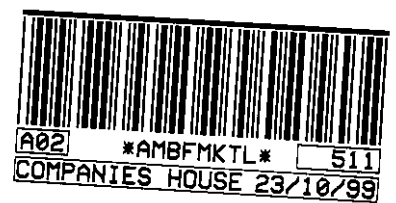


HLM ARCHITECTS LIMITED

REPORT AND ACCOUNTS
31 DECEMBER 1998



HLM ARCHITECTS LIMITED

Directors: C D Liddle - Chairman
R C Fraser - Chief Executive
L H Welch
J R Ferguson
D M Cafferty

Secretary: L H Welch

Company Number: 2424914

Registered Office: 1 Old Lodge Place
St Margarets
Twickenham
Middlesex TW1 1RQ

Auditors: Chantrey Vellacott DFK
Chartered Accountants
Russell Square House
10-12 Russell Square
London WC1B 5LF

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HLM ARCHITECTS LIMITED

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 1998

The directors present their report, together with the audited accounts of the group, for the year ended 31 December 1998.

REVIEW OF ACTIVITIES

The company acts as a holding company to the HLM group and acts as Principal Architect on PFI and other major projects tendered for by the group.

In 1998 company achieved financial close on a number of PFI projects. This enabled the company to have a profitable year and the directors are confident that the company is well positioned to win future PFI and major projects.

The principal subsidiary HLM Design Limited is engaged in providing architectural and allied services and also had a successful year.

There have been no events since the balance sheet date which materially affect the position of the group.

RESULTS AND DIVIDENDS

The profit for the year after taxation was £1,447,624.

Interim dividends totalling £875,000 were paid in the year. Further interim dividends totaling £560,000 have been paid since the end of the year.

The directors do not recommend the payment of a final dividend for the year.

DIRECTORS' RESPONSIBILITIES

The directors are required by company law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the group at the end of the financial year and of the profit or loss for that period. In preparing the accounts, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements have been made. The directors are also responsible for maintaining adequate accounting records, for safeguarding the assets of the group, and for preventing and detecting fraud and other irregularities. The directors are satisfied that the business is a going concern.

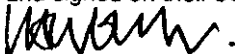
DIRECTORS AND THEIR INTERESTS

The directors at 31 December 1998 who served throughout the year and their interests in the share capital of the company are as set out below.

	31 December 1998	Ordinary shares Of 25p each 1 January 1998
C D Liddle	160,000	160,000
R C Fraser	160,000	160,000
L H Welch	160,000	160,000
J R Ferguson	60,000	60,000
D M Cafferty	60,000	60,000

The directors had no interests in the share capital of the subsidiary companies.

Approved by the Board of Directors on 13th October 1999
and signed on their behalf by:



L H WELCH
Secretary

REPORT OF THE AUDITORS TO THE MEMBERS OF

HLM ARCHITECTS LIMITED

We have audited the accounts on pages 3 to 11 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 1, the company's directors are responsible for the preparation of 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 Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the 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 accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

OPINION

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



CHANTREY VELLACOTT DFK

Chartered Accountants
Registered Auditors
10-12 Russell Square
London WC1B 5LF

13 October 1999

HLM ARCHITECTS LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	1998	1997 (Note 1a)
FEES RECEIVABLE	2	8,936,317	4,393,821
Change in work in progress and fees received in advance		(1,597,531)	(113,242)
		<u>7,338,786</u>	<u>4,280,579</u>
OPERATING COSTS			
External charges		561,723	449,593
Staff costs	3	3,008,495	1,975,754
Depreciation	4	131,216	109,680
Other operating charges		<u>1,663,600</u>	<u>1,185,273</u>
		<u>5,365,034</u>	<u>3,720,300</u>
OPERATING PROFIT	2	1,973,752	560,279
Interest receivable		99,361	9,730
Interest payable and similar charges	5	-	(444)
		<u>2,073,113</u>	<u>569,565</u>
PROFIT on ordinary activities before taxation		2,073,113	569,565
Taxation on profit on ordinary activities	6	625,489	113,437
		<u>1,447,624</u>	<u>456,128</u>
PROFIT on ordinary activities after taxation		1,447,624	456,128
Dividends paid and proposed	7	1,435,000	280,000
		<u>1,435,000</u>	<u>280,000</u>
RETAINED PROFIT FOR THE YEAR	14	<u>£ 12,624</u>	<u>£ 176,128</u>

All the above amounts relate to continuing activities.

All recognised gains and losses are included in the above profit and loss account.

HLM ARCHITECTS LIMITED
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 1998

	Notes	1998	1997
FIXED ASSETS			
Tangible assets	8	343,034	196,287
Listed Investment	9	106,050	-
		<u>449,084</u>	<u>196,287</u>
CURRENT ASSETS			
Debtors	10	2,411,983	1,402,153
Cash at bank and in hand		2,001,825	138,874
		<u>4,413,808</u>	<u>1,541,027</u>
CREDITORS: amounts falling due within one year	11	4,421,917	1,308,963
		<u>4,421,917</u>	<u>1,308,963</u>
NET CURRENT (LIABILITIES) ASSETS		(8,109)	232,064
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>£ 440,975</u>	<u>£ 428,351</u>
CAPITAL AND RESERVES			
Share capital	12	150,000	150,000
Revaluation reserve	13	47,087	47,087
Profit and loss account	14	243,888	231,264
		<u>440,975</u>	<u>428,351</u>
EQUITY SHAREHOLDERS' FUNDS	15	<u>£ 440,975</u>	<u>£ 428,351</u>

HLM ARCHITECTS LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 1998

	Notes	1998	1997
FIXED ASSETS			
Investment in subsidiary undertakings	16	150,000	150,000
Listed Investment	9	106,050	-
		<u>256,050</u>	<u>150,000</u>
CURRENT ASSETS			
Debtors	10	1,975,486	309,944
Cash at bank		1,505,599	-
		<u>3,481,085</u>	<u>309,944</u>
CREDITORS: amounts falling due			
Within one year	11	3,345,362	195,000
		<u>3,345,362</u>	<u>195,000</u>
NET CURRENT ASSETS		<u>135,723</u>	<u>114,944</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>£ 391,773</u>	<u>£ 264,944</u>
CAPITAL AND RESERVES			
Called up share capital	12	150,000	150,000
Profit and loss account	14	241,773	114,944
		<u>391,773</u>	<u>264,944</u>
EQUITY SHAREHOLDERS' FUNDS	15	<u>£ 391,773</u>	<u>£ 264,944</u>

Approved by the Board of Directors on 13 October 1999
and signed on their behalf by:

C D LIDDLE

R C FRASER

Ammaembae
R Fraser

HLM ARCHITECTS LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 1998

		1998	1997 (Note 1a)		
OPERATING PROFIT		1,973,752	560,279		
Depreciation charge	136,716		109,680		
Profit on sale of asset	(5,500)		-		
Change in: Work in progress	-		33,120		
Debtors	(1,053,634)		(487,394)		
Creditors	2,321,892		115,297		
		<u>1,399,474</u>	<u>(229,297)</u>		
Net cash inflow from operating activities		3,373,226	330,982		
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received	99,361		9,730		
Interest paid	-		(444)		
		<u>99,361</u>	<u>9,286</u>		
TAXATION					
Corporation tax paid		(230,623)	(20,385)		
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Purchase of investment	(106,050)		-		
Purchase of tangible assets	(283,463)		(109,382)		
Sale of tangible assets	5,500		-		
Net cash outflow from investing activities		<u>(384,013)</u>	<u>(109,382)</u>		
DIVIDENDS PAID TO EQUITY SHAREHOLDERS		(995,000)	(160,000)		
Net cash inflow before management of liquid resources and financing		<u>1,862,951</u>	<u>50,501</u>		
Increase in cash at bank		£ 1,862,951	£ 50,501		
ANALYSIS OF NET FUNDS	Net funds 1 January 1997	Cashflow	Net funds 31 December 1997	Cashflow	Net funds 31 December 1998
Cash at bank	£ 88,373	£ 50,501	£ 138,874	£ 1,862,951	£ 2,001,825

Chantrey Vellacott DFK

HLM ARCHITECTS LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 1998

1. ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention using the following accounting policies.

a) Basis of consolidation

The consolidated accounts include the accounts of the company and its subsidiary HLM Design Limited made up to 31 December 1998. Intercompany transactions have been eliminated.

The company acquired the whole of the issued share capital of HLM Design Limited on 25 June 1997 by way of a share for share exchange. The comparative figures in the profit and loss account and cash flow statement are for the whole of 1997 so that a true comparison can be made.

b) Depreciation

Depreciation is provided on all tangible assets at rates calculated to write off the cost or valuation less estimated residual value of each asset over its expected useful life. The expected useful lives are as follows:

Furniture and equipment	: 3-5 years
Motor vehicles	: 4 years

c) Work in progress

Work in progress is stated at cost plus attributable profit, less any foreseeable losses and reduced by net fees received and receivable. Cost comprises salary costs and overheads. Attributable profit is that part of profit currently estimated to be prudently available on the completed stages of each project at the balance sheet date. A foreseeable loss is that currently estimated to arise on the duration of the project as a whole.

d) Finance leases

Assets leased by the company under finance leases are shown as tangible assets in the balance sheet and the obligations to pay future rentals are set up as liabilities. Leased assets are amortised over the periods of each lease.

e) Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes, except that no provision is made where it can be reasonably foreseen that such deferred taxation will not be payable in the foreseeable future.

f) Investments

Investments in subsidiary undertakings and other investments are stated at cost.

2. FEES RECEIVABLE AND OPERATING PROFIT

Fees receivable represent fees billed to clients at invoiced amounts, net of rechargeable items and value added tax. Operating profit is stated after charging:

	1998 £	1997 £
Directors' remuneration	342,281	277,318
Auditors' remuneration	14,000	12,500
	<hr/>	<hr/>
Directors' remuneration comprises:		
Aggregate emoluments	327,253	276,651
Company contributions to money purchase pension schemes	15,028	667
	<hr/>	<hr/>
	£ 342,281	£ 277,318
	<hr/>	<hr/>

The highest paid director received £112,123 (1997: £90,714).

A professional practice charged £105,947 for the services of Mr R C Fraser during the year (1997: £94,142).

HLM ARCHITECTS LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 1998

(Continued)

3.	STAFF COSTS	1998	1997
	Staff costs during the year amounted to:		
	Wages and salaries	2,698,574	1,787,283
	Social security costs	263,014	173,975
	Other pension costs	46,906	14,496
		<u>£ 3,008,494</u>	<u>£ 1,975,754</u>
	The average number of employees during the year was made up as follows:	No.	No.
	Architects	100	73
	Administration	25	23
		<u>125</u>	<u>96</u>
4.	DEPRECIATION	1998	1997
	Depreciation of owned assets	136,716	109,680
	Profit on sale of assets	(5,500)	-
		<u>£ 131,216</u>	<u>£ 109,680</u>
5.	INTEREST PAYABLE AND SIMILAR CHARGES	1998	1997
	On bank overdraft	£ -	£ 444
6.	TAXATION ON PROFIT ON ORDINARY ACTIVITIES	1998	1997
	The taxation is based on the profit for the year and is made up as follows:		
	UK Corporation tax at 31% (1997: 31% and 33%)	625,000	174,000
	Adjustment of prior year	489	-
	Advance corporation tax previously written off recovered	-	(60,563)
		<u>£ 625,489</u>	<u>£ 113,437</u>
7.	DIVIDENDS PAID AND PROPOSED	1998	1997
	To equity shareholders:		
	First interim 8 September 1998	375,000	80,000
	Second interim 31 December 1998	500,000	80,000
	Third interim 1 January 1999	60,000	120,000
	Fourth interim 6 April 1999	500,000	-
		<u>£ 1,435,000</u>	<u>£ 280,000</u>

HLM ARCHITECTS LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 1998

(Continued)

8.	TANGIBLE ASSETS	Furniture & equipment	Motor vehicles	Total
	Cost or valuation			
	1 January 1998	415,731	25,795	441,526
	Additions	269,858	13,605	283,463
	Disposals	-	(9,000)	(9,000)
	31 December 1998	685,589	30,400	715,989
	Depreciation:			
	1 January 1998	231,633	13,606	245,239
	Charge for the year	129,500	7,216	136,716
	Disposals	-	(9,000)	(9,000)
	31 December 1998	361,133	11,822	372,955
	Net book value:			
	31 December 1998	£ 324,456	£ 18,578	£ 343,034
	31 December 1997	£ 184,098	£ 12,189	£ 196,287

All tangible fixed assets are held by H L M Design Limited

Cost of valuation of furniture and equipment include £144,000 revalued by the directors as at 1 January 1995 based on a detailed physical inventory of the assets of that company.

The group had no capital commitments at 31 December 1998 (1997: £Nil).

9. LISTED INVESTMENT

The market value of the listed investment was £112,500. (1977:Nil).

10.	DEBTORS	Group	Company
		1998	1997
	Trade debtors	2,290,964	1,317,789
	Due from subsidiary undertaking	-	-
	Dividend receivable from subsidiary undertaking	-	-
	Advance Corporation Tax recoverable	-	-
	Prepayments and accrued income	121,019	40,560
		£ 2,411,983	£ 1,402,153
		£ 1,975,486	£ 309,944

HLM ARCHITECTS LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 1998

(Continued)

11.	CREDITORS: Amounts falling due within one year	Group		Company	
		1998	1997	1998	1997
	Fees receivable in advance	1,997,436	399,905	1,260,485	-
	Trade creditors	518,830	130,565	-	-
	Amount payable to subsidiary undertaking	-	-	1,153,627	-
	Corporation tax	363,303	87,241	196,250	45,000
	Advance Corporation tax	125,000	50,000	125,000	30,000
	Taxation and social security	191,329	151,503	-	-
	Other creditors and accruals	666,019	369,749	50,000	-
	Proposed dividends	560,000	120,000	560,000	120,000
		<u>£ 4,421,917</u>	<u>£ 1,308,963</u>	<u>£ 3,345,362</u>	<u>£ 195,000</u>
12.	CALLED UP SHARE CAPITAL		Authorised	Allotted, issued and fully paid	
		1998	1997	1998	1997
	Ordinary shares of 25p each	£ 150,000	£ 150,000	£ 150,000	£ 150,000
13.	REVALUATION RESERVE			1998	1997
	Surplus on revaluation of tangible assets in 1995			£ 47,087	£ 47,087
14.	PROFIT AND LOSS ACCOUNT		Group	Company	
		1998	1997	1998	1997
	Balance brought forward	231,264	55,136	114,944	-
	Retained profit for the year	12,624	176,128	126,829	114,944
		<u>£ 243,888</u>	<u>£ 231,264</u>	<u>£ 241,773</u>	<u>£ 114,944</u>
15.	RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS		Group	Company	
		1998	1997*	1998	1997
	Profit on ordinary activities after taxation	1,447,624	456,128	1,561,829	314,944
	Dividends paid and proposed	(1,435,000)	(280,000)	(1,435,000)	(200,000)
	Issue of share capital	-	-	-	150,000
		<u>12,624</u>	<u>176,128</u>	<u>126,829</u>	<u>264,944</u>
	Net addition to equity shareholders funds	12,624	176,128	126,829	264,944
	Opening equity shareholders funds	428,351	252,223	264,944	-
		<u>£ 440,975</u>	<u>£ 428,351</u>	<u>£ 391,773</u>	<u>£ 264,944</u>
	Closing equity shareholders funds	£ 440,975	£ 428,351	£ 391,773	£ 264,944
	*memorandum				

As allowed by s230 of the Companies Act 1985 the profit and loss account of the company is not presented. The profit dealt with in the accounts of the company was £1,561,829 (1997: £314,944).

HLM ARCHITECTS LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 1998

(Continued)

16. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

Shares at cost:

At 31 December 1998 and at 31 December 1997

£ 150,000

The company owns the whole of the issued share capital of HLM Design Limited a company registered in England.

Additionally the company owns via HLM Design Limited the following companies which are registered in England.

HLM Landscape Limited

HLM Planning Limited

These companies are non-trading, and have no assets.

17. CONTINGENT LIABILITIES

The groups bank overdraft facility is secured by a debenture on the assets and undertaking of HLM Design Limited.

HLM Design Limited has given guarantees secured in part by a debenture on the assets and undertakings of that company in respect of the mortgage loans of a former fellow subsidiary. The liability at 31 December 1998 was £2,221,591 (1997: £2,283,502).

There were no other contingent liabilities at 31 December 1998 (1997: £Nil).

18. OPERATING LEASES

HLM Design Limited rents certain office premises from a former fellow subsidiary company, Melbourne Properties Limited. The directors of HLM Architects Limited are also directors and substantial shareholders of Melbourne Property Holdings Limited the parent company of Melbourne Properties Limited.

Following resolution of a dispute with certain shareholders of Melbourne Property Holdings Limited it has been agreed that the company will pay rent as provided in the lease of the premises and not the reduced sums previously agreed.

Operating leases:

Office
Premises

expiring after more than 5 years

£ 399,328

Other operating leases are not material.