

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED
(formerly MITIE Engineering Services (Midlands) Limited)

Report and Financial Statements

31 March 2001



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

REPORT AND FINANCIAL STATEMENTS 2001

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D M Telling
C S Acheson

SECRETARIES

A F Waters
M O Thomas (resigned 4 May 2000)
C K Ross (appointed 4 May 2000)

REGISTERED OFFICE

The Stable Block
Barley Wood
Wroughton
Bristol
BS40 5SA

BANKERS

HSBC Bank plc
49 Corn Street
Bristol
BS99 7PP

AUDITORS

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

DIRECTORS' REPORT

The directors present their annual report and audited financial statements for the year ended 31 March 2001.

On 25 September 2000 the company changed its name from MITIE Engineering Services (Midlands) Limited to MITIE Engineering Services (West Midlands) Limited.

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 as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

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

On 25 September 2000 MITIE Engineering Services (West Midlands) Limited ceased taking on new contracts but has continued to fulfil its contractual commitments.

The company enjoys the support of its parent undertaking.

RESULTS AND DIVIDENDS

The loss for the year after taxation amounted to £393,864 (2000: £42,748). The directors do not propose the payment of a dividend and recommend that £393,864 be transferred from reserves.

DIRECTORS AND THEIR INTERESTS

The directors during the year were as follows:

| | |
|--------------|----------------------------|
| D M Telling | |
| C S Acheson | |
| D Freeman | (resigned 27 March 2001) |
| M A McKean | (resigned 24 January 2001) |
| C J Williams | (resigned 27 March 2001) |

DIRECTORS' REPORT (continued)

DIRECTORS AND THEIR INTERESTS (continued)

No director had an interest in the share capital and loan stock of the company.

Mr D M Telling is a director of MITIE Group PLC, the parent undertaking, and his interests in the share capital of that company are shown in the financial statements of MITIE Group PLC.

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

| | At 31 March 2001 5p Ordinary shares No. | At 1 April 2000 5p Ordinary shares No. |
|-------------|---|--|
| C S Acheson | 714,750 | 814,750 |

Share Options

No directors had options in MITIE Group PLC at the beginning or end of the year.

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

PAYMENT POLICY

The company's policy is to comply with the terms of payment agreed with a supplier. Where terms are not negotiated, the company endeavours to adhere with the supplier's standard terms. As at 31 March 2001 trade creditors, as a proportion of amounts invoiced from suppliers for the year, represented 29 (2000: 75) days.

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

DIRECTORS' REPORT (continued)

AUDITORS

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

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

A handwritten signature in black ink, appearing to read 'C K Ross', with a stylized flourish at the end.

C K Ross
Secretary

20 August 2001

AUDITORS' REPORT TO THE MEMBERS OF

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED (formerly MITIE Engineering Services (Midlands) Limited)

We have audited the financial statements on pages 6 to 17 which have been prepared under the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

As described on page 2, the company's directors are responsible for the preparation of financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

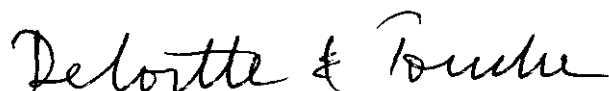
Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



DELOITTE & TOUCHE
Chartered Accountants and
Registered Auditors

20 August 2001

PROFIT AND LOSS ACCOUNT
Year ended 31 March 2001

| | Notes | Continuing operations | |
|--|-------|-----------------------|-------------|
| | | 2001 | 2000 |
| | | £ | £ |
| TURNOVER | 1 | 3,881,666 | 2,456,670 |
| Cost of sales | | (4,139,490) | (2,113,471) |
| GROSS (LOSS)/PROFIT | | (257,824) | 343,199 |
| Administrative expenses | | (271,205) | (409,083) |
| OPERATING LOSS | 2 | (529,029) | (65,884) |
| Interest receivable | 3 | - | 6,493 |
| Interest payable | 3 | (30,844) | (576) |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | | (559,873) | (59,967) |
| Tax credit on loss on ordinary activities | 4 | 166,009 | 17,219 |
| RETAINED LOSS FOR THE YEAR | 11 | (393,864) | (42,748) |

There are no recognised gains and losses for the current financial year or preceding financial year other than as stated in the profit and loss account.

BALANCE SHEET
At 31 March 2001

| | Notes | 2001 | 2000 |
|--|-------|--------------------|--------------------|
| | | £ | £ |
| FIXED ASSETS | | | |
| Tangible assets | 5 | - | 57,023 |
| CURRENT ASSETS | | | |
| Work in progress | 6 | - | 757,789 |
| Debtors | 7 | 547,204 | 370,790 |
| Cash at bank and in hand | | - | 327 |
| | | <u>547,204</u> | <u>1,128,906</u> |
| CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | 8 | <u>(1,063,125)</u> | <u>(1,307,986)</u> |
| NET CURRENT LIABILITIES | | <u>(515,921)</u> | <u>(179,080)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>(515,921)</u> | <u>(122,057)</u> |
| CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR | | | |
| Convertible redeemable loan stock | 9 | <u>(22,000)</u> | <u>(22,000)</u> |
| NET LIABILITIES | | <u>(537,921)</u> | <u>(144,057)</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 10 | 228,243 | 228,243 |
| Profit and loss account | 11 | <u>(766,164)</u> | <u>(372,300)</u> |
| TOTAL EQUITY SHAREHOLDERS' FUNDS | 12 | <u>(537,921)</u> | <u>(144,057)</u> |

These financial statements were approved by the Board of Directors on 20 August 2001.

Signed on behalf of the Board of Directors



D M Telling
Director

CASH FLOW STATEMENT
Year ended 31 March 2001

| | Notes | 2001 | | 2000 | |
|---|-------|----------|-----------|----------|-----------|
| | | £ | £ | £ | £ |
| Net cash outflow from operating activities | 13 | | (424,295) | | (562,916) |
| Returns on investments and servicing of finance | | | | | |
| Interest received | | - | | 6,556 | |
| Interest paid | | (30,941) | | - | |
| Net cash (outflow)/inflow from returns on investments and servicing of finance | | | (30,941) | | 6,556 |
| Taxation | | | | | |
| UK corporation tax received/(paid) | | | 12,976 | | (29,031) |
| Capital expenditure | | | | | |
| Payments to acquire tangible fixed assets | | (19,496) | | (62,061) | |
| Receipts from disposal of tangible fixed assets | | 75,660 | | 3,200 | |
| Net cash inflow/(outflow) from capital expenditure | | | 56,164 | | (58,861) |
| Decrease in cash in the year | 15 | | (386,096) | | (644,252) |

NOTES TO THE ACCOUNTS
Year ended 31 March 2001

1. ACCOUNTING POLICIES

Accounting convention

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

Basis of preparation

These financial statements have been prepared on a going concern basis. The ability of MITIE Engineering Services (West Midlands) Limited to continue operating in this manner is dependent upon a number of factors including that the ultimate parent company, MITIE Group PLC, continues to support it in meeting the company's liabilities as they fall due. The directors have received assurance from the parent company that it is its current intention to provide ongoing financial support.

Turnover

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

Tangible fixed assets and depreciation

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

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

Leasing commitments

Rentals paid under other leases (operating leases) are charged against income on a straight-line basis over the lease term.

Work in progress

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

Deferred taxation

Provision is made for deferred taxation using the liability method in respect of timing differences to the extent that liabilities will crystallise in the foreseeable future.

Pension costs

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

NOTES TO THE ACCOUNTS
Year ended 31 March 2001

| | | |
|--|-------------------|-------------------|
| 2. OPERATING LOSS is stated after charging/(crediting): | 2001 | 2000 |
| | £ | £ |
| Depreciation | 11,176 | 19,141 |
| Operating lease rentals - land and buildings | 41,000 | 11,241 |
| Auditors' remuneration - audit services | 2,500 | 2,500 |
| Profit on disposal of tangible fixed assets | - | (1,230) |
| | <u> </u> | <u> </u> |
| 3. INTEREST | 2001 | 2000 |
| Interest receivable | £ | £ |
| Bank interest | - | 6,493 |
| | <u> </u> | <u> </u> |
| Interest payable | £ | £ |
| Bank interest | 30,844 | 576 |
| | <u> </u> | <u> </u> |
| 4. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES | 2001 | 2000 |
| | £ | £ |
| UK current year taxation | | |
| Group relief 30% (2000: 30%) | (165,982) | (16,600) |
| Prior years | | |
| UK corporation tax | (27) | (619) |
| | <u> </u> | <u> </u> |
| | <u>(166,009)</u> | <u>(17,219)</u> |

NOTES TO THE ACCOUNTS
Year ended 31 March 2001

5. TANGIBLE FIXED ASSETS

| Summary | Plant £ | Office equipment £ | Motor vehicles £ | Total £ |
|-----------------------|------------|--------------------------|------------------------|------------|
| Cost | | | | |
| At 1 April 2000 | 8,195 | 34,221 | 72,613 | 115,029 |
| Additions | - | 2,286 | 17,110 | 19,396 |
| Group transfers out | (8,195) | (36,507) | (89,723) | (134,425) |
| At 31 March 2001 | - | - | - | - |
| Depreciation | | | | |
| At 1 April 2000 | 7,897 | 21,376 | 28,733 | 58,006 |
| Charge for the year | 33 | 1,917 | 9,226 | 11,176 |
| Group transfers out | (7,930) | (23,293) | (37,959) | (69,182) |
| At 31 March 2001 | - | - | - | - |
| Net book value | | | | |
| At 31 March 2001 | - | - | - | - |
| At 31 March 2000 | 298 | 12,845 | 43,880 | 57,023 |

Capital commitments

At 31 March 2001 the directors had authorised capital expenditure of nil (2000: nil).

6. WORK IN PROGRESS

| | 2001 £ | 2000 £ |
|---------------------|-----------|-------------|
| Work in progress | - | 2,468,032 |
| Payments on account | - | (1,710,243) |
| | - | 757,789 |

NOTES TO THE ACCOUNTS
Year ended 31 March 2001

| | | |
|---|------------------|------------------|
| 7. DEBTORS | 2001 | 2000 |
| | £ | £ |
| Trade debtors | 347,346 | 227,005 |
| Amounts owed by group undertakings | 6,022 | 45,252 |
| Other debtors | - | 906 |
| Prepayments and accrued income | 11,787 | 11,485 |
| Value added tax | 2,666 | 59,792 |
| Group relief receivable | 179,383 | 26,350 |
| | <u>547,204</u> | <u>370,790</u> |
| 8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | 2001 | 2000 |
| | £ | £ |
| Payments on account | - | 3,429 |
| Bank overdraft | 805,023 | 419,254 |
| Trade creditors | 232,113 | 848,917 |
| Amounts owed to group undertakings | 2,500 | 1,475 |
| Other taxes and social security costs | 1,978 | 22,029 |
| Other creditors | 479 | 1,694 |
| Accruals and deferred income | 21,032 | 11,188 |
| | <u>1,063,125</u> | <u>1,307,986</u> |
| 9. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR | 2001 | 2000 |
| | £ | £ |
| Convertible unsecured redeemable loan stock 2003 | 2,000 | 2,000 |
| Convertible unsecured redeemable loan stock 2004 | 20,000 | 20,000 |
| | <u>22,000</u> | <u>22,000</u> |

The £2,000 and £20,000 convertible unsecured loan stock may be converted at the holder's option into fully paid ordinary shares of £1 each at any time to 31 August 2003 or 31 August 2004 respectively. If the loan stock is not converted it will be redeemable at par on 1 September 2003 and 1 September 2004 respectively.

The holder has confirmed that the loan stock will not be converted until after 31 March 2002.

NOTES TO THE ACCOUNTS
Year ended 31 March 2001

10. CALLED UP SHARE CAPITAL

| | 2001 and 2000 | |
|--------------------------------|----------------------|----------------|
| | No. | £ |
| Authorised | | |
| £1 'A' ordinary shares | 311,000 | 311,000 |
| £1 'B' ordinary shares | 39,000 | 39,000 |
| | <u>350,000</u> | <u>350,000</u> |
| | No. | £ |
| Allotted and fully paid | | |
| £1 'A' ordinary shares | 191,243 | 191,243 |
| £1 'B' ordinary shares | 37,000 | 37,000 |
| | <u>228,243</u> | <u>228,243</u> |

Rights attached to shares

The holders of the £1 'A' ordinary shares and the £1 'B' ordinary shares are entitled to a dividend as decided by the Board. Thereafter, MITIE Group PLC, the holder of the £1 'A' ordinary shares, is entitled to one half of the company's annual profits available for distribution less the above amount already paid, together with any arrears of such cumulative dividends unpaid from any previous financial year.

Thereafter, the balance of profits available for distribution may be distributed amongst the holders of each class of share pari passu.

Both classes of shareholder have equal voting rights.

11. PROFIT AND LOSS ACCOUNT

| | £ |
|----------------------------|-------------------------|
| At 1 April 2000 | (372,300) |
| Retained loss for the year | <u>(393,864)</u> |
| At 31 March 2001 | <u>(766,164)</u> |

NOTES TO THE ACCOUNTS
Year ended 31 March 2001

| | | | |
|-----|--|-----------|-----------|
| 12. | RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS | 2001 £ | 2000 £ |
| | Loss for the financial year | (393,864) | (42,748) |
| | Net reduction to shareholders' funds | (393,864) | (42,748) |
| | Opening shareholders' funds | (144,057) | (101,309) |
| | Closing shareholders' funds | (537,921) | (144,057) |

| | | | |
|-----|--|-----------|-----------|
| 13. | RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES | 2001 £ | 2000 £ |
| | Operating loss | (529,029) | (65,884) |
| | Depreciation charges | 11,176 | 19,141 |
| | Profit on disposal of tangible fixed assets | - | (1,230) |
| | Decrease/(increase) in work in progress | 757,789 | (474,281) |
| | Increase in debtors | (33,798) | (177,464) |
| | (Decrease)/increase in creditors | (630,433) | 136,802 |
| | Net cash outflow from operating activities | (424,295) | (562,916) |

| | | | | |
|-----|----------------------------------|-------------------------|-----------------|--------------------------|
| 14. | ANALYSIS OF CHANGES IN NET FUNDS | At 1 April 2000 £ | Cash flows £ | At 31 March 2001 £ |
| | Bank overdraft | (419,254) | (385,769) | (805,023) |
| | Cash at bank and in hand | 327 | (327) | - |
| | Debt due after one year | (22,000) | - | (22,000) |
| | | (440,927) | (386,096) | (827,023) |

| | | | |
|-----|---|-----------|-----------|
| 15. | RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT | 2001 £ | 2000 £ |
| | Decrease in cash in the year | (386,096) | (644,252) |
| | Movement in net debt in the year | (386,096) | (644,252) |
| | Net (debt)/funds at beginning of year | (440,927) | 203,325 |
| | Net debt at end of year | (827,023) | (440,927) |

NOTES TO THE ACCOUNTS
Year ended 31 March 2001

16. FINANCIAL COMMITMENTS

Operating leases

At 31 March 2001 the company had annual commitments under non-cancellable operating leases as follows:

| Land and buildings | 2001 | 2000 |
|--------------------------------|---------------|---------------|
| | £ | £ |
| Expiry date - after five years | <u>41,000</u> | <u>41,000</u> |

Commitments on behalf of group undertakings

The company is party with other group undertakings to cross-guarantees of each other's bank overdrafts. As at 31 March 2001, the overall commitment was nil (2000: nil).

17. DIRECTORS

| | 2001 | 2000 |
|--|---------------|---------------|
| | £ | £ |
| The emoluments of directors of the company were: | | |
| Fees and other emoluments (excluding pension contributions but including benefits-in-kind) | <u>24,460</u> | <u>50,221</u> |

Mr C S Acheson was remunerated by MITIE Group PLC for his services to the group as a whole. It is not practicable to allocate his remuneration between his services as director of MITIE Engineering Services (Midlands) Limited and his services as director of other group companies.

| | No. | No. |
|--|------------|------------|
| The number of directors who were members of: | | |
| - a defined benefit pension scheme | 2 | 2 |
| - a defined contribution pension scheme | <u>1</u> | <u>1</u> |

There were no contributions paid to the defined contribution scheme in either year.

Mr D M Telling is a director of MITIE Group PLC and his pension details are disclosed in the group accounts.

None of the directors exercised options in the shares of the ultimate holding company, MITIE Group PLC, during the year (2000: nil).

NOTES TO THE ACCOUNTS
Year ended 31 March 2001

18. EMPLOYEES

Number of employees

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

| | 2001 No. | 2000 No. |
|-------------------------------|---------------------|---------------------|
| Administration and management | 9 | 9 |
| Site labour | 3 | 5 |
| | <u>12</u> | <u>14</u> |
| Employment costs | £ | £ |
| Wages and salaries | 128,385 | 294,131 |
| Social security costs | 14,080 | 31,032 |
| Pension | 1,507 | 2,835 |
| | <u>143,972</u> | <u>327,998</u> |

19. RELATED PARTY TRANSACTIONS

MITIE Group PLC was a 75% shareholder in MITIE Engineering Services (West Midlands) Limited at 31 March 2000. During the year MITIE Group PLC acquired a further 25% of the issued shared capital of MITIE Engineering Services (West Midlands) Limited.

During the year, MITIE Engineering Services (West Midlands) Limited paid £64,285 (2000: £92,444) in management charges to companies within MITIE Group PLC. An amount of £2,500 is included in creditors in respect of these charges.

During the year, MITIE Engineering Services (West Midlands) Limited received management charges of £7,500 (2000: £5,982) from companies within the MITIE Group PLC.

During the year MITIE Engineering Services (West Midlands) Limited provided services to companies within MITIE Group PLC amounting to £32,340 (2000: £25,793). An amount of £6,022 (2000: £25,793) is included in debtors in respect of these sales.

During the year MITIE Engineering Services (West Midlands) Limited purchased goods and services from companies within MITIE Group PLC amounting to £67,342 (2000: £4,627).

During the year MITIE Engineering Services (West Midlands) Limited transferred assets at net book value of £65,243 (2000: £10,417) to MITIE Engineering Services (Midlands) Limited.

NOTES TO THE ACCOUNTS
Year ended 31 March 2001

20. PARENT UNDERTAKING AND CONTROLLING PARTY

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