

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

Report and Financial Statements

31 March 2002



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

REPORT AND FINANCIAL STATEMENTS 2002

CONTENTS

	Page
Officers and professional advisers	1
Directors' report	2
Independent auditors' report	4
Profit and loss account	5
Balance sheet	6
Cash flow statement	7
Notes to the accounts	8

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D M Telling
C S Acheson
I R Stewart

SECRETARIES

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

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 2002.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

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

On 25 September 2000 MITIE Engineering Services (West Midlands) Limited ceased taking on new contracts but continues 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 £27,862 (2001: £393,864). The directors do not propose the payment of a dividend (2001: nil) and recommend that £27,862 (2001: £393,864) be transferred from reserves.

DIRECTORS AND THEIR INTERESTS

The directors during the year were as follows:

D M Telling
C S Acheson
I R Stewart (appointed 31 October 2001)

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

DIRECTORS' REPORT (continued)

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.

AUDITORS

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

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

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

C K Ross
Secretary

12 August 2002

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED**

We have audited the financial statements of MITIE Engineering Services (West Midlands) Limited for the year ended 31 March 2002 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

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

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

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

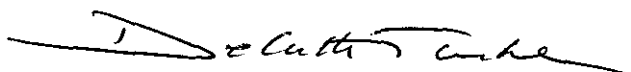
Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2002 and of its 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

12 August 2002

**Deloitte
& Touche
Tohmatsu**

Aberdeen, Belfast, Birmingham, Bracknell, Bristol, Cambridge, Cardiff, Crawley, Edinburgh, Glasgow, Leeds, Liverpool, London, Manchester, Milton Keynes, Newcastle upon Tyne, Nottingham, St Albans and Southampton.

Principal place of business at which a list of partners' names is available: Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR.

Authorised by the Financial Services Authority in respect of regulated activities.

PROFIT AND LOSS ACCOUNT
Year ended 31 March 2002

	Notes	Continuing operations	
		2002	2001
		£	£
TURNOVER	1	(31,377)	3,881,666
Cost of sales		10,248	(4,139,490)
GROSS LOSS		(21,129)	(257,824)
Administrative expenses		(21,108)	(301,955)
Other operating income		20,500	30,750
OPERATING LOSS	2	(21,737)	(529,029)
Interest payable	3	(18,969)	(30,844)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(40,706)	(559,873)
Tax credit on loss on ordinary activities	4	12,844	166,009
RETAINED LOSS FOR THE FINANCIAL YEAR	9	(27,862)	(393,864)

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

BALANCE SHEET
At 31 March 2002

	Notes	2002 £	2001 £
CURRENT ASSETS			
Debtors	5	32,207	547,204
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (including convertible redeemable unsecured loan stock)	6	(597,990)	(1,063,125)
TOTAL ASSETS LESS CURRENT LIABILITIES		(565,783)	(515,921)
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
Convertible redeemable unsecured loan stock	7	-	(22,000)
NET LIABILITIES		(565,783)	(537,921)
CAPITAL AND RESERVES			
Called up share capital	8	228,243	228,243
Profit and loss account	9	(794,026)	(766,164)
TOTAL EQUITY SHAREHOLDERS' FUNDS	10	(565,783)	(537,921)

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

Signed on behalf of the Board of Directors



D M Telling
Director

CASH FLOW STATEMENT
Year ended 31 March 2002

	Notes	2002		2001	
		£	£	£	£
Net cash inflow/(outflow) from operating activities	11		213,788		(424,295)
Returns on investments and servicing of finance					
Interest paid			(20,590)		(30,941)
Taxation					
UK corporation tax received			182,683		12,976
Capital expenditure					
Payments to acquire tangible fixed assets		-		(19,496)	
Receipts from disposal of tangible fixed assets		-		75,660	
Net cash inflow from capital expenditure			-		56,164
Increase/(decrease) in cash in the year	13		<u>375,881</u>		<u>(386,096)</u>

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

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

Turnover

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

Tangible fixed assets and depreciation

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

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

Leasing commitments

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

Work in progress

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

Deferred taxation

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

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

Pension costs

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

NOTES TO THE ACCOUNTS
Year ended 31 March 2002

2. OPERATING LOSS is stated after charging/(crediting):	2002	2001
	£	£
Depreciation	-	11,176
Operating lease rentals - land and buildings	20,500	41,000
Auditors' remuneration - audit services	2,100	2,500
Rent receivable	(20,500)	(30,750)

3. INTEREST PAYABLE	2002	2001
	£	£
Bank interest	18,969	30,844

4. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

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

	2002	2001
	£	£
Loss on ordinary activities before tax	(40,706)	(559,873)
	£	£
Tax credit on loss on ordinary activities at standard rate	(12,212)	(167,962)
Factors affecting the charge:		
- disallowable expenses	-	893
- capital allowances for period in (excess)/deficit of depreciation	(632)	1,087
UK corporation tax credit for the year	(12,844)	(165,982)
Prior years		
UK corporation tax	-	(27)
Tax credit on loss on ordinary activities	(12,844)	(166,009)

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

NOTES TO THE ACCOUNTS
Year ended 31 March 2002

5. DEBTORS	2002	2001
	£	£
Trade debtors	17,968	347,346
Amounts owed by group undertakings	-	6,022
Group relief receivable	9,544	179,383
Other debtors	1,142	-
Prepayments and accrued income	-	11,787
Value added tax	3,553	2,666
	<u>32,207</u>	<u>547,204</u>
 6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	 2002	 2001
	£	£
Convertible unsecured redeemable loan stock 2003 (see note 7)	2,000	-
Convertible unsecured redeemable loan stock 2004 (see note 7)	20,000	-
Bank overdraft	429,142	805,023
Trade creditors	121,627	232,113
Amounts owed to group undertakings	21,617	2,500
Other taxes and social security costs	-	1,978
Other creditors	-	479
Accruals and deferred income	3,604	21,032
	<u>597,990</u>	<u>1,063,125</u>
 7. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	 2002	 2001
	£	£
Convertible unsecured redeemable loan stock 2003	-	2,000
Convertible unsecured redeemable loan stock 2004	-	20,000
	<u>-</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.

The loan stock was converted to £1 'B' ordinary shares on 17 May 2002.

NOTES TO THE ACCOUNTS
Year ended 31 March 2002

8. CALLED UP SHARE CAPITAL	2002	2001
	£	£
Authorised		
211,000 £1 'A' ordinary shares	211,000	211,000
139,000 £1 'B' ordinary shares	139,000	139,000
	<u>350,000</u>	<u>350,000</u>
	£	£
Allotted and fully paid		
191,243 £1 'A' ordinary shares	191,243	191,243
37,000 £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.

9. PROFIT AND LOSS ACCOUNT

	£
At 1 April 2001	(766,164)
Retained loss for the financial year	<u>(27,862)</u>
At 31 March 2002	<u>(794,026)</u>

10. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEBTS	2002	2001
	£	£
Loss for the financial year	(27,862)	(393,864)
Net addition to shareholders' debts	<u>(27,862)</u>	<u>(393,864)</u>
Opening shareholders' debts	(537,921)	(144,057)
Closing shareholders' debts	<u>(565,783)</u>	<u>(537,921)</u>

NOTES TO THE ACCOUNTS
Year ended 31 March 200211. RECONCILIATION OF OPERATING LOSS TO NET CASH
INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2002 £	2001 £
Operating loss	(21,737)	(529,029)
Depreciation charges	-	11,176
Decrease in work in progress	-	757,789
Decrease/(increase) in debtors	346,300	(33,798)
Decrease in creditors	(110,775)	(630,433)
Net cash inflow/(outflow) from operating activities	213,788	(424,295)

12. ANALYSIS OF CHANGES IN NET DEBT

	At 1 April 2001 £	Cash flow £	Non-cash changes £	At 31 March 2002 £
Bank overdraft	(805,023)	375,881	-	(429,142)
Debt due within one year	-	-	(22,000)	(22,000)
Debt due after more than one year	(22,000)	-	22,000	-
	(827,023)	375,881	-	(451,142)

13. RECONCILIATION OF NET CASH FLOW TO MOVEMENT
IN NET DEBT

	2002 £	2001 £
Net debt at beginning of year	(827,023)	(440,927)
Increase/(decrease) in cash in the year	375,881	(386,096)
Net debt at end of year	(451,142)	(827,023)

NOTES TO THE ACCOUNTS
Year ended 31 March 2002**14. FINANCIAL COMMITMENTS****Operating leases**

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

Land and buildings	2002	2001
	£	£
Expiry date - after five years	-	41,000

Commitments on behalf of group undertakings

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

15. DIRECTORS

	2002	2001
	£	£
The emoluments of directors of the company were:		
Fees and other emoluments (excluding pension contributions but including benefits-in-kind)	-	24,460
	No.	No.
The number of directors who were members of a defined benefit pension scheme	-	1

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

None of the directors exercised options in the shares of the ultimate holding company, MITIE Group PLC, during the year (2001: nil).

16. EMPLOYEES**Number of employees**

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

	2002	2001
	No.	No.
Administration and management	-	9
Site labour	-	3
	-	12

NOTES TO THE ACCOUNTS
Year ended 31 March 2002

16. EMPLOYEES (continued)

	2002	2001
	£	£
Employment costs		
Wages and salaries	-	128,385
Social security costs	-	14,080
Pension	-	1,507
	<u>-</u>	<u>143,972</u>

17. RELATED PARTY TRANSACTIONS

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

18. PENSION ARRANGEMENTS

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

19. PARENT UNDERTAKING AND CONTROLLING PARTY

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

DETAILED PROFIT AND LOSS ACCOUNT
Year ended 31 March 2002

	2002 £	2001 £
TURNOVER	(31,377)	3,881,666
Cost of sales	10,248	(4,139,490)
GROSS LOSS	(21,129)	(257,824)
ADMINISTRATIVE EXPENSES		
Management charges payable	-	64,285
Salaries, including directors' salaries	-	110,368
Rent and rates	19,000	47,040
Light and heat	-	(309)
Insurance	(7)	20,624
Telephone	-	5,757
Postage, stationery and advertising	-	7,833
Entertaining	-	2,927
Repairs and renewals	-	417
Motor expenses	-	12,200
Hire of motor vehicles	-	676
Computer services	-	2,369
Trade subscriptions	-	970
Education and training	-	740
Bank charges	-	1,500
Audit fee	2,100	2,500
Legal and professional	15	16,382
Sundry expenses	-	2,000
Depreciation	-	11,176
	(21,108)	(309,455)
Management charges receivable	-	7,500
Rent receivable	20,500	30,750
OPERATING LOSS	(21,737)	(529,029)