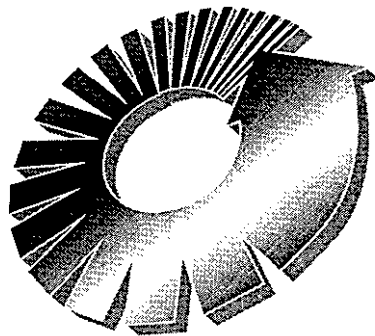


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Environmental Property Services plc



Report and Accounts 1998



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Directors and advisers

Directors	Charles Ryder James Orr David Anderson Stephen Dean Peter So Peter Cawdron	<i>(Chairman)</i> <i>(Finance Director)</i> <i>(Managing Director)</i> <i>(Non-executive)</i> <i>(Non-executive)</i> <i>(Non-executive)</i>
Secretary	James Orr	
Company number	2806007	
Registered office	Broadwalk House 5 Appold Street London EC2A 2HA	
Auditors	Ernst & Young Rolls House 7 Rolls Buildings Fetter Lane London EC4A 1NH	
Registrar	IRG plc Balfour House 390-398 High Road Ilford Essex IG1 1NP	
Stockbroker	Sutherlands Limited Dashwood House 69 Old Broad Street London EC2M 1NX	
Legal advisers	Ashurst Morris Crisp Broadwalk House 5 Appold Street London EC2A 2HA	

Chairman's statement

Period of Transition

The Company underwent significant transition during 1998, a year which was followed in February 1999 by the acquisition of a 29.6% stake by an investor group led by Lupus Associates Limited, a company controlled by James Orr and me.

In December 1998, the Company, which was formerly known as Dean Corporation plc ("Dean"), changed its name to Environmental Property Services plc ("EPS") following the demerger from Dean of its housebuilding and pub refurbishment subsidiaries into Artisan (UK) plc which is quoted on AIM. At the same time, shareholders approved the acquisition of IPM Engineering Limited ("IPM") which, together with acquisitions earlier in the year and the subsequent acquisition during December of RLH Group Limited ("RLH"), produced a substantially larger and more broadly based property services group.

The investor group acquired its holding in February 1999 from Stephen Dean, the then Chairman of EPS, who sold 22,358,625 shares in the Company, representing 29.6% of its issued share capital. A number of Board changes were also announced at this time, including my appointment as Executive Chairman, James Orr as Finance Director and Peter Cawdron as a non-executive Director.

Future Strategy

The Board has decided that the Company will in future be directed towards investing in small and medium sized public companies which have lost, or are lacking, strategic direction. It will provide, and where necessary implement, strategic plans for these companies, including appropriate exit routes.

The current environment for small and medium sized public companies remains very challenging with continuing, substantial change taking place in the financial and commercial markets. This has caused shareholders, particularly institutions, to concentrate their investment policy on large, international companies with liquid markets in their equity capital. However, we believe that changes in the commercial environment - for example the advent of low inflation generally, deflation in certain goods and the internationalisation of consumer products - have also been driving forces in this development. We also believe that these forces are of a structural, long-term nature.

In such an environment, it is necessary for these companies to find strategic solutions so that all shareholders (not least institutional shareholders with larger, and hence particularly illiquid, stakes) can derive value and also to ensure that the particular company's products and employees can develop in the increasingly competitive global market. However, for a variety of reasons, Boards alone often find it difficult to set a strategy for dealing with these challenges, not least because a company's development cannot necessarily be achieved by remaining as an independent company. With our new management team, we will be able to provide the plans, means and methodology to meet such challenges.

Potential Sale of the Underlying Business

Our new strategy is likely to result in the disposal of the Company's underlying businesses, namely the entire property services operation. Some discussions are already in train and we will make a further announcement when appropriate.

Change of Name

As a result of the new strategy, and the potential sale of the underlying businesses, we are proposing to change the name of the quoted holding company to Lupus Capital plc. Shareholders are being asked to vote on this proposal at the AGM and I would refer you to a separate letter from me which relates to that and other resolutions to be proposed at the AGM.

I should emphasise that the Company's underlying businesses will continue to trade under the umbrella of the Environmental Property Services name and a new sub-holding company has been set up for this purpose.

Composition of the Board

As stated in our announcement of 16 February 1999 and in the announcement of our preliminary results, I intend to step down as Chairman to become Chief Executive upon the appointment of a non-executive Chairman. An announcement will be made during the course of the next few weeks. Additionally, Stephen Dean, currently a non-executive director, will retire from the Board at the AGM on 4 June 1999.

Results

In the year to 31 December 1998, the Group recorded sales of £38.50 million (1997: £31.65 million) on which profits before tax of £1.04 million (1997: £1.30 million) were achieved. As a result of the demerger on 8 December 1998, the figures have been analysed between continuing and discontinued businesses. The continuing businesses recorded turnover of £18.03 million and an operating profit of £0.42 million although it should be emphasised that the 1998 contributions of both IPM and RLH are very limited as they were only acquired during December.

At the year end, the Group's net assets stood at £4.30 million with net borrowings of £1.21 million representing gearing of 28.2%.

The Board is recommending a final cash dividend for the year of 0.3p (net) representing a total cash dividend of 0.65p (net), the interim dividend having been declared by reference to the profits of the whole pre-demerger business. Subject to approval at the AGM, the final dividend will be paid on 17 June 1999 to shareholders on the register at 21 May 1999. The ex-dividend date will be 17 May 1999.

Trading Performance

At the beginning of 1998, the ongoing business of EPS consisted of the long established businesses of J C Tripp & Sons Limited ("Tripp") and H Page Engineering Services Limited ("Page"). Tripp is involved in undertaking maintenance and refurbishment of residential property for local authorities and housing associations. Page carries out mechanical and electrical services for owners and occupiers in the private sector, mainly large corporates. Substantial internal reorganisation took place at Tripp to provide an enhanced level of service for its customers and the benefits of these changes are expected to be evident in 1999. At Page, financial performance continued to show significant improvement.

As a result of the acquisition of Castellain Limited and the businesses of Headel and Beechmore in the middle of the year and the more significant acquisitions of IPM and RLH by the year end, EPS now offers an integrated approach to its property services.

IPM, based in south London, provides planned and responsive maintenance for heating, air-conditioning and electrical services in commercial and residential buildings. Completion of the acquisition took place on 7 December 1998 with a maximum consideration of £2.96 million being payable to the vendors dependent in part on profits for the period to 31 December 1999. An amount of £1.96 million has already been paid to the vendors, and full provision for the balance of the consideration has been made in the Group's year-end balance sheet.

RLH, which is also based in south London, provides planned and responsive maintenance services for heating systems and installation and refurbishment works primarily for local authorities and housing associations. This acquisition was announced on 21 December 1998 for a maximum cash consideration of £1.13 million dependent in part on profits for the period to 31 December 2000. An amount of £0.60 million has already been paid to the vendors, and full provision for the balance of the consideration has been made in the Group's year-end balance sheet.

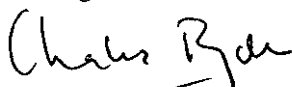
Current Trading

The performance, and where applicable the integration, of the various property services businesses, which now make up EPS, is progressing well:-

- The EPS business - incorporating Tripp and Page as well as Castellain, Headell and Beechmore - has made a satisfactory start to the year.
- The IPM business is providing a stream of higher gross margin business for the Company.
- RLH's performance is ahead of expectations.

The Board considers that the contracting out of property services will continue to grow and that the outlook for the EPS operations is encouraging.

1998, and the beginning of 1999, has seen significant change at EPS; I would like to thank all members of the EPS team - directors, management and other employees - for their great contribution in driving forward the Company's business both organically and by acquisition.



Charles Ryder
Chairman

29 April 1999

Corporate governance

The directors acknowledge the importance of the Principles set out in The Combined Code issued by the Committee on Corporate Governance. These have been applied during the year as follows:—

The Board of Directors

During the year to 31 December 1998 the Board comprised an Executive Chairman, a Finance Director and two independent non-executive directors. In addition, a Managing Director was appointed in July 1998. The Board currently comprises an Executive Chairman, a Finance Director, a Managing Director, a senior independent non-executive director and two further independent non-executive directors. As stated in the Chairman's statement, Stephen Dean, a non-executive director, will retire from the Board at the Annual General Meeting.

The Board's current policy on the roles of the chairman and chief executive is that the positions should be held by separate individuals and that the role of chairman should be non-executive. As stated in the Chairman's statement, it is intended that a non-executive Chairman will be appointed as soon as practicable and that Charles Ryder will then become Chief Executive. The Board already includes non-executive directors of sufficient calibre and number to bring independent judgement on the key issues facing the Group and will be further enhanced by the appointment of a non-executive Chairman.

The Board meets regularly and is responsible for strategy, performance, approval of major capital projects and the framework of internal controls. The Board has a formal schedule of matters specifically reserved to it for decision. To enable the Board to discharge its duties, all directors receive appropriate and timely information. Briefing papers are distributed by the Company Secretary to all directors in advance of Board meetings. All directors have access to the advice and services of the Company Secretary, now James Orr, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The appointment and removal of the Company Secretary is a matter for the Board as a whole. In addition, procedures are in place to enable the directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

A nominations committee is not considered appropriate because of the small size of the Board, but all appointments or potential appointments are fully discussed by all Board members. All new directors and senior management are given a comprehensive introduction to the Group's business, including visits to the principal sites and meetings with senior management. Any training necessary will be provided at the Company's expense.

All the directors are subject to re-election by the shareholders at the Annual General Meeting. The Articles of Association provide that directors will be subject to re-election at the first opportunity after their appointment and the Board will voluntarily submit to re-election at intervals of three years.

Audit Committee

The Audit Committee currently consists of the three non-executive directors under the Chairmanship of Peter Cawdron. When appropriate, meetings are also attended by relevant executive directors. The Audit Committee meets at least twice a year and considers the appointment and fees of the external auditors and discusses the scope of the audit and its findings. The Committee is also responsible for monitoring compliance with accounting and legal requirements and for reviewing the annual and interim financial statements prior to their submission for approval by the Board.

Remuneration Committee

The Remuneration Committee currently comprises the three non-executive directors, under the Chairmanship of Peter Cawdron. The Committee's role is to consider and approve the remuneration and benefits of the Executive Directors. In framing the Company's remuneration policy, the Remuneration Committee has given full consideration to Section B of The Combined Code. The Report on Directors' Remuneration is set out on page 9.

Internal financial control

The Board is responsible for establishing and maintaining the Group's system of internal financial control and places importance on maintaining a strong control environment. The key procedures which the Directors have established with a view to providing effective internal financial control are as follows:-

- The Group's organisational structure has clear lines of responsibility.
- The Group prepares a comprehensive annual budget that is approved by the Board. Monthly results are reported against the budget and variances are closely monitored by the finance departments and the directors.
- The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate courses of action to manage those risks.

The directors recognise, however, that such a system of internal financial control can only provide reasonable, not absolute, assurance against material misstatement or loss. The directors have reviewed the effectiveness of the system of internal financial control as it operated during the year to 31 December 1998.

Relations with shareholders

Communications with shareholders are given high priority. There is a regular dialogue with institutional shareholders including presentations after the Company's preliminary announcement of the year end results and at the half year.

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Chairman aims to ensure that the chairmen of the audit and remuneration committees are available at Annual General Meetings to answer questions. Details of resolutions to be proposed at the Annual General Meeting on 4 June 1999 can be found in the Notice of the Meeting posted with the Report and Accounts.

Statement by directors on compliance with the Provisions of the Combined Code

The Company has been in compliance with the provisions of The Combined Code throughout the year to 31 December 1998, with the exception of the matters referred to above in relation to the Executive Chairman, the lack of a senior independent non-executive director and the number of non-executive directors on the Audit Committee.

As guidance is not yet available for directors on the wider aspects of internal control relating to operational and compliance controls and risk management as required by provision D.2.1, the Board will continue to review the effectiveness of the Group's system of internal financial controls.

Directors' responsibilities for the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:-

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with the above requirements in preparing these financial statements.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Report on directors' remuneration

The Remuneration Committee is responsible for determining and reviewing the terms of appointment and the remuneration of executive directors. The Committee also reviews the decisions of the Executive Chairman on the remuneration of the other senior executives to ensure that reasonable and consistent criteria are applied to the management and review of all senior executive benefits packages. The Committee takes external advice, as appropriate, on remuneration issues and takes cognisance of major surveys covering all aspects of the pay and benefits of directors and senior executives in many companies.

The Committee aims to provide base salaries and benefits which are competitive in the relevant external market and which take account of company and individual performance thus enhancing the Group's ability to recruit and to retain individuals of the calibre required for its continuing business success. It is the policy of the Committee to provide financial incentives and to reward superior performance over the medium and long term by creating opportunities to enable senior executives to earn cash bonuses and share-related payments which result from achievement of stretching performance targets.

The Remuneration Committee currently consists of the three non-executive directors under the Chairmanship of Peter Cawdron.

Service contracts

Following their appointment to the Board on 16 February 1999, it is intended that Charles Ryder and James Orr will both enter into 12 month rolling service contracts with effect from 1 June 1999. David Anderson entered into a 12 month rolling service contract upon his appointment on 14 July 1998. Stephen Dean and Peter Holmes resigned as executive directors on 16 February 1999.

The remuneration package consists of a basic salary, benefits for car, fuel, private health, life assurance and performance related bonus arrangements (see below). It is intended that future service contracts will also provide permanent disability insurance.

No other directors have service contracts with the Company.

Pensions

Pension contributions are paid on a money purchase basis to the personal pension schemes of the executive directors. These arrangements are continually reviewed to ensure that they are appropriate. There is no intention to set up an occupational pension scheme.

Non-executive directors

The fees of the non-executive directors are set by the Board.

Stephen Dean resigned as executive Chairman on 16 February 1999 and became a non-executive director. On the same date, Peter Cawdron was appointed as a non-executive director.

Bonus arrangements

A new senior management incentive scheme is being proposed for approval by the shareholders at the Annual General Meeting to be held on 4 June 1999. Details are set out in the letter from the Chairman dated 29 April 1999 relating to the Annual General Meeting.

On their appointment to the Board on 16 February 1999, Charles Ryder and James Orr were provided with an interim incentive scheme. This scheme will cease with immediate effect upon the Remuneration Committee giving effect to the new scheme following its adoption at the Annual General Meeting.

Directors' remuneration

	Salary and fees £	Bonus £	Benefits £	Pension contributions £	Total 1998 £	Total 1997 £
Executives						
Stephen Dean	111,000	—	12,200	70,500	193,700	163,174
David Anderson	50,000	40,000	332	10,000	100,332	—
Peter Holmes	47,166	—	5,470	7,496	60,132	43,421
Lyndon Chapman	—	—	444	—	444	37,646
Non-executives						
Norman Saunders	13,750	—	—	—	13,750	13,810
Peter So	17,693	—	—	—	17,693	2,500
Adrian Collins	—	—	—	—	—	2,500
Colin Glass	—	—	—	—	—	4,250
Total 1998	239,609	40,000	18,446	87,996	386,051	n/a
Total 1997	183,558	—	15,993	67,750	n/a	267,301

The value of benefits received during the year relates principally to the provision of company cars, life assurance and medical expenses cover. In 1998 compensation for loss of office of £30,000 was paid to Lyndon Chapman. In February 1999 compensation for loss of office of £24,065 was paid to Stephen Dean and £30,000 to Peter Holmes.

Share options

The Company believes that share ownership by executive directors and senior executives strengthens the links between their personal interests and those of investors.

At 31 December 1998 options were outstanding to directors under the terms of the share option schemes to subscribe for ordinary shares as follows:—

	At 31 Dec 97	Number granted	Number exercised	Number surrendered	At 31 Dec 98	Exercise price	Date from which exercisable	Expiry date
David Anderson	—	1,750,000	—	—	1,750,000	7.5p	11.06.00	11.12.05
Peter Holmes	150,000	—	—	150,000	—	10p	4.10.98	4.10.05
Peter Holmes	1,000,000	1,250,000	—	1,000,000	1,250,000	7.5p	11.06.00	11.12.05
Lyndon Chapman	250,000	—	250,000†	—	—	10p	4.10.98	4.10.05

†At the date of exercise, the Company's share price was 11.55p per share. Accordingly, Lyndon Chapman was able to realise a gain of £3,875.

The closing mid-market price of the Company's shares on 31 December 1998 was 8.75p per share and the high and low prices from the demerger on 8 December 1998 to the end of the year were 8.75p and 7.00p respectively. The high and low prices during the year for Dean Corporation plc before the demerger were 12.25p and 7.00p respectively and the average share price over the 10 business days prior to the date of grant of options during the year was 7.46p.

Options outstanding to directors have not changed since the year end.

Directors' interests

The directors' interests in the ordinary shares of the Company are set out in the Directors' report on page 12 and details of the options outstanding are set out on page 10.

On behalf of the Remuneration Committee



Peter Cawdron

29 April 1999

Directors' report

For the year ended 31 December 1998

The directors present their annual report and the group accounts for the year ended 31 December 1998.

Principal activities, review of the business and future developments

The principal activity of the Group during the period was property related services which included the provision of building services and property maintenance and, until the demerger on 8 December 1998, residential house building and pub refurbishment.

The Chairman's statement set out on pages 3 to 5 contains details of the Group's progress during the year together with an indication of future developments.

Results and dividends

The Group profit for the year after taxation amounted to £653,119 (1997: £989,504).

The directors propose to pay a final dividend of £226,571, being 0.3 pence per share making the aggregate ordinary dividend for the year 0.65 pence per share, £470,204 (1997: £414,511).

In addition to the payment of an ordinary dividend, on 8 December 1998 the Company demerged its housebuilding and pub refurbishment activities by way of a dividend in specie following approval by shareholders at an Extraordinary General Meeting held on 7 December 1998.

Directors

The following directors have held office during the period since 1 January 1998:

Stephen Dean	
David Anderson	(Appointed 14 July 1998)
Peter Holmes	(Resigned 16 February 1999)
Norman Saunders	(Resigned 4 November 1998)
Peter So	
Charles Ryder	(Appointed 16 February 1999)
James Orr	(Appointed 16 February 1999)
Peter Cawdron	(Appointed 16 February 1999)
Lyndon Chapman	(Resigned 6 February 1998)
Adrian Collins	(Resigned 10 March 1998)

Directors' shareholdings

The directors at 31 December 1998 and their interests in the share capital (beneficially held) of the Company at the dates stated were as follows:

At 31 December:	1998 Ordinary shares	1997 Ordinary shares	1998 Options	1997 Options
Stephen Dean	24,529,000	25,880,000	—	—
David Anderson	994,232	—	1,750,000	—
Peter Holmes	310,000	350,000	1,250,000	1,150,000
Peter So	—	—	—	—

In addition, Stephen Dean had a non-beneficial interest in 1,761,000 ordinary shares (1997: 1,761,000).

Subsequent to the year end, Stephen Dean disposed of 2,322,000 shares and transferred 22,358,625 shares to a group of investors led by Lupus Associates Limited, a company controlled by Charles Ryder and James Orr. At the date of these accounts his total, beneficial and non-beneficial, holding is 1,609,375 shares representing 2.1% of the ordinary share capital.

There have been no other movements in the above directors' interests in the period from the year end to 29 April 1999.

Substantial shareholders

At 29 April 1999 the Company has been notified of the following other interests in its issued share capital pursuant to Part VI of the Companies Act 1985:

	Ordinary shares	%
Future Match Limited	10,200,000	13.51
Eaglet Investment Trust	5,000,000	6.62

Creditors payment policy

Group operating companies are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Group policy that payments to suppliers are made in accordance with all relevant terms and conditions. Creditor days for the Group have been calculated at 47 days.

Year 2000

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on computer systems and other items of equipment controlled by microprocessors at customers and suppliers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own year 2000 issues.

A review has been carried out by the Managing Director in order to assess the risks to the Group's operating companies presented by compliance with the year 2000 of computer systems and other items of equipment controlled by microprocessors. The review incorporated relevant professional advice and encompassed the Group's systems as well as those operated by customers and suppliers. Plans have been made to resolve potential issues arising from non-compliance and their implementation is being closely monitored by the Board; the costs of implementing the plans are included in the Group's information technology budget. Head office systems are year 2000 compliant.

Special business at the Annual General Meeting

At the Annual General Meeting on 4 June 1999, resolutions 1 to 9 and 11 are termed ordinary business, while resolutions 10, 12 and 13 will be special business. The special business covers the directors' authority to allot shares and the partial disapplication of pre-emption rights as explained below, the change of name of the Company and the altering of the Memorandum of Association. The resolutions are set out in the Notice of Annual General Meeting which is being posted with the Report and Accounts.

The passing of resolution 9 and of resolution 10, a special resolution, will permit the directors, until the conclusion of the Annual General Meeting to be held in 2000, to make issues of equity securities for cash either by way of rights issue or in any other way up to an aggregate nominal value of £122,381, provided the shares issued other than by way of rights issue be limited to shares up to an aggregate nominal value of £18,880.95 being the equivalent of 5% of the equity share capital in issue on the date of notice of Annual General Meeting. The power will, if granted, replace the similar power conferred on the directors on 12 May 1998 which lapses on 4 June 1999, the next Annual General Meeting.

In the opinion of the directors, the passing of these resolutions is in the best interests of the shareholders.

Auditors

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the Board

James Orr
Company Secretary

29 April 1999



Auditors' report

To the members of Environmental Property Services plc

We have audited the accounts on pages 15 to 35 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 20 and 21.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report including, as described on pages 7 and 8, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, 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 the information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We read the other information contained in the annual report and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

We review whether the statement on page 7 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of either the Company's corporate governance procedures or the Group's internal controls.

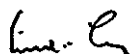
Basis of audit opinion

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 Group'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 profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London

29 April 1999

Group profit and loss account

For the year ended 31 December 1998

	Notes	1998 £	1997 £
Turnover	2		
Ongoing operations		16,000,862	13,710,952
Acquisitions		2,033,291	—
Continuing operations		18,034,153	13,710,952
Discontinued operations		20,463,043	17,943,299
		38,497,196	31,654,251
Cost of sales		(32,597,098)	(26,857,002)
Gross profit		5,900,098	4,797,249
Administrative expenses		(4,707,260)	(3,439,844)
Other operating income		95,438	21,261
Exceptional expenses		—	(93,680)
Operating profit	2		
Continuing operations		422,310	253,246
Discontinued operations		865,966	1,031,740
		1,288,276	1,284,986
Continuing operations:			
Profit on disposal of tangible fixed assets		—	91,203
Discontinued operations:			
Profit on sale of operations		—	57,962
Fundamental restructuring cost	4	(157,802)	—
		1,130,474	1,434,151
Interest receivable and similar income		66,287	88,520
Interest payable and similar charges	5	(155,196)	(222,042)
Profit on ordinary activities before taxation		1,041,565	1,300,629
Tax on profit on ordinary activities	6	(388,446)	(311,125)
Profit on ordinary activities after taxation		653,119	989,504
Ordinary dividends	8	(470,204)	(414,511)
Dividend in specie	8	(1,754,923)	—
Retained (loss) / profit for the financial year	20	(1,572,008)	574,993
Earnings per share	9	0.94p	2.02p
Diluted earnings per share	9	0.93p	2.02p

There were no recognised gains and losses in each year other than the profit on ordinary activities after taxation.

Group balance sheet

At 31 December 1998

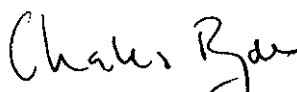
	Notes	£	1998 £	£	1997 £
Fixed assets					
Intangible assets	10		3,718,618		—
Tangible assets	11		1,070,049		608,318
Investments	12		484,185		372,961
			<u>5,272,852</u>		<u>981,279</u>
Current assets					
Stocks and work-in-progress	13	2,463,694		2,262,627	
Debtors	14	6,544,101		7,703,834	
Cash at bank and in hand		864,268		2,785,625	
		<u>9,872,063</u>		<u>12,752,086</u>	
Creditors: amounts falling due within one year	15	(7,864,068)		(7,317,137)	
Net current assets			<u>2,007,995</u>		<u>5,434,949</u>
Total assets less current liabilities			<u>7,280,847</u>		<u>6,416,228</u>
Creditors: amounts falling due after more than one year	16		(2,981,041)		(994,169)
Provision for liabilities and charges	18		—		(2,226)
			<u>4,299,806</u>		<u>5,419,833</u>
Capital and reserves					
Called up share capital	19		377,619		344,521
Share premium account	20		4,410,577		3,823,824
Special reserve	20		—		12,022
Profit and loss account	20		(488,390)		1,071,596
Equity shareholders' funds			<u>4,299,806</u>		<u>5,251,963</u>
Minority interests (non-equity)			—		167,870
			<u>4,299,806</u>		<u>5,419,833</u>

Company balance sheet

At 31 December 1998

	Notes	£	1998 £	£	1997 £
Fixed assets					
Tangible assets	11		27,245		172,037
Investments	12		6,948,888		2,521,986
			<u>6,976,133</u>		<u>2,694,023</u>
Current assets					
Debtors	14	2,373,335		3,502,281	
Cash at bank and in hand		332,622		1,764,482	
		<u>2,705,957</u>		<u>5,266,763</u>	
Creditors: amounts falling due within one year	15	(1,689,603)		(1,012,659)	
Net current assets			<u>1,016,354</u>		<u>4,254,104</u>
Total assets less current liabilities			<u>7,992,487</u>		<u>6,948,127</u>
Creditors: amounts falling due after more than one year	16	(2,535,500)		(682,970)	
Provision for liabilities and charges	18	—		(2,226)	
			<u>5,456,987</u>		<u>6,262,931</u>
Capital and reserves					
Called up share capital	19		377,619		344,521
Share premium account	20		4,410,577		3,823,824
Special reserve	20		197,125		1,992,025
Profit and loss account	20		471,666		102,561
Equity shareholders' funds			<u>5,456,987</u>		<u>6,262,931</u>

The financial statements were approved by the Board on 29 April 1999


Charles Ryder
 Director


James Orr
 Director

Group statement of cash flows

For the year ended 31 December 1998

	Notes	£	1998 £	£	1997 £
Net cash inflow/(outflow) from operating activities	21(a)		1,378,637		(1,844,343)
Returns on investments and servicing of finance					
Interest received		62,403		79,520	
Interest paid		(164,408)		(218,229)	
			(102,005)		(138,709)
Taxation					
UK corporation tax paid			(272,823)		(142,115)
Capital expenditure and financial investment					
Sale of tangible fixed assets		134,941		488,511	
Purchase of tangible fixed assets		(164,642)		(340,284)	
Sale of investments		297,398		—	
Purchase of investments		(437,239)		(351,596)	
			(169,542)		(203,369)
Acquisitions and disposals					
Purchase of subsidiary undertakings	22	(2,769,046)		(381,181)	
Disposal of subsidiary undertakings		—		179,286	
Net overdrafts in demerged operations	22	1,063,548		—	
Payments to acquire intangible fixed assets		(122,264)		—	
			(1,827,762)		(201,895)
Equity dividends paid			(519,250)		(266,669)
Net cash outflow before financing			(1,512,745)		(2,797,100)
Financing					
Issue of shares net of costs		94,851		2,496,171	
New long term loans		1,000,000		657,876	
Repayment of long term loans		(424,633)		—	
New finance leases		34,900		158,084	
Repayment of capital element of finance leases		(33,896)		—	
			671,222		3,312,131
(Decrease)/increase in cash			(841,523)		515,031

Group statement of cash flows (continued)

Reconciliation of net cash flow to movement in net (debt)/funds

For the year ended 31 December 1998

	Notes	1998 £	1997 £
(Decrease)/increase in cash	21(b)	(841,523)	515,031
Cash inflow from increase in loans		(1,000,000)	(657,876)
Cash outflow from repayment of loans		424,633	—
New finance leases		(34,900)	(158,084)
Repayment of capital element of finance leases		33,896	—
Change in net (debt)/funds from cash flows		(1,417,894)	(300,929)
Acquisitions and disposals	21(b)	(199,540)	56,250
Movement in net (debt)/funds		(1,617,434)	(244,679)
Net funds at 1 January	21(b)	403,124	647,803
Net (debt)/funds at 31 December	21(b)	(1,214,310)	403,124

Reconciliation of shareholders' funds

For the year ended 31 December 1998

	1998 £	1997 £
Profit for the financial year	653,119	989,504
Net movement on share issues	619,851	2,496,171
Goodwill on acquisitions	—	(652,867)
Dividends paid and proposed on equity shares	(470,204)	(414,511)
Demerger dividend in specie	(1,754,923)	—
Net movement in shareholders' funds	(952,157)	2,418,297
Opening shareholders' funds	5,251,963	2,833,666
Closing shareholders' funds	4,299,806	5,251,963

Notes to the financial statements

For the year ended 31 December 1998

1. Accounting policies

1.1 Accounting convention

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

1.2 Basis of consolidation

The Group financial statements consolidate those of the Company and its subsidiary undertakings (see note 12) drawn up to 31 December 1998. The results of subsidiary undertakings acquired or disposed of during the year have been included from the date of acquisition or up until the date of disposal. Profits or losses on intra-group transactions are eliminated in full. On acquisition of a subsidiary, all of the subsidiary's assets and liabilities which exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

No profit and loss account is presented for Environmental Property Services plc as permitted by S.230 of the Companies Act 1985.

1.3 Goodwill

Goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired was, until December 1997, written off to reserves. Such goodwill arising on acquisitions since 1 January 1998 has been capitalised and amortised over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

1.4 Turnover

Turnover represents the value of work done for customers during the year excluding VAT.

Profit is recognised on long-term work-in-progress contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account, turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs to date bear to total expected costs for that contract.

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at costs less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Freehold buildings	2% straight line
Leasehold improvements	25% straight line
Fixtures, fittings and equipment	15% to 25% straight line
Plant and machinery	15% straight line
Motor vehicles	20% to 25% straight line

1.6 Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments made under them are charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

1.7 Investments

Fixed asset investments are investments in the shares of undertakings, other than subsidiary or associated undertakings, which are held on a long term basis for the purpose of securing a contribution to the Group's business. These other participating interests are stated at cost less any permanent diminution in value.

1.8 Stocks and work-in-progress

Stocks and work-in-progress are valued at the lower of cost and net realisable value. Cost is determined on a purchase cost basis. Work-in-progress includes materials and labour costs and an appropriate proportion of overheads incurred on uncompleted contracts at the year end. Profit is recognised on long term contracts as noted above.

1.9 Pensions

The Group and the Company make payments to personal pension schemes for certain executives. Contributions are charged to the profit and loss account as they become due.

1.10 Deferred taxation

Deferred taxation is provided using the liability method on all timing differences, to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Advance corporation tax which is expected to be recoverable in the future is deducted from any deferred taxation balance.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

2. Turnover and operating profit

Turnover is attributable to one continuing activity being property related services within the UK. The discontinued operations comprise Dean Homes Limited, Speymill Tripp Limited and Bernard Ward & Sons Limited which were demerged by dividend in specie on 8 December 1998.

Analysis of continuing and discontinued operations:

	1998 Continuing operations £	1998 Acquired operations £	1998 Discontinued operations £	1998 Total operations £
Cost of sales	(13,882,624)	(1,358,813)	(17,355,661)	(32,597,098)
Gross profit	2,118,238	674,478	3,107,382	5,900,098
Administrative expenses	(2,058,292)	(407,552)	(2,241,416)	(4,707,260)
Other operating income	95,438	—	—	95,438
		1997 Continuing operations £	1997 Discontinued operations £	1997 Total operations £
Cost of sales		(11,726,271)	(15,130,731)	(26,857,002)
Gross profit		1,984,681	2,812,568	4,797,249
Administrative expenses		(1,736,624)	(1,703,220)	(3,439,844)
Other operating income		5,189	16,072	21,261
Exceptional expenses		—	(93,680)	(93,680)

Operating profit is stated after charging/(crediting):

	1998 £	1997 £
Depreciation of tangible assets - owned assets	103,811	99,931
Depreciation of tangible assets - leased assets	19,255	19,773
Amortisation of goodwill	31,849	—
Operating lease rentals - land and buildings	97,525	102,500
Operating lease rentals - other	169,156	164,882
Auditors remuneration - audit services	55,000	45,000
Auditors remuneration - other services	12,500	8,965
Rents receivable	(41,606)	(16,072)

In addition to the amounts shown above, the auditors also received fees of £172,876 in respect of the acquisitions and demerger in the year.

3. Employees

Number of employees

The average monthly number of employees (including directors) of the Group during the financial year was:

	1998 Number	1997 Number
Administration	69	45
Operations	106	99
	<u>175</u>	<u>144</u>

Employment costs

Employment costs of these employees during the year were as follows:

	1998 £	1997 £
Wages and salaries	4,090,633	2,995,174
Social Security costs	403,796	289,188
Other pension costs	131,587	104,146
	<u>4,626,016</u>	<u>3,388,508</u>

Details for each director of remuneration, pension entitlement and interest in share options are set out on page 10.

4. Exceptional expenses

	1998 £	1997 £
Exceptional costs reported within operating profits:		
Issue costs in excess of those charged to share premium	<u>—</u>	<u>93,680</u>
Exceptional costs reported after operating profits:		
Profit on disposal of tangible fixed assets	<u>—</u>	<u>(91,203)</u>
Profit on sale of operations	<u>—</u>	<u>(57,962)</u>
Fundamental restructuring cost	157,802	—
Exceptional expense/(income)	<u>157,802</u>	<u>(149,165)</u>

Fundamental restructuring costs represent professional fees incurred in relation to the demerger and do not affect the taxation charge for the year.

5. Interest payable

	1998 £	1997 £
On bank loans and overdrafts	128,461	207,234
Hire purchase and finance lease interest	26,735	14,808
	<u>155,196</u>	<u>222,042</u>

6. Taxation

	1998 £	1997 £
Taxation based on result for the year:		
Corporation tax	389,732	311,125
Adjustment in respect of prior year	940	—
Deferred taxation (note 18)	(2,226)	—
	<u>388,446</u>	<u>311,125</u>

7. Profit attributable to the members of the parent company

The profit dealt with in the accounts of the parent company was £839,311 (1997: £67,098).

8. Dividends

	1998 £	1997 £
Ordinary dividend:		
Proposed dividend at 0.3p per share (1997: 0.4p)	226,571	275,617
Interim dividend at 0.35p per share (1997: 0.3p)	243,633	138,894
	<u>470,204</u>	<u>414,511</u>
Dividend in specie:		
Demerger of Dean Homes Limited, Speymill Tripp Limited and Bernard Ward & Sons Limited	<u>1,754,923</u>	<u>—</u>

9. Earnings per share

The calculation of basic earnings per share is based on the profit after taxation for the financial year and on a weighted average number of shares in issue during the year of 69,578,565 ordinary shares of 1/2p (1997 weighted average 49,023,250).

The diluted earnings per share is based on the profit after taxation for the financial year and on 70,289,832 ordinary shares (1997: 49,023,250) calculated as follows:

	1998 Number	1997 Number
Basic weighted average number of shares	69,578,565	49,023,250
Dilutive potential ordinary shares:		
Employee share options	711,267	—
	<u>70,289,832</u>	<u>49,023,250</u>

10. Intangible fixed assets

Intangible fixed assets comprise goodwill arising on consolidation of businesses acquired during the year (goodwill arising on consolidation in respect of acquisitions made in prior years remains written off against reserves) and purchased goodwill as follows:

	1998 £	1997 £
Goodwill arising on consolidation	3,600,217	—
Purchased goodwill on business acquired in the year	118,191	—
Purchased goodwill within subsidiaries acquired in the year	210	—
	<u>3,718,618</u>	<u>—</u>

This goodwill arose as follows:

	1998 £
Goodwill arising on consolidation:	
IPM Engineering Limited	2,522,021
RLH Group Limited	680,337
Castellain Limited	328,966
H Page Engineering Limited	96,669
Bernard Ward & Sons Limited	16,089
	<u>3,644,082</u>
Less amounts included in demerged activities	(16,089)
Total goodwill arising on consolidation	<u>3,627,993</u>
Amortisation of goodwill arising on consolidation	(27,776)
Net book value of goodwill arising on consolidation	<u>3,600,217</u>
	1998 £
Purchased goodwill:	
On businesses acquired during the year	122,264
Amortisation of purchased goodwill	(4,073)
Net book value of purchased goodwill	<u>118,191</u>

Details of acquisitions made during the year are set out in note 22. All the above goodwill is being amortised over its useful economic life of 20 years.

11. Tangible fixed assets

The Group	Freehold land and buildings £	Leasehold improve- ments £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Total £
Cost						
At 1 January 1998	206,269	97,864	35,664	199,187	562,486	1,101,470
Acquisition of subsidiaries	75,000	—	245,044	930,844	348,091	1,598,979
Additions	—	—	317	68,829	95,496	164,642
Disposals	—	(97,864)	—	(51,028)	(61,012)	(209,904)
Demerger of subsidiaries	(75,000)	—	(72,243)	(218,315)	(98,713)	(464,271)
At 31 December 1998	206,269	—	208,782	929,517	846,348	2,190,916
Depreciation						
At 1 January 1998	4,063	7,310	29,366	74,316	378,097	493,152
Acquisition of subsidiaries	1,122	—	189,227	364,460	218,536	773,345
Charge for the year	2,064	—	4,430	63,041	53,531	123,066
Elimination on disposals	—	(7,310)	—	(42,988)	(21,111)	(71,409)
Demerger of subsidiaries	(1,122)	—	(56,507)	(84,226)	(55,432)	(197,287)
At 31 December 1998	6,127	—	166,516	374,603	573,621	1,120,867
Net book value						
At 31 December 1998	200,142	—	42,266	554,914	272,727	1,070,049
At 1 January 1998	202,206	90,554	6,298	124,871	184,389	608,318

The figures above include assets held under finance leases as follows:

Net book value						
At 31 December 1998	—	—	—	447,785	—	447,785
At 1 January 1998	—	—	—	106,600	—	106,600
Depreciation charged in year to 31 December 1998	—	—	—	23,915	—	23,915

11. Tangible fixed assets (continued)

The Company	Leasehold improve- ments £	Motor vehicles £	Fixtures and fittings £	Total £
Cost				
At 1 January 1998	97,864	52,505	62,496	212,865
Additions	—	—	—	—
Disposals	(97,864)	—	(61,012)	(158,876)
At 31 December 1998	—	52,505	1,484	53,989
Depreciation				
At 1 January 1998	7,310	13,126	20,392	40,828
Charge for the year	—	13,126	1,211	14,337
Elimination on disposals	(7,310)	—	(21,111)	(28,421)
At 31 December 1998	—	26,252	492	26,744
Net book value				
At 31 December 1998	—	26,253	992	27,245
At 1 January 1998	90,554	39,379	42,104	172,037

The figures above include assets held under finance leases as follows:

Net book value				
At 31 December 1998	—	26,253	—	26,253
At 1 January 1998	—	39,379	—	39,379
Depreciation charged in year to 31 December 1998	—	13,126	—	13,126

12. Fixed asset investments

	The Group		The Company	
	1998	1997	1998	1997
	£	£	£	£
Shares in subsidiary undertakings (a)	—	—	6,464,703	2,149,025
Listed investments at cost (b)	484,185	372,961	484,185	372,961
	484,185	372,961	6,948,888	2,521,986

In the opinion of the directors, the aggregate value of the Company's investments in subsidiary undertakings is not less than the amount included in the balance sheet.

12. Fixed asset investments (continued)

(a) Shares in subsidiary undertakings

The Company holds investments in the following principal subsidiaries:

	Class of shares	Proportion held	Nature of business
Environmental Property Services Group Limited	Ordinary	100%	Building
	Preference	100%	services
JC Tripp & Son Limited	Ordinary	100%	Property
			services
IPM Engineering Limited	Ordinary	100%	Building
			services
RLH Group Limited	Ordinary	100%	Building
			and property
			services

(b) Listed investments at cost

	Group £	Company £
At 1 January 1998	372,961	372,961
Additions	437,239	337,239
Disposals	(226,015)	(226,015)
Demerger of subsidiaries	(100,000)	—
At 31 December 1998	484,185	484,185

At 31 December 1998 the Company held an interest in 2,340,362 shares representing 29.5% (1997: 1,840,362 representing 23.1%) of the Ordinary Share Capital of Superframe Group plc. The Listed investment had a market value at 28 April 1999 of £491,476 and at 31 December 1998 of £397,862 (1997: £349,668). The shortfall of market value to cost at 31 December 1998 is not regarded as a permanent diminution in value. The interest in Superframe Group plc has not been accounted for as an associate undertaking since the Company did not participate in the direction of its investment during the year, had no board representation and did not exert significant influence. The last available Audited Accounts for Superframe Group plc are those for the year to 31 December 1997. At 31 December 1997 the group had capital and reserves of £778,591. The group profit before taxation for the year ended 31 December 1997 was £206,336. The unaudited group profit before taxation for the six month period ended 30 June 1998 was £60,323.

13. Stocks and work-in-progress

	The Group		The Company	
	1998	1997	1998	1997
	£	£	£	£
Raw materials and consumables	99,316	78,317	—	—
Work-in-progress	2,364,378	1,281,618	—	—
Finished properties	—	902,692	—	—
	2,463,694	2,262,627	—	—

The difference between purchase price or production cost of stocks and their replacement cost is not material.

14. Debtors

	The Group		The Company	
	1998	1997	1998	1997
	£	£	£	£
Trade debtors	3,803,306	3,967,123	216,231	16,213
Amounts recoverable on contracts	1,736,086	2,989,363	—	—
Amounts due from subsidiary undertakings	—	—	1,526,250	2,454,092
Advance corporation tax	94,297	126,777	90,500	170,203
Other debtors	748,182	344,871	505,079	203,770
Dividend receivable	—	—	6,521	600,000
Prepayments and accrued income	162,230	275,700	28,754	58,003
	<u>6,544,101</u>	<u>7,703,834</u>	<u>2,373,335</u>	<u>3,502,281</u>

The advance corporation tax shown above is due after more than one year.

15. Creditors: amounts falling due within one year

	The Group		The Company	
	1998	1997	1998	1997
	£	£	£	£
Bank loans and overdrafts	400,000	1,283,334	400,000	200,000
Net obligations under finance leases	253,037	104,998	33,186	8,628
Trade creditors	4,828,383	2,801,169	210,072	36,703
Amounts owed to subsidiary undertakings	—	—	—	15,221
Corporation tax	306,704	554,257	131,401	68,904
Other taxes and social security costs	766,577	528,227	13,574	29,226
Proposed dividend	226,571	286,736	226,571	286,736
Other creditors	519,084	3,504	472,261	—
Accruals and deferred income	563,712	1,754,912	202,538	367,241
	<u>7,864,068</u>	<u>7,317,137</u>	<u>1,689,603</u>	<u>1,012,659</u>

The bank overdrafts and loans are secured by a fixed and floating charge over the assets of the Group. Set-off is available to the bank between the Company and its group company members by virtue of the bank holding a debenture from each company together with a cross corporate guarantee.

16. Creditors: amounts falling due after more than one year

	The Group		The Company	
	1998	1997	1998	1997
	£	£	£	£
Bank loans and mortgages	1,277,792	898,925	1,100,000	650,000
Net obligations under finance leases	147,749	95,244	—	32,970
Other creditors	1,555,500	—	1,435,500	—
	<u>2,981,041</u>	<u>994,169</u>	<u>2,535,500</u>	<u>682,970</u>

The mortgages are secured on the freehold properties of the Group. Other creditors comprise deferred consideration on acquisitions, details of which are included in note 22.

17. Borrowings

	The Group		The Company	
	1998	1997	1998	1997
	£	£	£	£
Repayable within one year:				
Bank and other borrowings	400,000	1,283,334	400,000	200,000
Finance leases	253,037	104,998	33,186	8,628
Repayable after one and within two years:				
Bank and other borrowings	400,000	272,687	400,000	200,000
Finance leases	97,078	47,049	—	8,628
Repayable after two and within five years:				
Bank and other borrowings	700,000	532,347	700,000	450,000
Finance leases	50,671	48,195	—	24,342
Repayable after five years:				
Bank and other borrowings	177,792	93,891	—	—
	<u>2,078,578</u>	<u>2,382,501</u>	<u>1,533,186</u>	<u>891,598</u>
Borrowings repayable after five years comprise:				
Bank loans and other borrowings repayable by instalments	<u>177,792</u>	<u>93,891</u>	<u>—</u>	<u>—</u>

The total value of borrowings of the Group repayable by instalments any part of which falls due after five years is £177,792 (1997: £93,891) and relates to a capital and interest repayment mortgage with Alliance & Leicester plc due for repayment in 2015. The interest rate chargeable is 1.25% above the base rate.

18. Provision for liabilities and charges

	The Group		The Company	
	1998	1997	1998	1997
	£	£	£	£
Deferred taxation				
Provided:				
Capital allowances in advance of depreciation	<u>—</u>	<u>2,226</u>	<u>—</u>	<u>2,226</u>
Unprovided:				
Capital allowances in advance of depreciation	<u>25,000</u>	<u>—</u>	<u>—</u>	<u>—</u>

The deferred taxation balance was released to the profit and loss account in the year.

19. Share capital

	The Company	
	1998	1997
	£	£
Authorised:		
100,000,000 Ordinary shares of 1/2p each	<u>500,000</u>	<u>500,000</u>
	£	£
Allotted, called up and fully paid		
75,523,785 Ordinary shares of 1/2p each (1997: 68,904,293 shares)	<u>377,619</u>	<u>344,521</u>

Allotments during the year were as follows:

	Aggregate nominal value	Consideration
	£	£
Exercise of options	1,250	25,000
Acquisition consideration for Castellain Limited	848	25,000
Acquisition consideration for IPM Engineering Limited	25,000	500,000
Issue of shares for cash	6,000	120,000
	<u>33,098</u>	<u>670,000</u>

Contingent rights to the allotment of shares

At 31 December 1998 options over 3,750,000 ordinary shares which are exercisable between 11 June 2000 and 11 December 2005 at an exercise price of 7.5p and options over 250,000 ordinary shares which are exercisable at 13.5p between 17 October 2000 and 16 October 2004 were outstanding. During the year one employee exercised options over 250,000 ordinary shares. As a result 250,000 ordinary shares with an aggregate nominal value of £1,250 were allotted for a total consideration of £25,000.

20. Statement of movement on reserves

The Group

	Share capital	Share premium account	Capital reserve	Profit and loss account	Total
	£	£	£	£	£
Balance at 1 January 1998	344,521	3,823,824	12,022	1,071,596	5,251,963
Transfer between reserves	—	—	(12,022)	12,022	—
Shares issued	33,098	636,902	—	—	670,000
Costs of shares issued	—	(50,149)	—	—	(50,149)
Retained loss for the period	—	—	—	(1,572,008)	(1,572,008)
Balance at 31 December 1998	<u>377,619</u>	<u>4,410,577</u>	<u>—</u>	<u>(488,390)</u>	<u>4,299,806</u>

The Company

	Share capital	Share premium account	Capital reserve	Profit and loss account	Total
	£	£	£	£	£
Balance at 1 January 1998	344,521	3,823,824	1,992,025	102,561	6,262,931
Transfer between reserves	—	—	(1,794,900)	1,794,900	—
Shares issued	33,098	636,902	—	—	670,000
Costs of shares issued	—	(50,149)	—	—	(50,149)
Retained loss for the period	—	—	—	(1,425,795)	(1,425,795)
Balance at 31 December 1998	<u>377,619</u>	<u>4,410,577</u>	<u>197,125</u>	<u>471,666</u>	<u>5,456,987</u>

21. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	1998 £	1997 £
Operating profit	1,288,276	1,284,986
Depreciation	123,066	119,704
Amortisation of goodwill	31,849	—
Movement in stock	(1,063,452)	(68,252)
Movement in debtors	(2,994,171)	(3,716,546)
Movement in creditors	4,218,701	532,772
Loss on disposal of fixed assets	3,553	2,993
Profit on disposal of investments	(71,383)	—
Fundamental reorganisation costs	(157,802)	—
	<u>1,378,637</u>	<u>(1,844,343)</u>

(b) Analysis of net funds/(debt)

	At 1 January 1998 £	Cash flow £	Other £	At 31 December 1998 £
Cash at bank	2,785,625	(1,921,357)	—	864,268
Overdrafts	(1,079,834)	1,079,834	—	—
	<u>1,705,791</u>	<u>(841,523)</u>	<u>—</u>	<u>864,268</u>
Finance leases	(200,242)	(1,004)	(199,540)	(400,786)
Debt due within one year	(203,500)	(196,500)	—	(400,000)
Debt due after one year	(898,925)	(378,867)	—	(1,277,792)
	<u>403,124</u>	<u>(1,417,894)</u>	<u>(199,540)</u>	<u>(1,214,310)</u>

22. Acquisition and disposal of subsidiary undertakings

During the year the Company acquired 100% of the issued share capital of IPM Engineering Limited, RLH Group Limited, Castellain Limited and Bernard Ward & Sons Limited (subsequently included in the demerger). Additional consideration payable in respect of the purchase of H Page Engineering Services Limited in 1996 as a result of achieving post acquisition profit targets was also paid and a minority interest in preference share capital of that company was bought out during the year. In addition, one of the Company's subsidiaries purchased business interests for cash. The effect of these acquisition on the cash flows of the Group are summarised below with details of individual acquisitions following.

	Cash consideration paid £	Net (cash)/ overdraft acquired £	Total £
IPM Engineering Limited	1,470,089	109,061	1,579,150
RLH Group Limited	787,980	(133,296)	654,684
Castellain Limited	182,803	46,196	228,999
H Page Engineering Services Limited	239,539	—	239,539
Bernard Ward & Sons Limited	242,065	(175,391)	66,674
Total acquisitions of subsidiaries	<u>2,922,476</u>	<u>(153,430)</u>	<u>2,769,046</u>

22. Acquisition and disposal of subsidiary undertakings (continued)

Acquisition of IPM Engineering Limited

	Book and fair value £
Intangible fixed assets	208
Tangible fixed assets	293,601
Stocks and work-in-progress	262,240
Debtors	1,024,906
Net overdraft	(109,061)
Creditors due within one year	(673,740)
Finance lease liabilities	(142,016)
Net assets acquired	656,138
Goodwill arising on acquisition	2,522,021
	<u>3,178,159</u>
Discharged by:	£
Initial cash consideration	1,250,000
Costs associated with the acquisition	220,089
Cash cost of acquisition included in cash flow statement	1,470,089
Fair value of shares issued to vendors	500,000
Additional consideration relating to net asset value on Completion	208,070
Maximum deferred consideration under "earn-out" arrangements	1,000,000
Total consideration recorded	<u>3,178,159</u>

Acquisition of RLH Group Limited

	Book and fair value £
Tangible fixed assets	303,462
Stocks and work-in-progress	270,542
Debtors	747,396
Net cash	133,296
Creditors due within one year	(667,570)
Finance lease liabilities	(149,483)
Net assets acquired	637,643
Goodwill arising on acquisition	680,337
	<u>1,317,980</u>
Discharged by:	£
Initial cash consideration	600,000
Costs associated with the acquisition	187,980
Cash cost of acquisition included in cash flow statement	787,980
Maximum deferred consideration under "earn-out" arrangements	530,000
Total consideration recorded	<u>1,317,980</u>

22. Acquisition and disposal of subsidiary undertakings (continued)

Acquisition of Castellain Limited

	Book and fair value £
Tangible fixed assets	94,054
Debtors	101,072
Net overdraft	(46,196)
Creditors due within one year	(130,093)
Net assets acquired	18,837
Goodwill arising on acquisition	328,966
	<u>347,803</u>
Discharged by:	£
Initial cash consideration	135,000
Costs associated with the acquisition	47,803
Cash cost of acquisition included in cash flow statement	182,803
Fair value of shares issued to vendor	25,000
Fair value of loan notes issued to vendor	20,000
Maximum deferred consideration under "earn-out" arrangements	120,000
Total consideration recorded	<u>347,803</u>

Additional payments in respect of the 1996 acquisition of H Page Engineering Services Limited

Additional payments were made in the year as follows:

	£
Purchase of minority interest in preference share capital	199,039
Additional deferred consideration under "earn-out" arrangements	40,500
Cash cost of acquisition included in cash flow statement	239,539
Maximum further consideration under "earn-out" arrangements	25,000
Total consideration recorded in the year	264,539
Nominal value of preference shares acquired	(167,870)
Goodwill arising	<u>96,669</u>

22. Acquisition and disposal of subsidiary undertakings (continued)

Acquisition of Bernard Ward & Sons Limited (subsequently demerged)

	Book and fair value £
Fixed assets	134,517
Stocks and work-in-progress	7,426
Debtors	395,968
Cash	175,391
Creditors due within one year	(432,315)
Finance lease liabilities	(55,011)
Net assets	225,976
Goodwill arising on consolidation	16,089
	<u>242,065</u>
Discharged by:	
Cash consideration	225,976
Costs associated with the acquisition	16,089
Total consideration recorded	<u>242,065</u>

During the year two substantial acquisitions were completed, that of IPM Engineering Limited on 8 December 1998 and that of RLH Group Limited on 18 December 1998. In the eight month period between the beginning of its financial year on 1 May 1998 to 31 December 1998, IPM Engineering Limited recorded a profit after tax of £386,000 (year to 30 April 1998: £209,000) of which £52,000 arose in the period since acquisition. In the three month period between the beginning of its financial year on 1 October 1998 and 31 December 1998, RLH Group Limited recorded a loss after tax of £178,000 (year to 30 September 1998: profit £69,000) of which a profit of £50,000 arose in the period since acquisition. Details of the results of these companies for the post acquisition period may be summarised as follows:

	IPM £000	RLH £000
Turnover	<u>303</u>	<u>724</u>
Operating profit	<u>83</u>	<u>75</u>
Profit before taxation	79	72
Taxation	(27)	(22)
Profit for the period since acquisition	<u>52</u>	<u>50</u>

22. Acquisition and disposal of subsidiary undertakings (continued)

Demerger of subsidiaries by dividend in specie

On 8 December 1998 Dean Homes Limited, Speymill Tripp Limited and Bernard Ward & Sons Limited, comprising the housebuilding and pub refurbishment subsidiaries of the Group, were demerged by dividend in specie. The net assets demerged are summarised below.

	Dean Homes £	Speymill Tripp £	Bernard Ward £	Total £
Fixed assets	4,716	127,751	134,517	266,984
Investments	16,089	100,000	—	116,089
Stocks and work-in-progress	1,381,655	13,512	7,426	1,402,593
Debtors	2,629,642	3,361,129	395,968	6,386,739
Net (overdraft)/cash	(1,379,103)	140,164	175,391	(1,063,548)
Creditors	(1,911,177)	(2,863,473)	(432,315)	(5,206,965)
Finance lease liabilities	—	(91,958)	(55,011)	(146,969)
Net assets demerged	<u>741,822</u>	<u>787,125</u>	<u>225,976</u>	<u>1,754,923</u>

23. Contingent liabilities

As referred to in the bank security note, the Company was contingently liable at 31 December 1998 in respect of a cross corporate guarantee for bank borrowings within the Group.

24. Financial commitments

At 31 December 1998 the Group and the Company had annual commitments under non-cancellable operating leases as follows:

Group	Land and buildings		Other	
	1998 £	1997 £	1998 £	1997 £
Expiry date:				
Within one year	17,500	—	86,491	19,427
Between two and five years	23,688	35,000	15,665	194,171
Over five years	<u>33,000</u>	<u>67,500</u>	<u>9,784</u>	<u>—</u>

25. Transactions with directors

During the year, before David Anderson became a director of the Company, the Company paid management consultancy fees at normal market prices of £98,200 (1997: £36,800) to the Anderson Partnership, a firm in which David Anderson is a partner. In addition, Environmental Property Services Group Limited traded on a normal market basis with Moss Electrical Company Limited, a company of which David Anderson is a director and shareholder. Total purchases in the year from Moss Electrical Company Limited were £202,048 (1997: £225,175).