

INTERSERVE *FM* LTD

Report and Consolidated Financial Statements

31 December 2003

Deloitte & Touche LLP
Bristol



REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2003

CONTENTS

	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Independent auditors' report	5
Consolidated profit and loss account	6
Statement of total recognised gains and losses	6
Consolidated balance sheet	7
Company balance sheet	8
Notes to the financial statements	9

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P F Ford
S S Maroli
A M Ringrose

SECRETARY

W L Spencer

REGISTERED OFFICE

19-23 Blackfriars Road
Blackfriars
London
SE1 8NY

AUDITORS

Deloitte & Touche LLP
Bristol

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE PROSPECTS

The principal activity of the company is that of a holding company. The principal activity of its subsidiary undertakings is the provision of comprehensive management and maintenance services. The directors expect that this will continue to be the principal activity of the company for the foreseeable future. The performance in 2004 is expected to be at a satisfactory level.

On 1 January 2003 the group acquired the trade and assets of Climate Services Limited at their book value, as part of a group reorganisation. In addition on 22 March 2003, the group acquired the trade and assets of the Army Training Establishments, this resulted in goodwill on acquisition of £5,000,000.

RESULTS AND DIVIDENDS

The results of the group for the year ended 31 December 2003 are set out in the financial statements on pages 6 to 27.

A dividend of £244,000 (2002: nil) was paid during the year and a dividend of £5,000,000 was proposed at the year end (2002: £4,959,000).

DIRECTORS AND DIRECTORS' INTERESTS

The directors who served during the year were as follows:

P F Ford
S S Maroli
A M Ringrose
J Matthews (resigned 31 July 2003)
C J Groom (resigned 31 December 2003)

Mr Ringrose is a director of Interserve Plc, the ultimate parent undertaking, and his share interests in the capital of the ultimate parent undertaking Interserve Plc is disclosed in the group accounts.

The interests of the directors, who were in office at the year end, at 1 January 2003 and 31 December 2003 in the share capital of the ultimate parent undertaking Interserve Plc are as stated below. No director had any interests in the share capital of the company or any other group company during the year.

	Shares of 10p each		Options over shares of 10p each				Exercise price p	Period of exercise
	1 Jan 03	31 Dec 03	1 Jan 03	Granted during year	Lapsed during year	31 Dec 03		
P F Ford	19,830	19,830	5,529	-	-	5,529	542.5	26 Mar 04 to 25 Mar 11
	-	-	9,471	-	-	9,471	542.5	26 Mar 04 to 25 Mar 08
	-	-	1,640	-	-	1,640	439.4	1 Jun 04 to 30 Nov 04
	-	-	10,000	-	-	10,000	566.5	19 Mar 05 to 18 Mar 09
S S Maroli	8,827	8,827	5,529	-	-	5,529	542.5	26 Mar 04 to 25 Mar 11
	-	-	14,471	-	-	14,471	542.5	26 Mar 04 to 25 Mar 08
	-	-	10,000	-	-	10,000	566.5	19 Mar 05 to 18 Mar 09
	-	-	1,640	-	-	1,640	439.4	1 Jun 04 to 30 Nov 04

DIRECTORS' REPORT (continued)

DIRECTORS AND DIRECTORS' INTERESTS (continued)

		Loan notes of £1 each	
		1 Jan 03	31 Dec 03
P F Ford	Variable Rate Unsecured Deferred Consideration 2005	45,000	32,335
S S Maroli	Variable Rate Unsecured Deferred Consideration 2005	74,800	53,944
	Variable Rate Unsecured Loan Notes 2005	14,200	14,200

The market price of Interserve Plc shares at 31 December 2003 was 240.00p. The high/low during the year was 283.50p and 165.00p.

EMPLOYEES

The company's management policy seeks to ensure that all employees' careers are determined solely on merit. No employee will suffer because of gender, race, ethnic origin or religious belief.

It is the company's policy to consider for employment and enable suitably qualified disabled persons to seek and maintain employment and to assist them in overcoming their handicaps at work. The group recognises that special conditions are necessary in view of the nature of its main activities to ensure that disabled persons employed are properly trained for the tasks they perform.

Managers are tasked with developing employees' awareness of factors affecting the business and matters concerning them as employees and noting employees' views so they can be taken into account when making decisions which may affect them or the business.

PAYMENT TERMS

It is the group's policy to make payments to suppliers in accordance with agreed terms and conditions. The company's year end trade creditors correspond to 58 days (2002: 70 days) of credit purchases.

AUDITORS

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provision of Section 26(5) of the Companies Act 1989. A resolution to reappoint Deloitte & Touche LLP as the company's auditors will be proposed at the forthcoming Annual General Meeting.

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



P F Ford
Director

14 May 2004

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 and the group as at the end of the financial year 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;
- 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 group 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 the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INTERSERVEFM LTD

We have audited the financial statements of Interservefm Ltd for the year ended 31 December 2003 which comprise the consolidated profit and loss account, the balance sheets, the statement of total recognised gains and losses and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 and other members of the group 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 or material inconsistencies with its financial statements.

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 circumstances of the company and the group, 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 affairs of the company and the group as at 31 December 2003 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
Bristol

27 May 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 31 December 2003

	Note	2003 Continuing operations £'000	2003 Acquired operations £'000	2003 Total £'000	2002 Total £'000
TURNOVER	1	411,605	53,454	465,059	405,874
Cost of sales		(394,970)	(49,908)	(444,878)	(379,245)
GROSS PROFIT		16,635	3,546	20,181	26,629
Administrative expenses		(17,224)	(649)	(17,873)	(14,972)
OPERATING (LOSS)/PROFIT	2	(589)	2,897	2,308	11,657
Interest receivable	5			1,063	536
Interest payable	6			(1,190)	(656)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION				2,181	11,537
Tax on profit on ordinary activities	7			(1,781)	(3,108)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION				400	8,429
Minority interest - equity	9			(616)	-
(LOSS)/PROFIT FOR THE FINANCIAL YEAR				(216)	8,429
Dividends - non-equity	10			(5,244)	(4,959)
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR	22			(5,460)	3,470

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2003

	2003 £	2002 £
Total recognised (losses)/gains related to the year	(5,460)	3,470
Total recognised (losses)/gains related to the year as above	(5,460)	3,470
Unrealised gain on sale of fixed asset investment	-	2,263
Total recognised (losses)/gains since the last annual report	(5,460)	5,733

CONSOLIDATED BALANCE SHEET
At 31 December 2003

	Note	2003 £'000	2002 £'000
FIXED ASSETS			
Intangible assets	12	43,396	41,014
Tangible assets	13	1,031	1,624
		<u>44,427</u>	<u>42,638</u>
Investments	14	2,833	2,833
		<u>47,260</u>	<u>45,471</u>
CURRENT ASSETS			
Stocks	15	92	343
Debtors due in less than one year	16	94,084	107,168
Debtors due after one year	16	1,302	-
Cash at bank and in hand		28,131	33,169
		<u>123,609</u>	<u>140,680</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	17	(143,283)	(159,170)
NET CURRENT LIABILITIES		<u>(19,674)</u>	<u>(18,490)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>27,586</u>	<u>26,981</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	18	(359)	(366)
PROVISIONS FOR LIABILITIES AND CHARGES	20	(6,573)	(1,117)
NET ASSETS		<u>20,654</u>	<u>25,498</u>
SHARE CAPITAL AND RESERVES			
Called up share capital	21	15,000	15,000
Profit and loss account	22	5,038	10,498
SHAREHOLDERS' FUNDS	23	20,038	25,498
Minority interest - equity	9	616	-
TOTAL CAPITAL EMPLOYED		<u>20,654</u>	<u>25,498</u>
Shareholders' funds may be analysed as:			
Attributable to equity shareholders		15,654	10,498
Attributable to non-equity shareholders		15,000	15,000
		<u>20,654</u>	<u>25,498</u>

These financial statements were approved by the Board of Directors on 14 May 2004.

Signed on behalf of the Board of Directors



P F Ford
Director

COMPANY BALANCE SHEET
At 31 December 2003

	Note	2003		2002	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible assets	13		302		420
Investments	14		89,295		89,295
			<u>89,597</u>		<u>89,715</u>
CURRENT ASSETS					
Debtors	16	63,099		81,279	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	17	<u>(133,200)</u>		<u>(148,474)</u>	
NET CURRENT LIABILITIES			<u>(70,101)</u>		<u>(67,195)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			19,496		22,520
PROVISIONS FOR LIABILITIES AND CHARGES	20		<u>(409)</u>		<u>(173)</u>
NET ASSETS			<u>19,087</u>		<u>22,347</u>
SHARE CAPITAL AND RESERVES					
Called up share capital	21		15,000		15,000
Profit and loss account	22		4,087		7,347
TOTAL SHAREHOLDERS' FUNDS	23		<u>19,087</u>		<u>22,347</u>
Shareholders' funds may be analysed as:					
Attributable to equity shareholders			4,087		7,347
Attributable to non-equity shareholders			15,000		15,000
			<u>19,087</u>		<u>22,347</u>

These financial statements were approved by the Board of Directors on 14 May 2004.

Signed on behalf of the Board of Directors



P F Ford
Director

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

1. ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted by the directors are described below.

Basis of consolidation

The group accounts include the accounts of Interserve^{fm} Ltd and all of its subsidiary undertakings for the year ended 31 December 2003.

Acquisitions and the treatment of goodwill

On the acquisition of a business, fair values are attributed to the net tangible assets.

Acquisitions in periods up to 31 December 1997

Where the cost of acquisition exceeds the values attributable to the net assets, the difference has been treated as purchased goodwill and written off directly to the profit and loss account reserve in the year of acquisition. If the business to which the goodwill relates were to be sold the goodwill would be charged to the profit and loss account, on disposal.

Acquisitions and disposals from 1 January 1998

From 1 January 1998 purchased goodwill arising on the acquisition of a company or a business is capitalised into the balance sheet and amortised over its useful economic life, as assessed by the directors. In the case of the purchase by Interserve (Facilities Services-Slough) Ltd of the trade and assets from Slough Borough Council this has been assessed by the directors as being 20 years and for the purchase by Landmarc Support Services Limited of the trade and assets for the Army Training Establishments, it has been assessed by the directors as being 10 years.

The profit or loss on the disposal or closure of a previously acquired business includes the attributable amount of any purchased goodwill relating to that business not previously charged through the profit and loss account.

The results relating to the business are included in the consolidated profit and loss account from the date of acquisition up to the date of disposal.

Turnover

Turnover represents sales and value of work done excluding all transactions within the group and VAT, is derived from the group's principal activity and arises in the United Kingdom.

Depreciation

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

Plant and equipment	3 to 5 years
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NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

1. ACCOUNTING POLICIES (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost represents the purchase price while net realisable value is based on estimated selling price less further costs expected to be incurred to disposal.

Contract accrued income

Long-term contracts are assessed on a contract by contract basis and reflected in the profit and loss account by recording turnover and related costs as contract activity progresses. Turnover is ascertained in a manner appropriate to the stage of completion of the contract, and credit taken for profit earned to date when the outcome of the contract can be assessed with reasonable certainty.

Contract accrued income is stated at cost plus attributable profits less provision for any known or anticipated losses and payments on account received and receivable. Payments received on account in excess of the value of work done on each contract are included in creditors.

Contract provisions

Provisions for contracts are made where such provisions satisfy the requirements of FRS12.

Deferred taxation

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 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.

Leases

Rental costs under operating leases are charged to the profit and loss account in equal amounts over the periods of the leases.

Pensions

Contributions to pension schemes are allocated to the profit and loss account so as to maintain a substantially level percentage of relevant payroll costs over the normal expected service lives of employees.

Investments

Investments are stated at cost less provision for any impairment in value.

Costs of bidding for Private Finance Initiatives

Until a Private Finance Initiative contract ("PFI") is awarded to the company, costs attributable to the bidding for any PFIs are written off as incurred in accordance with UITF 34. When a PFI contract has been successfully bid, subsequent bid costs are then capitalised and amortised over the period expected to benefit from the expenditure so incurred.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

2. OPERATING (LOSS)/PROFIT

	2003	2002
	£'000	£'000
Operating (loss)/profit is stated after charging:		
Amortisation of goodwill	2,618	2,246
Depreciation	695	654
Hire of plant and equipment	3,926	4,347
Rental charges for other operating leases	2,062	1,464
Auditors' remuneration:		
- group audit fees	184	169
- other fees	45	60
	<u> </u>	<u> </u>

Interservefm Ltd bore the audit fee for its subsidiary companies and its immediate parent undertaking.

3. DIRECTORS' EMOLUMENTS

	2003	2002
	£'000	£'000
Emoluments	454	710
Compensation for loss of office	42	123
	<u> </u>	<u> </u>
Highest paid director:	£'000	£'000
Emoluments	177	256
	<u> </u>	<u> </u>

The accrued pension of the highest paid director at 31 December 2003 was £75,025 (2002: £12,742) per annum with an accrued lump sum of £168,806 (2002: £28,670).

	No.	No.
Number of directors who are members of a defined benefit pension scheme	<u>3</u>	<u>5</u>

Messrs Groom and Ringrose are directors of the ultimate parent company Interserve Plc and their remuneration for services to the group as a whole are disclosed in the accounts of that company. It is not practicable to allocate their remuneration between the companies of which they are directors.

Messrs Ford and Maroli are remunerated for their services to the group by Interservefm Ltd and it is not practicable to allocate their remuneration between the companies for which they are directors.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

4. EMPLOYEES

	2003	2002
	£'000	£'000
The aggregate payroll costs were as follows:		
Wages and salaries	125,106	115,854
Social security costs	9,850	8,006
Other pension costs	7,324	1,925
	<u>142,280</u>	<u>125,785</u>

The average weekly number of employees during the year was 6,754 (2002: 5,129 employees).

The group also utilised 324 agency staff whose costs are not included above (2002: 306 agency staff).

5. INTEREST RECEIVABLE

	2003	2002
	£'000	£'000
Bank and short-term deposits	866	536
Other interest receivable	197	-
	<u>1,063</u>	<u>536</u>

6. INTEREST PAYABLE

	2003	2002
	£'000	£'000
On loans repayable after more than five years	34	34
Bank overdraft and other borrowings	1,117	607
Other interest payable	39	15
	<u>1,190</u>	<u>656</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003	2002
	£'000	£'000
The taxation charge is made up as follows:		
UK corporation tax at 30% (2002: 30%) for the year	3,017	3,372
Deferred taxation	(1,267)	-
Consortium relief	-	(24)
Prior year adjustment	31	(240)
Tax on profit on ordinary activities	1,781	3,108

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 30% (2002: 30%). The current tax charge for the year, differs from the standard rate, for the reasons set out in the following reconciliation:

	£'000	£'000
Profit on ordinary activities before taxation	2,181	11,537
	£'000	£'000
Taxation on profit on ordinary activities at standard rate	655	3,461
Factors affecting the charge:		
Disallowable expenses	738	726
Capital allowances for period in excess of depreciation	300	(70)
Other	88	(746)
Prior year adjustment	-	(263)
Current year tax charge	1,781	3,108

The company is not aware of any factors which might materially affect the future tax charge.

8. DEFERRED TAXATION

A deferred tax asset of £1,302,000 (2002: nil) has been recognised as the group anticipates it will be realised in the foreseeable future.

A deferred tax asset has not been recognised in respect of timing differences as the group does not anticipate that they will be realised in the foreseeable future. The estimated value of the deferred tax asset not recognised in the group, measured at a standard rate of 30% is £1,081,000 (2002: £706,000). The estimated value of the deferred tax asset not recognised in the company, measured at a standard rate of 30% is £292,000 (2002: £187,000).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

9. MINORITY INTERESTS

	£'000
At 1 January 2003	-
Profit on ordinary activities after taxation	616
	<hr/>
At 31 December 2003	616
	<hr/>

10. DIVIDENDS

A dividend on non-equity shares of £244,000 was paid during the year (2002: £4,959,000). A dividend on equity shares of £5,000,000 has been proposed during the year (2002: nil).

11. PROFIT ATTRIBUTABLE TO THE MEMBERS OF THE COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The consolidated profit and loss account includes a profit of £1,740,000 after tax (2002: £9,943,000) which is dealt with in the accounts of the parent company.

12. INTANGIBLE FIXED ASSETS

Group	Goodwill £'000
Cost	
At 1 January 2003	44,741
Additions	5,000
	<hr/>
At 31 December 2003	49,741
	<hr/>
Depreciation	
At 1 January 2003	3,727
Charge for the year	2,618
	<hr/>
At 31 December 2003	6,345
	<hr/>
Net book value	
At 31 December 2003	43,396
	<hr/>
At 31 December 2002	41,014
	<hr/>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

13. TANGIBLE FIXED ASSETS

Group	Plant and equipment £'000
Cost	
At 1 January 2003	6,489
Additions	91
Acquisitions	304
Disposals	(64)
	<hr/>
At 31 December 2003	6,820
Depreciation	
At 1 January 2003	4,865
Charge for the year	695
Acquisitions	290
Disposals	(61)
	<hr/>
At 31 December 2003	5,789
Net book value	
At 31 December 2003	<hr/> <hr/> 1,031
At 31 December 2002	<hr/> <hr/> 1,624
Company	
	£'000
Cost	
At 1 January 2003	1,607
Additions	36
	<hr/>
At 31 December 2003	1,643
Depreciation	
At 1 January 2003	1,187
Charge for the year	154
	<hr/>
At 31 December 2003	1,341
Net book value	
At 31 December 2003	<hr/> <hr/> 302
At 31 December 2002	<hr/> <hr/> 420

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

14. INVESTMENTS

INVESTMENTS				
Group	Other investments £'000			
Cost				
At 1 January 2003 and 31 December 2003	<u>2,833</u>			
Company	Shares in subsidiary undertakings £'000	Other investments £'000	Total £'000	
Cost				
At 1 January 2003 and 31 December 2003	<u>86,462</u>	<u>2,833</u>	<u>89,295</u>	
Subsidiary undertakings	Country of incorporation and operation	Activity	Portion of ordinary shares held	
<i>Direct subsidiaries</i>				
Interserve (Defence) Ltd	England	Management and maintenance services	100%	
Interserve (Facilities Management) Ltd	England	Management and maintenance services	100%	
Interserve (Facilities Services) Ltd	England	Management and maintenance services	100%	
Building & Property Trustees Ltd	England	Dormant	100%	

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

14. INVESTMENTS (continued)

Subsidiary undertakings	Country of incorporation and operation	Activity	Portion of ordinary shares held
<i>Indirect subsidiaries</i>			
Interserve (Facilities Services-Slough) Ltd	England	Management and maintenance services	100%
Landmarc Support Services Ltd	England	Management and maintenance services	51%
Maintenance and Technical Management (London) Ltd	England	Dormant	100%
Maintenance and Technical Management (Midlands) Ltd	England	Dormant	100%
Maintenance and Technical Management (Northern) Ltd	England	Dormant	100%
Maintenance and Technical Management (Scotland) Ltd	England	Dormant	100%
South East Building Maintenance Ltd	England	Dormant	100%

Other investments	Country of incorporation and operation	Activity	Percentage of equity owned at 31 December 2003
Newcastle Estate Partnership Holdings Limited	England	Facilities management	50%
Interserve Investments Plc	England	Holding company	9.51%

15. STOCKS

Group	2003 £'000	2002 £'000
Consumables	92	343

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

16. DEBTORS	2003		2002	
	Group £'000	Company £'000	Group £'000	Company £'000
Amounts due within one year				
Amounts recoverable on contracts	2,804	-	3,733	-
Trade debtors	26,615	15	24,809	7
Amounts owed by other group undertakings	39,613	54,456	59,133	65,264
Other debtors	1,036	2,786	670	2,006
Corporation tax recoverable	554	155	2,320	1,805
Prepayments and accrued income	23,462	241	16,503	209
Dividends receivable	-	5,446	-	11,988
	<u>94,084</u>	<u>63,099</u>	<u>107,168</u>	<u>81,279</u>
Amounts due in more than one year				
Deferred tax (note 8)	1,302	-	-	-
	<u>95,386</u>	<u>63,099</u>	<u>107,168</u>	<u>81,279</u>

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003		2002	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans and overdrafts (note 19)	7	39,681	8,434	58,820
Trade creditors	26,990	28	30,553	-
Payment received in advance	1,938	-	5,310	513
Amounts owed to other group undertakings	35,855	84,264	58,847	82,047
Corporation tax payable	4,942	-	10,430	-
Taxation and social security	10,435	1,338	7,920	803
Other creditors	1,963	577	1,130	144
Accruals and deferred income	56,153	2,312	31,587	1,188
Proposed dividend	5,000	5,000	4,959	4,959
	<u>143,283</u>	<u>133,200</u>	<u>159,170</u>	<u>148,474</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2003		2002	
	Group £'000	Company £'000	Group £'000	Company £'000
Loans (note 19)	<u>359</u>	<u>-</u>	<u>366</u>	<u>-</u>
19. BORROWINGS				
	2003		2002	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank overdrafts	-	39,681	8,427	58,820
Loans	<u>366</u>	<u>-</u>	<u>373</u>	<u>-</u>
	<u>366</u>	<u>39,681</u>	<u>8,800</u>	<u>58,820</u>
	£'000	£'000	£'000	£'000
Due within one year	7	39,681	7	58,820
Due after more than one year	<u>359</u>	<u>-</u>	<u>366</u>	<u>-</u>
	<u>366</u>	<u>39,681</u>	<u>373</u>	<u>58,820</u>
Analysis of loan repayments:	£'000	£'000	£'000	£'000
Within one year or on demand	7	-	7	-
Between one and two years	7	-	7	-
Between two and five years	32	-	28	-
After five years	<u>320</u>	<u>-</u>	<u>331</u>	<u>-</u>
	<u>366</u>	<u>-</u>	<u>373</u>	<u>-</u>

The loan is from Newcastle Estates Partnerships Holdings Limited. It is unsecured and is repayable over 25 years. The loan bears interest at 8.9%.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

20. PROVISIONS FOR LIABILITIES AND CHARGES

Group	Contract provisions £'000	Surplus property costs £'000	Total £'000
Balance at 1 January 2003	447	670	1,117
Utilised during the year	(99)	(205)	(304)
Additions during the year	5,500	260	5,760
Balance at 31 December 2003	5,848	725	6,573

The surplus property costs provision will be utilised over the remaining period of the leases to which it relates.

A provision for £5,500,000 has been made for losses and other obligations expected to arise on the company's withdrawal from its contract with Liverpool City Council. It is expected that the majority of the provision will be utilised in the next financial year.

Due to the nature of the contracts, which the group enters into, the directors are uncertain as to the exact timing of the payments which will be made to settle the contract provisions which have been provided.

Company	Contract provisions £'000	Surplus property costs £'000	Total £'000
Balance at 1 January 2003	173	-	173
Utilised during the year	(24)	-	(24)
Additions during the year	-	260	260
Balance at 31 December 2003	149	260	409

Due to the nature of the contracts, which the company enters into, the directors are uncertain as to the exact timing of the payments which will be made to settle the contract provisions which have been provided.

The surplus property costs provision will be utilised over the remaining period of the leases to which it relates.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

21. CALLED UP SHARE CAPITAL

		2003	2002
Authorised			
100 Deferred shares of £1 each	£	100	100
6,200 Ordinary shares of US\$0.01 each	US\$	62	62
15,000,000 Redeemable ordinary shares of £1 each	£	<u>15,000,000</u>	<u>15,000,000</u>
Called up, allotted and fully paid			
2 Deferred shares of £1 each	£	2	2
6,158 Ordinary shares of US\$0.01 each	US\$	62	62
15,000,000 Redeemable ordinary shares of £1 each	£	<u>15,000,000</u>	<u>15,000,000</u>

The Redeemable ordinary shares of £1 each rank pari passu with the Ordinary shares and are repayable by the company on demand, at par.

Deferred shares

Deferred shareholders are not entitled to attend and vote at any general meeting.

The Deferred shares can be repurchased at any time for an aggregate consideration of 0.001p.

The shareholders of the Deferred shares shall not be entitled to any participation in the profits or the assets of the company. On a winding up the Deferred shareholders are entitled to the amount paid after the Ordinary shareholders have been paid £100,000,000 per ordinary share.

22. MOVEMENTS ON RESERVES

Group	Profit and loss account £'000
At 1 January 2003	10,498
Retained loss for the year	(5,460)
At 31 December 2003	<u>5,038</u>
The profit and loss account reserve at 31 December 2003 includes £13,088,000 (2002: £13,088,000) of goodwill eliminated against reserves in previous periods.	
Company	£'000
At 1 January 2003	7,347
Retained loss for the year	(3,260)
At 31 December 2003	<u>4,087</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

23. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2003		2002	
	Group £'000	Company £'000	Group £'000	Company £'000
(Loss)/profit for the year	(216)	1,984	8,429	9,943
Dividends	(5,244)	(5,244)	(4,959)	(4,959)
Unrealised gain on sale of fixed asset investments	-	-	2,263	2,263
Net (reductions)/additions to shareholders' funds	(5,460)	(3,260)	5,733	7,247
Opening shareholders' funds	25,498	22,347	19,765	15,100
Closing shareholders' funds	20,038	19,087	25,498	22,347

24. LEASE COMMITMENTS

Group

At 31 December 2003 the group was committed to making the following payments during the next year in respect of operating leases.

Current annual commitments payable under non-cancellable operating leases expiring:

	Land and buildings £'000	Other £'000	Total £'000
Within one year	12	192	204
Between one and two years	102	334	436
Between two and five years	104	302	406
After five years	640	-	640
	858	828	1,686

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

24. LEASE COMMITMENTS (continued)

Company

At 31 December 2003 the company was committed to making the following payments during the next year in respect of operating leases.

Current annual commitments payable under non-cancellable operating leases expiring:

	Land and buildings £'000	Other £'000	Total £'000
Within one year	7	192	199
Between one and two years	84	334	418
Between two and five years	-	302	302
After five years	520	-	520
	<u>611</u>	<u>828</u>	<u>1,439</u>

25. CONTINGENT LIABILITIES

	2003 £'000	2002 £'000
Group		
Performance bonds	<u>4,177</u>	<u>4,247</u>

The group has given performance bonds in the normal course of business.

	£'000	£'000
Company		
Performance bonds	<u>3,256</u>	<u>3,256</u>

At 31 December 2003 there were contingent liabilities in respect of guarantees given in the ordinary course of business. The company has given guarantees covering banking facilities made available to the parent and fellow subsidiary undertakings. At 31 December 2003 these amounted to £48,511,000 (2002: £47,274,000).

26. CASH FLOW STATEMENT

As a wholly owned subsidiary of a UK registered company, Interservefm Ltd has taken advantage of the exemption from the requirement to produce a cash flow statement. A consolidated cash flow statement is included in the Interserve Plc group accounts.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

27. PENSION ARRANGEMENTS

With effect from 31 October 2001, the large majority of the assets and liabilities of the Building & Property Group Pension Scheme were transferred to the Interserve Pension Scheme. The Building & Property Group Pension Scheme, for which Interservefm Ltd is the principal employer, has retained a small element of the assets and liabilities (with value approximately £1.2 million) after that date. These assets and liabilities relate to an element of some members' benefits which, under current legislation, cannot be transferred between the schemes. For these members, their benefits (which remain the same overall) are now provided partly by the Building & Property Group Pension Scheme and partly by the Interserve Pension Scheme. The Interserve Plc group accounts include allowance for all elements of these benefits, including those provided through the Building & Property Group Pension Scheme. The pension cost charge for the year for both pension arrangements was £7,324,000 (2002: £1,925,000). There were no amounts due to or from the schemes at the year end.

For the purposes of FRS17, the company has been unable to identify its share of the underlying assets and liabilities in the main group scheme, the Interserve Pension Scheme, on a consistent and reasonable basis. Therefore, following full implementation of FRS17, the company will account for contributions to the Scheme as if it were a defined contribution scheme. At 31 December 2003 the valuation of the Scheme for the purposes of FRS17 showed a net pension liability, as set out in note 7b to the report and accounts of Interserve Plc.

28. RELATED PARTY TRANSACTIONS

Interservefm Ltd owns a 50% shareholding in Newcastle Estates Partnership Holdings Limited, and Interserve (Facilities Management) Ltd has entered into a facilities provision contract with Newcastle Estates Partnership Holdings Limited to manage and perform the maintenance and upkeep of a DSS office, £4,209,724 (2002: £3,574,553) was invoiced to Newcastle Estates Partnership Holdings Limited during the year. In addition, Newcastle Estates Partnership Holdings Limited granted the group a loan representing a prepayment for services due under the facilities contract. At the year end £1,184,230 (2002: £418,928) was due from Newcastle Estates Partnership Holdings Limited and the loan due to Newcastle Estates Partnership Holdings Limited amounted to £366,000 (2002: £373,000).

Interserve Investments Plc, a fellow subsidiary, owns a 50% shareholding in Health Management (Carlisle) plc, and Interserve (Facilities Management) Ltd has entered into a facilities provision contract with Health Management (Carlisle) plc to manage and perform the maintenance and upkeep of hospital facilities and to provide other non-clinical services, £6,040,712 (2002: £6,124,548) was invoiced to Health Management (Carlisle) Plc during the year. At the year end nil (2002: £350,488) was due from Health Management (Carlisle) plc.

Interserve Investments Plc, a fellow subsidiary, has a 33.3% shareholding in Community Health Facilities (Holdings) Limited and Interserve (Facilities Management) Ltd has entered into a facilities provision contract with Community Health Facilities (Holdings) Limited to manage and perform the maintenance and upkeep of a mental hospital, £483,281 (2002: £453,792) was invoiced to Community Health Facilities (Holdings) Limited during the year. At the year end £191,206 (2002: £151,455) was due from Community Health Facilities (Holdings) Limited.

Interserve Investments Plc, a fellow subsidiary, has a 33.3% shareholding in Health Management (UCLH) plc. Interserve (Facilities Management) Ltd has entered into a facilities provision contract with Health Management (UCLH) plc to manage and perform the maintenance and upkeep of hospital facilities and to provide other non-clinical services, £19,220,077 (2002: £20,347,496) was invoiced to Health Management (UCLH) plc during the year. At the year end £657,612 (2002: £1,930,234) was due from Health Management (UCLH) plc.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

28. RELATED PARTY TRANSACTIONS (continued)

Interserve Investments Plc, a fellow subsidiary, has a 33.3% shareholding in Summit Healthcare (Dudley) Ltd. Interserve (Facilities Management) Ltd has entered into a facilities provision contract with Summit Healthcare (Dudley) Ltd to manage and perform the maintenance and upkeep of hospital facilities and to provide other non-clinical services, £20,750,240 (2002: £14,144,911) was invoiced to Summit Healthcare (Dudley) Ltd during the year. At the year end £1,924 (2002: £18,486) was due from Summit Healthcare (Dudley) Ltd.

Interserve Investments Plc, a fellow subsidiary, has a 33.3% shareholding in Belfast Education Services Limited. Interserve (Facilities Management) Ltd has entered into a facilities provision contract with Belfast Education Services Limited to manage and perform the maintenance and upkeep of school facilities, £318,168 (2002: £297,936) was invoiced to Belfast Education Services Limited for reimbursements and other sundry costs paid on Interserve (Facilities Management) Ltd's behalf. At the year end £43,453 (2002: £105,367) was due from Belfast Education Services Limited.

Interserve Investments Plc, a fellow subsidiary, has a 50% shareholding in Victory Support Services (Portsmouth) Holdings Limited. Interserve (Facilities Management) Ltd has entered into a facilities provision contract with Victory Support Services (Portsmouth) Holdings Limited to design, build, finance and operate two day care centres and one residential unit for Portsmouth City Council. £602,978 (2002: nil) was invoiced to Victory Support Services (Portsmouth) Holdings Limited during the year. At the year end £123,327 (2002: nil) was due from Victory Support Services (Portsmouth) Holdings Limited.

Interserve Investments Plc, a fellow subsidiary, has a 50% shareholding in Sheffield School Services Holdings Limited. Interserve (Facilities Management) Ltd has entered into a facilities provision contract with Sheffield School Services Holdings Limited to design, build, finance, and operate six schools for Sheffield City Council, £3,033,044 was invoiced to Sheffield School Services Holdings Limited during the year. At the year end £1,254,203 (2002: nil) was due from Sheffield School Services Holdings Limited.

Interserve Investments Plc, a fellow subsidiary, has a 50% shareholding in Pyramid Schools (Southampton) Holdings Limited. Interserve (Facilities Management) Ltd has entered into a facilities provision contract with Pyramid Schools (Southampton) Holdings Limited to design, build, finance, and operate three schools for Southampton City Council, £924,001 (2002: nil) was invoiced to Pyramid Schools (Southampton) Holdings Limited during the year. At the year end £261,755 (2002: nil) was due from Pyramid Schools (Southampton) Holdings Limited.

Interserve Investments Plc, a fellow subsidiary, has a 20% shareholding in ICB Holdings Limited. Interserve (Facilities Management) Ltd has entered into a facilities provision contract with ICB Holdings Limited to design, build, finance, and operate Health and Safety Laboratories in Buxton, £1,727,467 (2002: nil) was invoiced to ICB Holdings Limited. At the year end £145,185 (2002: nil) was due from ICB Holdings Limited.

Interserve Investments Plc, a fellow subsidiary, has a 50% shareholding in Pyramid Schools (Tameside) Holdings Limited. Interserve (Facilities Management) Ltd has entered into a facilities provision contract with Pyramid Schools (Tameside) Holdings Limited to design, build, finance, and operate three schools for Tameside Metropolitan Council, £604,533 (2002: nil) was invoiced to Pyramid Schools (Tameside) Holdings Limited during the year. At the year end £171,419 (2002: nil) was due from Pyramid Schools (Tameside) Holdings Limited.

Interserve Defence Limited has a 51% shareholding in Landmarc Support Services Limited. During the year Interserve (Defence) Limited invoiced Landmarc Support Services Limited £2,660,451 (2002: nil) for recharge of costs paid on Landmarc Support Services Limited's behalf. At the year end £58,750 (2002: nil) was due to Landmarc Support Services Limited.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

29. ACQUISITIONS

Acquisition of trade and assets of Climate Services Limited

On 1 January 2003 Interserve (Facilities Management) Ltd acquired the trade and assets of Climate Services Limited and commenced trading from this date. In the opinion of the directors there were no differences between the book value and the fair values of the assets acquired.

	Book amount and fair value £'000
Net assets acquired	
Tangible fixed assets	14
Stocks	15
Debtors	2,868
Cash	2,284
Creditors	(2,799)
	<u>2,382</u>
Satisfied by:	£'000
Intercompany balance	<u>(2,382)</u>

The profit and loss accounts of Climate Services Limited for the year ended 31 December 2002 and the corresponding Climate Services division within Interserve (Facilities Management) Limited for the year ended 31 December 2003 are summarised below:

	2003 £'000	2002 £'000
Turnover	13,921	13,006
Operating profit	947	1,519
Net profit before taxation	1,262	1,569
Taxation	(325)	(475)
Net profit after taxation	937	1,094

Profit after taxation for the year ended 31 December 2001 was £450,000. There were no material gains and losses in the period to 31 December 2002 other than the profit on ordinary activities after taxation.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

29. ACQUISITIONS (continued)

Acquisition of the trade and assets of the Army Training Establishments

On 22 March 2003 Landmarc Support Services Limited purchased the assets and trade of the Army Training Establishments and commenced trading from 1 April 2003.

The directors are not aware of the book value of the assets transferred to the company on the acquisition of the contract. Accordingly, no fair value has been attributed to these assets. The fair value of the purchase consideration of £5,000,000 therefore represents the goodwill arising on the acquisition of the contract. This amount is payable in two instalments: £10,000 payable in April 2003 and £4,990,000 in March 2004.

Due to the nature of the business acquired from, the Army Training Establishments which had previously been unincorporated, it is not practicable to disclose the results of the business for periods before acquisition by the company.

The profit and loss account for Landmarc Support Services Limited for the year ended 31 December 2003 is summarised below:

	£'000
Turnover	39,533
Operating profit	1,950
Net profit before taxation	2,136
Taxation	(879)
Net profit after taxation	1,257

30. PARENT COMPANY AND CONTROLLING PARTY

Building & Property (Holdings) Limited, a company registered in England and Wales, is the immediate parent company. The directors regard Interserve Plc, a company registered in England and Wales, as the ultimate parent company and controlling party. Copies of the financial statements of Interserve Plc the largest and smallest group in which the results of the company are included can be obtained from the Company Secretary, Interserve House, Ruscombe Park, Twyford, Reading, Berkshire, RG10 9JU.