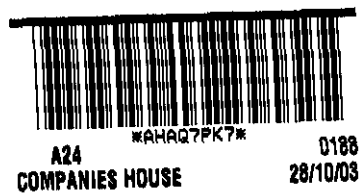


INTERSERVEFM LTD

Report and Consolidated Financial Statements

31 December 2002



REPORT AND FINANCIAL STATEMENTS 2002

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P F Ford
C J Groom
S S Maroli
J Matthews
A M Ringrose

SECRETARY

W L Spencer

REGISTERED OFFICE

19-23 Blackfriars Road
Blackfriars
London
SE1 8NY

AUDITORS

Deloitte & Touche
Bristol

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2002.

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 2003 is expected to be at a satisfactory level.

On 1 January 2002 the group acquired the assets and trade of Interserve Engineering Services and Comitec, at their book values, as part of a group reorganisation from Interserve Project Services Limited.

RESULTS AND DIVIDENDS

The results of the group for the year ended 31 December 2002 are set out in the financial statements on pages 7 to 28.

A dividend of £4,959,000 was proposed at the year end (2001: £5,882,000).

DIRECTORS AND DIRECTORS' INTERESTS

The directors who served during the year were as follows:

P F Ford	
C J Groom	
S S Maroli	
A M Ringrose	
J Matthews	(appointed 1 January 2002)
M G Darroch	(resigned 30 November 2002)
S W Laird	(resigned 18 December 2002)

Messrs Groom and Ringrose are also directors of Interserve Plc, the ultimate parent undertaking, and their share interests in the capital of the ultimate parent undertaking Interserve Plc are disclosed in the group accounts.

The interests of the directors, who were in office at the year end, at 1 January 2002 and 31 December 2002, or date of appointment, 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 02	31 Dec 02*	1 Jan 02	Granted during year*	Lapsed during year	31 Dec 02		
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 June 04 to 30 Nov 04

* or date of appointment

DIRECTORS' REPORT (continued)

DIRECTORS AND DIRECTORS' INTERESTS (continued)

	Shares of 10p each		Options over shares of 10p each				Exercise price p	Period of exercise
	1 Jan 02	31 Dec 02 *	1 Jan 02	Granted during year*	Lapsed during year	31 Dec 02		
J Matthews	-	3,890	8,670	-	-	8,670	346.0	11 Jun 03 to 13 Jun 10
	-	-	15,000	-	-	15,000	542.5	26 Mar 04 to 25 Mar 08
	-	-	-	10,000	-	10,000	566.5	19 Mar 05 to 18 Mar 09
	-	-	9,330	-	-	9,330	346.0	14 Jun 03 to 13 Jun 07
	-	-	1,640	-	-	1,640	439.4	1 Jun 04 to 30 Nov 04
	-	-	-	241	-	241	441.0	1 Jun 05 to 30 Nov 05

DIRECTORS' REPORT (continued)

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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



P Ford
Director

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 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 2002 which comprise the consolidated profit and loss account, the balance sheets and the related notes 1 to 30. 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.

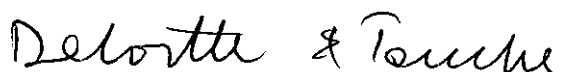
Basis of audit opinion

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 group as at 31 December 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



DELOITTE & TOUCHE
Chartered Accountants and Registered Auditors
Bristol

29 May 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 31 December 2002

	Note	2002 Continuing operations £'000	2002 Acquired operations £'000	2002 Total £'000	2001 Total £'000
TURNOVER	1	355,145	50,729	405,874	323,962
Cost of sales		(335,193)	(44,052)	(379,245)	(308,989)
GROSS PROFIT		19,952	6,677	26,629	14,973
Administrative expenses		(11,198)	(3,774)	(14,972)	(10,310)
OPERATING PROFIT	2	8,754	2,903	11,657	4,663
Interest receivable	5			536	5,496
Interest payable	6			(656)	(5,630)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION				11,537	4,529
Tax on profit on ordinary activities	7			(3,108)	(2,323)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION				8,429	2,206
Dividends - non-equity	9			(4,959)	(5,882)
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR	21			3,470	(3,676)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2002

	Note	2002 £	2001 £
Total recognised gains/(losses) related to the year		3,470	(3,676)
Total recognised gains and losses related to the year as above		3,470	(3,676)
Unrealised gain on sale of fixed asset investment	5	2,263	-
Total recognised gains/(losses) since the last annual report		5,733	(3,676)

CONSOLIDATED BALANCE SHEET
At 31 December 2002

	Note	2002 £'000	2001 £'000
FIXED ASSETS			
Intangible assets	11	41,014	43,260
Tangible assets	12	1,624	964
		<u>42,638</u>	<u>44,224</u>
Investments:	13		
- share of gross assets		-	138,738
- share of gross liabilities		-	(132,834)
		<u>-</u>	<u>5,904</u>
Other investments	13	2,833	500
		<u>45,471</u>	<u>50,628</u>
CURRENT ASSETS			
Stocks	14	343	90
Debtors - recoverable within one year	15	107,168	78,872
Cash at bank and in hand		33,169	57,895
		<u>140,680</u>	<u>136,857</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	16	(159,170)	(164,821)
NET CURRENT LIABILITIES		<u>(18,490)</u>	<u>(27,964)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		26,981	22,664
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	17	(366)	(373)
PROVISIONS FOR LIABILITIES AND CHARGES	19	(1,117)	(2,526)
NET ASSETS		<u>25,498</u>	<u>19,765</u>
SHARE CAPITAL AND RESERVES			
Called up share capital	20	15,000	15,000
Profit and loss account	21	10,498	4,765
SHAREHOLDERS' FUNDS	22	<u>25,498</u>	<u>19,765</u>
Attributable to equity shareholders		10,498	4,765
Attributable to non-equity shareholders		15,000	15,000
		<u>25,498</u>	<u>19,765</u>

These financial statements were approved by the Board of Directors on 29 May 2003.

Signed on behalf of the Board of Directors



P F Ford
Director

COMPANY BALANCE SHEET
At 31 December 2002

	Note	2002	2001
		£'000	£'000
FIXED ASSETS			
Tangible assets	12	420	-
Investments	13	89,295	77,865
		<u>89,715</u>	<u>77,865</u>
CURRENT ASSETS			
Debtors	15	81,279	27,721
Cash at bank and in hand		-	16,710
		<u>81,279</u>	<u>44,431</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	16	(148,474)	(72,398)
NET CURRENT LIABILITIES		<u>(67,195)</u>	<u>(27,967)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		22,520	49,898
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	17	-	(34,600)
PROVISIONS FOR LIABILITIES AND CHARGES	19	(173)	(198)
NET ASSETS		<u>22,347</u>	<u>15,100</u>
SHARE CAPITAL AND RESERVES			
Called up share capital	20	15,000	15,000
Profit and loss account	21	7,347	100
SHAREHOLDERS' FUNDS	22	<u>22,347</u>	<u>15,100</u>
Attributable to equity shareholders		7,347	100
Attributable to non-equity shareholders		15,000	15,000
		<u>22,347</u>	<u>15,100</u>

These financial statements were approved by the Board of Directors on 29 May 2003.

Signed on behalf of the Board of Directors



P F Ford
Director

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

1. ACCOUNTING POLICIES

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

Basis of consolidation

The group accounts include the accounts of Interservefm Ltd and all of its subsidiary undertakings for the year ended 31 December 2002.

Shares in joint ventures are accounted for using the gross equity method. The accounting policies of the joint ventures are adjusted to bring them into line with those of Interservefm Ltd. The consolidated profit and loss account includes the group's share of the pre tax profits and attributable taxation of the joint ventures. In the consolidated balance sheet the investments in the joint ventures are shown as the group's share of the net assets, excluding goodwill of the joint ventures.

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.

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
---------------------	--------------

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

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 (including joint ventures)

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 in subsidiary and joint ventures 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. When a PFI contract has been successfully bid, costs previously written off which can be considered as capital in nature are capitalised and amortised over the period expected to benefit from the expenditure so incurred. Costs previously written off which are considered revenue in nature, and which are reimbursable under a successfully bid contract, are recognised as income.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

2. OPERATING PROFIT

	2002	2001
	£'000	£'000
Operating profit is stated after charging:		
Amortisation	2,246	1,481
Depreciation	654	310
Hire of plant and equipment	4,347	3,585
Rental charges for other operating leases	1,464	1,642
Auditors' remuneration:		
- group audit fees	169	85
- other fees	60	28
	<u> </u>	<u> </u>

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

3. DIRECTORS' EMOLUMENTS

	2002	2001
	£'000	£'000
Directors' emoluments:		
Emoluments	710	1,149
Compensation for loss of office	123	58
	<u> </u>	<u> </u>
Highest paid director:	£'000	£'000
Emoluments	<u>256</u>	<u>273</u>

The accrued pension of the highest paid director at 31 December 2002 was £12,742 (2001: £17,546) per annum with an accrued lump sum of £28,670 (2001: £39,4179).

	No.	No.
Number of directors who are members of a defined benefit pension scheme	<u>5</u>	<u>6</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.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

4. EMPLOYEES

	2002 £'000	2001 £'000
The aggregate payroll costs were as follows:		
Wages and salaries	115,854	89,311
Social security costs	8,006	7,492
Other pension costs	1,925	1,950
	<u>125,785</u>	<u>98,753</u>

The average weekly number of employees during the year was 5,129 (2001: 4,726).

The group also utilised 306 (2001: 316) agency staff whose costs are not included above.

5. INTEREST RECEIVABLE

	2002 £'000	2001 £'000
Bank and short-term deposits	536	5,148
Other interest receivable	-	348
	<u>536</u>	<u>5,496</u>

6. INTEREST PAYABLE

	2002 £'000	2001 £'000
On loans repayable after more than five years	34	34
Bank overdraft and other borrowings	607	5,035
Other group companies	-	60
Other interest payable	15	501
	<u>656</u>	<u>5,630</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002 £'000	2001 £'000
The taxation charge is made up as follows:		
UK corporation tax at 30% (2001: 30%) for the year	3,372	1,860
Group relief	-	2
Consortium relief	(24)	459
Prior year adjustment	(240)	2
	<u>3,108</u>	<u>2,323</u>

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

	£'000	£'000
Profit on ordinary activities before taxation	<u>11,537</u>	<u>4,529</u>
	£'000	£'000
Taxation on profit on ordinary activities at standard rate	3,461	1,359
Factors affecting the charge:		
Disallowable expenses	726	519
Capital allowances for period in excess of depreciation	(70)	140
Other	(746)	(156)
Consortium relief	-	(308)
Group relief	-	447
Prior year adjustment	(263)	322
Current year tax charge	<u>3,108</u>	<u>2,323</u>

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

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

8. DEFERRED TAXATION

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 £706,000 (2001: £1,674,000). The estimated value of the deferred tax asset not recognised in the company, measured at a standard rate of 30% is £187,000 (2001: £625,000).

9. DIVIDENDS

A dividend on non-equity shares of £4,959,000 was proposed at the year end (2001: £5,882,000).

10. 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 £9,943,000 after tax (2001: profit of £5,882,000) which is dealt with in the accounts of the parent company.

11. INTANGIBLE FIXED ASSETS

Group	Goodwill £'000
Cost	
At 1 January 2002 and at 31 December 2002	44,741
Depreciation	
At 1 January 2002	1,481
Charge for the year	2,246
At 31 December 2002	3,727
Net book value	
At 31 December 2002	41,014
At 31 December 2001	43,260

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

12. TANGIBLE FIXED ASSETS

Group	Plant and equipment £'000
Cost	
At 1 January 2002	4,272
Additions	878
Acquisitions	1,764
Disposals	(425)
At 31 December 2002	<u>6,489</u>
Depreciation	
At 1 January 2002	3,308
Charge for the year	654
Acquisitions	1,303
Disposals	(400)
At 31 December 2002	<u>4,865</u>
Net book value	
At 31 December 2002	<u><u>1,624</u></u>
At 31 December 2001	<u>964</u>
Company	Plant and equipment £'000
Cost	
At 1 January 2002	1,147
Additions	460
At 31 December 2002	<u>1,607</u>
Depreciation	
At 1 January 2002	1,147
Charge for the year	40
At 31 December 2002	<u>1,187</u>
Net book value	
At 31 December 2002	<u><u>420</u></u>
At 31 December 2001	<u>-</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

13. INVESTMENTS

Group	Shares in joint ventures £'000	Loans to joint ventures £'000	Other investments £'000	Total £'000
Cost				
At 1 January 2002	722	5,182	500	6,404
Additions	204	1,745	2,333	4,282
Disposals	(926)	(6,927)	-	(7,853)
At 31 December 2002	<u>-</u>	<u>-</u>	<u>2,833</u>	<u>2,833</u>

Company	Shares in subsidiary undertakings £'000	Shares in joint ventures £'000	Loans to joint ventures £'000	Other investments £'000	Total £'000
Cost					
At 1 January 2002	71,461	722	5,182	500	77,865
Additions	15,001	204	1,745	2,333	19,283
Disposals	-	(926)	(6,927)	-	(7,853)
At 31 December 2002	<u>86,462</u>	<u>-</u>	<u>-</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 ACCOUNTS
Year ended 31 December 2002

13. 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%
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 2002
Newcastle Estate Partnership Holdings Limited	England	Facilities management	50%
Interserve Investments Plc	England	Holding company	9.51%

Health Management (Carlisle) plc

Health Management (Carlisle) plc realised neither a profit, nor a loss in the year and had total share capital and reserves of £841,000 at 31 December 2001.

The principal activity of Health Management (Carlisle) plc is the refurbishment, design and construction of hospital buildings and the subsequent management and provision of non-clinical support services at the hospitals.

	2002 £'000	2001 £'000
Current assets	-	9,309
Debtors due after one year	-	32,118
Liabilities due within one year	-	(2,708)
Liabilities due after one year	-	(35,688)
	-	3,031

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

13. INVESTMENTS (continued)

Community Health Facilities (Holdings) Limited

Community Health Facilities (Holdings) Limited realised neither a profit, nor a loss in the year and had total share capital and reserves of £150,000 at 31 December 2001.

The principal activity of Community Health Facilities (Holdings) Limited is the refurbishment, design and construction of a mental hospital building and the subsequent management and provision of non-clinical support services at the hospital.

	2002	2001
	£'000	£'000
Fixed assets	-	2,344
Current assets	-	766
Liabilities due within one year	-	(264)
Liabilities due after one year	-	(2,796)
	<hr/>	<hr/>
	-	50
	<hr/>	<hr/>

Health Management (UCLH) plc

Health Management (UCLH) plc realised neither a profit, nor a loss in the year and had total share capital and reserves of £755,000 at 31 December 2001.

The principal activity of Health Management (UCLH) plc is the refurbishment design and construction of hospital buildings and the subsequent management and provision of non-clinical support services at the hospitals.

	2002	2001
	£'000	£'000
Fixed assets	-	31,355
Current assets	-	9,280
Liabilities due within one year	-	(1,427)
Liabilities due after one year	-	(36,690)
	<hr/>	<hr/>
	-	2,518
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NOTES TO THE ACCOUNTS
Year ended 31 December 2002

13. INVESTMENTS (continued)

Summit Holdings (Dudley) Limited

Summit Holdings (Dudley) Limited realised neither a profit, nor a loss in the year and had a deficit on total share capital and reserves of £60,000 at 31 December 2001.

The principal activity of Summit Holdings (Dudley) Limited is the refurbishment design and construction of hospital buildings and the subsequent management and provision of non-clinical support services at the hospitals.

	2002 £'000	2001 £'000
Fixed assets	-	10,118
Current assets	-	38,380
Liabilities due within one year	-	(1,838)
Liabilities due after one year	-	(46,640)
	<u>-</u>	<u>20</u>

Belfast Educational Services Limited

Belfast Educational Services Limited realised neither a profit, nor a loss in the year and had total share capital and reserves of £3,000 at 31 December 2001.

The principal activity of Belfast Educational Services Limited is the refurbishment, design and construction of school buildings and the subsequent management and provision of non-educational support services at the schools.

	2002 £'000	2001 £'000
Fixed assets	-	4,626
Current assets	-	440
Liabilities due within one year	-	(237)
Liabilities due after one year	-	(4,544)
	<u>-</u>	<u>285</u>

Unrealised gain on sale of fixed asset investments

During the year the company sold its Joint Venture investments in Health Management (Carlisle) plc and Health Management (UCLH) plc, to another group company, Interserve Plc for consideration of £7,469,000 (the carrying value), satisfied by way of intercompany debt. The company also sold its Joint Venture investments in Summit Holdings (Dudley) Limited, Community Health Facilities (Holdings) Limited and Belfast Educational Services Limited, to another group company, Interserve Investments Plc, for consideration of £2,647,000, payable by way of equity shares in Interserve PFI Holdings Ltd. This gave rise to an unrealised gain on the sale of fixed asset investments of £2,263,000.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

14. STOCKS

Group	2002 £'000	2001 £'000
Consumables	343	90

15. DEBTORS: AMOUNTS DUE WITHIN ONE YEAR

	2002 Group £'000	2002 Company £'000	2001 Group £'000	2001 Company £'000
Amounts recoverable on contracts	3,733	-	-	-
Trade debtors	24,809	7	28,829	13
Amounts owed by other group undertakings	59,133	65,264	23,202	20,173
Other debtors	670	2,006	535	398
Corporation tax recoverable	2,320	1,805	1,416	-
Prepayments and accrued income	16,503	209	24,890	104
Dividends receivable	-	11,988	-	7,033
	<u>107,168</u>	<u>81,279</u>	<u>78,872</u>	<u>27,721</u>

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 Group £'000	2002 Company £'000	2001 Group £'000	2001 Company £'000
Loans (note 18)	8,434	58,820	14,348	-
Trade creditors	30,553	-	11,807	426
Payment received in advance	5,310	513	-	-
Amounts owed by ultimate parent company	-	-	13,339	13,339
Amounts owed by other group undertakings	58,847	82,047	60,212	49,574
Consortium relief payable	-	-	8,835	-
Corporation tax payable	10,430	-	-	-
Taxation and social security	7,920	803	6,133	158
Other creditors	1,130	144	1,234	91
Accruals and deferred income	31,587	1,188	43,031	2,928
Proposed dividend	4,959	4,959	5,882	5,882
	<u>159,170</u>	<u>148,474</u>	<u>164,821</u>	<u>72,398</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

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

	2002		2001	
	Group £'000	Company £'000	Group £'000	Company £'000
Loans (note 18)	366	-	373	-
Amounts owed to subsidiary undertakings	-	-	-	34,600
	<u>366</u>	<u>-</u>	<u>373</u>	<u>34,600</u>

The amounts owed to subsidiary undertakings have no fixed repayment terms, are unsecured and no interest is charged.

18. BORROWINGS

	2002		2001	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank overdrafts	8,427	58,820	14,342	-
Loans	373	-	379	-
	<u>8,800</u>	<u>58,820</u>	<u>14,721</u>	<u>-</u>
	£'000	£'000	£'000	£'000
Due within one year	7	-	6	-
Due after more than one year	366	-	373	-
	<u>373</u>	<u>-</u>	<u>379</u>	<u>-</u>
	£'000	£'000	£'000	£'000
Analysis of loan repayments:				
Within one year or on demand	7	-	6	-
Between one and two years	7	-	19	-
Between two and five years	28	-	37	-
After five years	331	-	317	-
	<u>373</u>	<u>-</u>	<u>379</u>	<u>-</u>

The long-term loan is from Newcastle Estate Partnerships Holdings Limited is unsecured and is repayable over 25 years. The loan bears interest at 8.9%.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

19. PROVISIONS FOR LIABILITIES AND CHARGES

Group	Contract provisions £'000	Surplus property costs £'000	Total £'000
Balance at 1 January 2002	1,088	1,438	2,526
Utilised during the year	(552)	(1,107)	(1,659)
(Released)/provided during the year	(89)	339	250
Balance at 31 December 2002	447	670	1,117

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

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
Balance at 1 January 2002	198
Utilised in the year	(25)
Balance at 31 December 2002	173

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.

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

20. CALLED UP SHARE CAPITAL

		2002	2001
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	£	15,000,000	15,000,000
		<u> </u>	<u> </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	£	15,000,000	15,000,000
		<u> </u>	<u> </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.

21. MOVEMENTS ON RESERVES

Group	Profit and loss account £'000
At 1 January 2002	4,765
Retained profit for the financial year	4,931
	<u> </u>
At 31 December 2002	9,696
	<u> </u>

The profit and loss account reserve at 31 December 2002 includes £13,088,000 (2001: £13,088,000) goodwill eliminated against reserves in previous periods.

Company	£'000
At 1 January 2002	100
Retained loss for the year	7,247
	<u> </u>
At 31 December 2002	7,347
	<u> </u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002		2001	
	Group £'000	Company £'000	Group £'000	Company £'000
Profit for the financial year	8,429	9,943	2,206	5,882
Dividends	(4,959)	(4,959)	(5,882)	(5,882)
Unrealised gain on sale of fixed asset investments	2,263	2,263	-	-
Net additions/(reductions) to shareholders' funds	5,733	7,247	(3,676)	-
Opening shareholders' funds	19,765	15,100	23,441	15,100
Closing shareholders' funds	25,498	22,347	19,765	15,100

23. LEASE COMMITMENTS

Group

At 31 December 2002 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	35	293	328
Between one and two years	-	188	188
Between two and five years	417	520	937
After five years	977	42	1,019
	<u>1,429</u>	<u>1,043</u>	<u>2,472</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

23. LEASE COMMITMENTS (continued)

Company

At 31 December 2002 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	35	149	184
Between one and two years	-	188	188
Between two and five years	80	370	450
After five years	542	-	542
	<u>657</u>	<u>707</u>	<u>1,364</u>

24. CONTINGENT LIABILITIES

Group

	2002 £'000	2001 £'000
Performance bonds	<u>4,247</u>	<u>956</u>

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

Company

	£'000	£'000
Performance bonds	<u>3,256</u>	<u>285</u>

At 31 December 2002 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 2002 these amounted to £47,274,000 (2001: £64,230,000).

25. CAPITAL COMMITMENTS

There are no outstanding capital commitments as at 31 December 2002 (2001: nil).

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

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.

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 £1,925,000 (2001: £1,950,000). 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 2002 the valuation of the Scheme for the purposes of FRS17 showed a net pension liability, as set out in note 6b to the report and accounts of Interserve Plc.

28. RELATED PARTY TRANSACTIONS

The company is a wholly owned subsidiary of Interserve Plc and has accordingly taken advantage of the exemption available under FRS8 from disclosing transactions with group entities.

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, £3,574,553 (2001: £3,451,105) 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 £418,928 (2001: £650,957) was due from Newcastle Estates Partnership Holdings Limited and the loan due to Newcastle Estates Partnership Holdings Limited amounted to £373,000 (2001: £379,000).

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. £6,124,548 (2001: £5,430,149) was invoiced to Health Management (Carlisle) Plc during the year. Nil (2001: £16,473) was paid to Health Management (Carlisle) plc for reimbursement of insurance premiums and other sundry costs paid on Interserve (Facilities Management) Ltd's behalf. At the year end £350,488 (2001: nil) was due from Health Management (Carlisle) plc.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

28. RELATED PARTY TRANSACTIONS (continued)

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. £453,792 (2001: £369,448) was invoiced to Community Health Facilities (Holdings) Limited during the year. At the year end £151,455 (2001: £44,651) 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. £20,347,496 (2001: £18,445,353) was invoiced to Health Management (UCLH) plc during the year. At the year end £1,930,234 (2001: £2,744,221) was due from Health Management (UCLH) plc.

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. £14,144,911 (2001: nil) was invoiced to Summit Healthcare (Dudley) Ltd during the year. At the year end £18,486 (2001: nil) 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. £297,936 (2001: £40,235) 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 £105,367 (2001: £7,879) was due from Belfast Education Services Limited.

29. 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.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

30. ACQUISITIONS

Acquisition of Interserve Engineering Services and Comitec

On 1 January 2002 the group acquired the trade and assets of Interserve Engineering Services and Comitec, from Interserve Project Services Limited on 1 January 2002 and commenced trading from this date. In the opinion of the directors there were no differences between the book values and the fair values of the asset acquired.

	Book amount and fair value £'000
Net assets acquired	£'000
Tangible fixed assets	689
Cash	26,102
Debtors	10,970
Creditors	(33,150)
	<hr/> 4,611
Goodwill	-
	<hr/> 4,611
	<hr/>
Satisfied by:	£'000
Intercompany balance	4,611
	<hr/>

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

30. ACQUISITIONS (continued)

Acquisition of the trade and assets of Slough Borough Council's DSO Building Maintenance and Cleaning departments

On 27 September 2001 Interserve (Facilities Services-Slough) Ltd purchased the assets and trade of Slough Borough Council's DSO Building Maintenance and Cleaning departments and commenced trading from this date. In the opinion of the directors there were no differences between the book values and the fair values of the asset acquired. In the period since acquisition, the parties have agreed that there were further assets acquired which has required the payment of further consideration, in accordance with the terms of the sale and purchase agreement.

	Provisional £'000	Book amount and fair value revision £'000	Final £'000
Net assets acquired			
Tangible fixed assets	10	52	62
Stocks	90	22	112
	<hr/>	<hr/>	<hr/>
	100	74	174
Goodwill	285	-	285
	<hr/>	<hr/>	<hr/>
	385	74	459
	<hr/>	<hr/>	<hr/>
Satisfied by:	£	£	£
Cash consideration	300	-	300
Deferred consideration (provisional)	85	74	159
	<hr/>	<hr/>	<hr/>
	385	74	459
	<hr/>	<hr/>	<hr/>