



MITIE CLEANING (MIDLANDS) LIMITED

Report and Financial Statements

14 March 1998

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



REPORT AND FINANCIAL STATEMENTS 1998

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D M Telling
I R Stewart
J F Saunders

SECRETARIES

A F Waters
M O Thomas

REGISTERED OFFICE

The Stable Block
Barley Wood
Wroughton
Bristol
BS40 5SA

BANKERS

Midland Bank plc
49 Corn Street
Bristol
BS99 7PP

AUDITORS

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

DIRECTORS' REPORT

The directors present their annual report and financial statements for the year ended 14 March 1998.

These financial statements have been made up to 14 March 1998, being a date not more than seven days before the accounting reference date as permitted by Section 223 of the Companies Act 1985.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company provides cleaning and support service consultancy to industrial and commercial clients.

The company's business developed satisfactorily and the directors consider that the company is in a good position to continue that development.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £127,129 (1997: £74,270). The directors propose payment of a dividend of £13,800, and that the balance of £113,329 be transferred to reserves.

FIXED ASSETS

Details of movements in fixed assets during the year are set out in Note 6 to the financial statements.

DIRECTORS AND THEIR INTERESTS

The directors during the year were as follows:

D M Telling
I R Stewart
J F Saunders
D J Robertson (resigned 11 July 1997)

None of the directors had a beneficial interest in the share capital of the company during the year.

**DIRECTORS' REPORT (continued)****DIRECTORS AND THEIR INTERESTS (continued)**

The following directors had a beneficial interest in the loan stock of the company which is due to be redeemed at par in 2004:

	14 March 1998 £	16 March 1997 £
J F Saunders	40,000	30,000

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

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

	14 March 1998 10p Ordinary shares No.	16 March 1997 10p Ordinary shares No.
J F Saunders	4,300	-

PAYMENT POLICY

The company's policy is to comply with the terms of payment agreed with a supplier. Where terms are not negotiated, the company endeavours to adhere with the supplier's standard terms. As at 14 March 1998 trade creditors, as a proportion of amounts invoiced from suppliers for the year, represented 79 days.

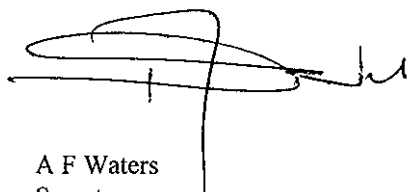
YEAR 2000

The company is in the process of preparing a detailed report including an assessment of our relationship with customers as well as suppliers. It covers all our internal systems, and looks into telephone, security and access systems. An action plan is being developed in order to ensure that our systems are year 2000 compliant. Costs in the year to 14 March 1998 were not significant and we estimate that further costs will not be material.

AUDITORS

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

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



A F Waters
Secretary

14 AUGUST 1998



AUDITORS' REPORT TO THE MEMBERS OF MITIE CLEANING (MIDLANDS) LIMITED

We have audited the financial statements on pages 5 to 15 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 2, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 14 March 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte + Touche

Chartered Accountants and
Registered Auditors

17 August 1998

PROFIT AND LOSS ACCOUNT
Year ended 14 March 1998

	Notes	Continuing operations 1998 £	1997 £
TURNOVER		5,905,787	3,893,484
Cost of sales		(4,586,120)	(3,204,465)
GROSS PROFIT		1,319,667	689,019
Administrative expenses		(1,102,623)	(566,104)
OPERATING PROFIT	2	217,044	122,915
Interest payable	3	(22,654)	(10,720)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		194,390	112,195
Tax on profit on ordinary activities	4	(67,261)	(37,925)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		127,129	74,270
Dividends	5	(13,800)	-
RETAINED PROFIT FOR THE YEAR	11	113,329	74,270

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



BALANCE SHEET
At 14 March 1998

	Notes	£	1998	£	£	1997	£
FIXED ASSETS							
Tangible assets	6		211,748			188,899	
CURRENT ASSETS							
Debtors	7	895,987			731,383		
Cash at bank and in hand		106,619			90,327		
			1,002,606			821,710	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	8	(912,417)			(822,001)		
NET CURRENT ASSETS/(LIABILITIES)			90,189			(291)	
TOTAL ASSETS LESS CURRENT LIABILITIES			301,937			188,608	
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR							
Convertible loan stock	9		(60,000)			(60,000)	
NET ASSETS			241,937			128,608	
CAPITAL AND RESERVES							
Called up share capital	10		115,000			115,000	
Profit and loss account	11		126,937			13,608	
TOTAL EQUITY SHAREHOLDERS' FUNDS			241,937			128,608	

These financial statements were approved by the Board of Directors on

Signed on behalf of the Board of Directors

D M Telling
Director

14 August 1998


CASH FLOW STATEMENT
 Year ended 14 March 1998

	Notes	1998		1997	
		£	£	£	£
Net cash inflow from operating activities	13		173,341		315,747
Returns on investments and servicing of finance					
Interest paid		(13,795)		(7,519)	
Interest elements of finance lease rental payments		(37)		(617)	
Net cash outflow from returns on investments and servicing of finance			(13,832)		(8,136)
Taxation					
Group relief received			-		9,975
Tax paid			(37,161)		-
Capital expenditure					
Payments to acquire tangible fixed assets		(120,122)		(151,014)	
Receipts from disposal of tangible fixed assets		15,586		765	
Net cash outflow from capital expenditure			(104,536)		(150,249)
Cash inflow before management of liquid resources and financing			17,812		167,337
Financing					
Capital element of finance lease rental payments			(1,520)		(3,670)
Increase in cash in the year	15		16,292		163,667

NOTES TO THE ACCOUNTS
Year ended 14 March 1998

1. ACCOUNTING POLICIES

Accounting convention

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

Turnover

Turnover represents the total, excluding sales taxes, receivable in respect of goods and services supplied.

Tangible fixed assets and depreciation

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

Office equipment	5 years
Plant	4 to 5 years
Motor vehicles	4 years

Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets at the estimated net present value of underlying lease payments and are depreciated in accordance with the above policy. Obligations under such agreements are included in creditors net of finance charges allocated to future periods. The finance element of the rental payments is charged to the profit and loss account over the period of the lease or hire purchase contract.

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

Deferred taxation

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

Pension costs

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


NOTES TO THE ACCOUNTS
Year ended 14 March 1998

2. OPERATING PROFIT is stated after charging/(crediting):	1998	1997
	£	£
Depreciation: owned fixed assets	79,666	50,941
Depreciation: assets under finance leases and hire purchase contracts	2,205	1,187
Operating lease rentals:		
- land and buildings	27,964	14,095
- plant and equipment	79,510	58,641
Auditors' remuneration: audit services	2,500	1,500
(Profit)/loss on disposal of tangible fixed assets	(184)	391
	<u> </u>	<u> </u>
 3. INTEREST PAYABLE	 1998	 1997
	£	£
On bank overdraft	13,617	10,103
On finance leases and hire purchase contracts terminating within five years	37	617
On loan stock	9,000	-
	<u> </u>	<u> </u>
	22,654	10,720
	<u> </u>	<u> </u>
 4. TAX ON PROFIT ON ORDINARY ACTIVITIES	 1998	 1997
	£	£
UK current year taxation		
UK corporation tax at 31% (1997: 33%)	68,100	38,000
Over provision in previous year	(839)	(75)
	<u> </u>	<u> </u>
	67,261	37,925
	<u> </u>	<u> </u>
 5. DIVIDENDS	 1998	 1997
	£	£
Ordinary:		
Final proposed of £0.12 (1997: £nil) per share	13,800	-
	<u> </u>	<u> </u>


NOTES TO THE ACCOUNTS
Year ended 14 March 1998
6. TANGIBLE FIXED ASSETS

Summary	Office equipment £	Plant and equipment £	Motor vehicles £	Total £
Cost				
At 16 March 1997	20,404	254,708	51,572	326,684
Additions	8,677	46,125	39,340	94,142
Group transfers in	13,700	37,887	22,952	74,539
Group transfers out	-	-	(17,690)	(17,690)
Disposals	-	-	(7,576)	(7,576)
At 14 March 1998	42,781	338,720	88,598	470,099
Depreciation				
At 16 March 1997	6,557	111,824	19,404	137,785
Charge for the year	7,299	53,578	20,994	81,871
Group transfers in	5,153	33,459	9,947	48,559
Group transfers out	-	-	(6,804)	(6,804)
Disposals	-	-	(3,060)	(3,060)
At 14 March 1998	19,009	198,861	40,481	258,351
Net book value				
Owned assets	23,772	139,859	48,117	211,748
Leased assets	-	-	-	-
At 14 March 1998	23,772	139,859	48,117	211,748
Owned assets	13,847	136,099	32,168	182,114
Leased assets	-	6,785	-	6,785
At 15 March 1997	13,847	142,884	32,168	188,899

Capital commitments

At 14 March 1998 the directors had authorised capital expenditure of £179,000 (1997: £232,000).

7. DEBTORS	1998 £	1997 £
Trade debtors	783,146	660,009
Amounts owed by parent undertaking and fellow subsidiary undertakings	80,685	70,742
Other debtors	-	632
Prepayments	31,406	-
Advance corporation tax recoverable	750	-
	895,987	731,383

NOTES TO THE ACCOUNTS
Year ended 14 March 1998

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	1998	1997
	£	£
Trade creditors	367,917	199,247
Other creditors	238	5,449
Amounts owed to parent undertaking and fellow subsidiary undertakings	231,262	278,960
Obligations under finance leases and hire purchase contracts	-	1,520
Other taxes and social security costs	160,142	266,632
Accruals and deferred income	70,208	32,193
Corporation tax	68,100	38,000
Proposed dividend	13,800	-
Advance corporation tax	750	-
	<u>912,417</u>	<u>822,001</u>

Obligations under finance leases and hire purchase contracts are secured by related leased assets.

9. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	1998	1997
	£	£
Convertible redeemable unsecured loan stock 2004	<u>60,000</u>	<u>60,000</u>

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

The holder has confirmed that the loan stock will not be converted until after March 1999.

10. CALLED UP SHARE CAPITAL

Authorised	1998	
	No.	£
£1 'A' ordinary shares	90,000	90,000
£1 'B' ordinary shares	60,000	60,000
	<u>150,000</u>	<u>150,000</u>
 Allotted and fully paid	 1998	 1997
	£	£
£1 'A' ordinary shares	90,000	90,000
£1 'B' ordinary shares	25,000	25,000
	<u>115,000</u>	<u>115,000</u>

NOTES TO THE ACCOUNTS
Year ended 14 March 1998

10. CALLED UP SHARE CAPITAL (continued)

Rights attached to shares

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

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

Both classes of shareholder have equal voting rights.

11. PROFIT AND LOSS ACCOUNT

	£
At 16 March 1997	13,608
Retained profit for the year	113,329
	<hr/>
At 14 March 1998	126,937
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12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £	1997 £
Profit for the financial year	127,129	74,270
Dividends	(13,800)	-
	<hr/>	<hr/>
Net addition to shareholders' funds	113,329	74,270
Opening shareholders' funds	128,608	54,338
	<hr/>	<hr/>
Closing shareholders' funds	241,937	128,608
	<hr/> <hr/>	<hr/> <hr/>

13. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1998 £	1997 £
Operating profit	217,044	122,915
Depreciation charges	81,871	52,128
Increase in debtors	(163,854)	(386,657)
Increase in creditors	38,464	526,970
(Profit)/loss on disposal of tangible fixed assets	(184)	391
	<hr/>	<hr/>
Net cash inflow from operating activities	173,341	315,747
	<hr/> <hr/>	<hr/> <hr/>


NOTES TO THE ACCOUNTS
 Year ended 14 March 1998

14. ANALYSIS OF CHANGES IN NET FUNDS

	At 16 March 1997 £	Cash flows £	At 14 March 1998 £
Cash at bank and in hand	90,327	16,292	106,619
Debt due after one year	(60,000)	-	(60,000)
Finance leases	(1,520)	1,520	-
	<u>28,807</u>	<u>17,812</u>	<u>46,619</u>

15. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	1998 £	1997 £
Increase in cash in the year	16,292	163,667
Cash outflow from decrease in debt and lease financing	1,520	3,670
Change in net funds resulting from cash flows	17,812	167,337
Net funds/(debt) at 15 March	28,807	(138,530)
Net funds at 14 March	<u>46,619</u>	<u>28,807</u>

16. FINANCIAL COMMITMENTS
Operating leases

At 14 March 1998 the company had annual commitments under non-cancellable operating leases as follows:

	1998		1997	
	Land and buildings £	Other £	Land and buildings £	Other £
Expiry date - within one year	-	12,130	7,000	36,351
- between two and five years	9,178	41,787	-	37,662
- in over five years	19,640	-	7,095	-
	<u>28,818</u>	<u>53,917</u>	<u>14,095</u>	<u>74,013</u>

Commitments on behalf of group undertakings

The company is party with other group undertakings to cross-guarantees of each other's bank overdrafts. As at 14 March 1998, the overall commitment was nil.


NOTES TO THE ACCOUNTS
Year ended 14 March 1998
17. DIRECTORS

	1998 £	1997 £
The emoluments of directors of the company were:		
Fees and other emoluments (including benefits-in-kind)	62,220	46,216

	No.	No.
The number of directors who were members of a defined benefit pension scheme	1	1

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

18. EMPLOYEES
Number of employees

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

	1998 No.	1997 No.
Operatives	1,472	1,040
Administration and management	31	19
	1,503	1,059

Employment costs	£	£
Wages and salaries	4,484,186	3,085,790
Social security costs	139,553	89,994
Pension costs	22,371	11,120
	4,646,110	3,186,904

**NOTES TO THE ACCOUNTS**
Year ended 14 March 1998**19. RELATED PARTY TRANSACTIONS**

MITIE Group PLC is a 78% shareholder of MITIE Cleaning (Midlands) Limited.

During the year management charges of £101,000 and £3,327 were paid to MITIE Group PLC and MITIE Engineering (Midlands) Limited respectively, both of which are intergroup companies. Included in creditors at the year end was £2,259 in respect of the amount due to MITIE Engineering Services (Midlands) Limited.

Rent and rates of £12,666 was paid to MITIE Property Services Limited, a wholly owned subsidiary of MITIE Group PLC, during the year.

MITIE Cleaning (Midlands) Limited acquired fixed assets at a cost of £25,980 from group undertakings, and disposed of fixed assets for proceeds of £10,886 to group undertakings during the year.

Goods and services purchased from fellow subsidiary companies during the year totalled £1,812. Included in creditors at the year end is £1,028 in respect of these purchases.

Goods and services provided to fellow subsidiary companies during the year totalled £6,535. Included in debtors at the year end is £4,278 in respect of these services.

20. PARENT UNDERTAKING

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