

Company Registration Number 4957244

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

Report and Financial Statements

31 March 2007

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MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

REPORT AND FINANCIAL STATEMENTS 2007

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MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

C S Acheson
S C Baxter
D Freeman
J J Kavanagh
R McGregor-Smith
K Mills
G A Morgans
I J Thompson

SECRETARY

MITIE Company Secretarial Services Limited (appointed 30 June 2006)
C K Ross (resigned 30 June 2006)

REGISTERED OFFICE

8 Monarch Court
The Brooms
Emersons Green
Bristol
BS16 7FH

BANKERS

HSBC Bank plc
49 Corn Street
Bristol
BS99 7PP

AUDITORS

Deloitte & Touche LLP
Bristol

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

DIRECTORS' REPORT

The directors present their annual report and audited financial statements for the year ended 31 March 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these 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 United Kingdom 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, 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 is a majority owned subsidiary of MITIE Group PLC (the 'Group'). The company provides installation of electrical and mechanical services in commercial, industrial and domestic premises. There have not been any significant changes in the company's principal activities in the year under review and the directors are not aware of any likely major changes.

As shown in the company's profit and loss account on page 7, the company's sales have increased by 2% over the prior period. A loss after tax was sustained, due to lower margins and higher overheads.

The balance sheet on page 8 of the financial statements shows that the company's financial position at the year end has, in net assets terms, deteriorated and shows a small deficit. The dividend paid out in the year was approved and paid in September 2006, when the company still showed a net asset surplus after the dividend, and before an unexpected downturn in the second half of the year.

The directors expect an improved performance in the forthcoming year.

The Group manages its operations on a divisional basis. For this reason, the company's directors do not believe further key performance indicators are necessary for an appropriate understanding of the performance and position of the business. The performance of the Group's divisions is discussed in the Group's annual report which does not form part of this report.

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

DIRECTORS' REPORT (continued)

DIVIDENDS

A final dividend of 90 52p (2006 18 46p) per 'A' ordinary share and 8p (2006 8p) per 'B' ordinary share were approved and paid during the year

PRINCIPAL RISKS AND UNCERTAINTIES

Loss of key customers is a key risk to the business. The company manages this risk by developing and maintaining strong relationships with these customers.

Group risks are discussed in the Group's annual report which does not form part of this report.

FINANCIAL RISK MANAGEMENT

The directors have reviewed the financial risk management objectives and policies of the company. The directors do not believe there to be significant risks in this area. The company does not enter into any hedging instruments, as there are not believed to be any material exposures. It does not enter into any financial instruments for speculative purposes.

Appropriate trade terms are negotiated with suppliers and customers. Management reviews these terms and the relationships with suppliers and customers and manages any exposure on normal trade terms. The company prepares regular forecasts of cash flow and liquidity and any requirement for additional funding is managed as part of the overall MITIE Group PLC financing arrangements.

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 31 March 2007 trade creditors, as a proportion of amounts invoiced from suppliers for the financial year, represented 92 days (2006 71 days).

ENVIRONMENT

MITIE Group PLC and its subsidiaries endeavour to identify, monitor and manage the impact of their activities on the environment and are fully committed to environmental accountability and protection. The company operates in accordance with Group policies, which are described in the Group's annual report which does not form part of this report.

EMPLOYEES

The company offers equal opportunities to all applicants for employment whatever their sex, race or religion. Disabled persons are considered for employment, training, career development and promotion on the basis of their aptitudes and abilities in common with all employees, providing the disability does not make the particular employment impractical or the employee unable to conform to the stringent regulations which apply to the operations of the company.

The company recognises the importance of good communications and employee relationships. In each company there is a relationship between the Chief Executive of MITIE Group PLC and individual employees in the company. In these conditions, complex consultative procedures are seldom required to ensure that there is an understanding of the purpose of the business and the commercial realities of success. Employees are encouraged to become shareholders through the Savings Related Share Option Scheme.

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

DIRECTORS' REPORT (continued)

DIRECTORS AND THEIR INTERESTS

The directors during the year and subsequently were as follows

C S Acheson	
D Freeman	
J J Kavanagh	
R McGregor-Smith	
K Mills	
G A Morgans	
I J Thompson	
S C Baxter	(appointed 8 May 2006)
I R Stewart	(resigned 30 March 2007)

The beneficial interests of the directors and their families in the share capital of the company were as follows

	At 31 March 2007 £1 'B' ordinary shares No.	At 1 April 2006 £1 'B' ordinary shares No.
R McGregor-Smith	1,500	1,500
K Mills	15,000	15,000
G A Morgans	15,000	15,000
I J Thompson	15,000	15,000

No other director had an interest in the share capital of the company

C S Acheson, S C Baxter, R McGregor-Smith and I R Stewart are directors of MITIE Group PLC, the parent undertaking, and their interests in and options of the share capital of that company and other group companies are shown in the financial statements of MITIE Group PLC

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

	At 31 March 2007 2 5p Ordinary shares No.	At 1 April 2006 2.5p Ordinary shares No.
D Freeman	761,336	821,336
I J Thompson	5,332	4,413

No other director had an interest in the share capital of MITIE Group PLC

J J Kavanagh has an interest in the share capital of MITIE Engineering Services (Midlands) Limited, details of which are disclosed in the accounts of that company

No other director had any other interest in the share capital of any other group company

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

DIRECTORS' REPORT (continued)

DIRECTORS AND THEIR INTERESTS (continued)

Share options

		At 1 April 2006	Granted during the period Options	Price	Exercise period From	To	Exercised during the period Options	Price	At 31 March 2007
G A Morgans	(i)	2,389	-	-	2007	2008	-	-	2,389
	(i)	2,654	-	-	2008	2009	-	-	2,654
	(i)	-	2,927	1.65	2011	2012	-	-	2,927
	(ii)	12,000	-	-	2005	2012	-	-	12,000
	(ii)	7,000	-	-	2006	2013	7,000	1.32	-
I J Thompson	(i)	1,493	-	-	2007	2008	-	-	1,493
	(ii)	8,000	-	-	2004	2011	-	-	8,000
	(ii)	7,000	-	-	2006	2013	-	-	7,000

- (i) Options under the Savings Related Option Scheme
(ii) Options under the Executive Share Option Scheme

No other director held share options in MITIE Group PLC at the beginning or end of the year

Further details of the MITIE Group PLC share scheme are given in the accounts of that company

AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- (2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

A resolution to reappoint Deloitte & Touche LLP as the company's auditors will be proposed in the forthcoming Annual General Meeting

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



S C Baxter
Director

12 July 2007

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

We have audited the financial statements of MITIE Engineering Services (West Midlands) Limited for the year ended 31 March 2007 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes 1 to 24. 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the company's affairs as at 31 March 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
Bristol, United Kingdom

16 July 2007

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

PROFIT AND LOSS ACCOUNT
Year ended 31 March 2007

	Note	Continuing operations 2007 £	2006 £
TURNOVER	1	4,200,747	4,118,207
Cost of sales		(3,739,890)	(3,285,433)
GROSS PROFIT		460,857	832,774
Administrative expenses		(785,941)	(654,626)
OPERATING (LOSS)/PROFIT	2	(325,084)	178,148
Interest received and similar income	3	4,851	11,675
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(320,233)	189,823
Tax credit/(charge) on (loss)/profit on ordinary activities	4	96,400	(57,441)
(LOSS)/PROFIT FOR THE FINANCIAL YEAR	13	(223,833)	132,382

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

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

BALANCE SHEET
At 31 March 2007

	Note	2007		2006	
		£	£	£	£
FIXED ASSETS					
Tangible assets	6		77,096		86,229
CURRENT ASSETS					
Stocks	7	270		-	
Debtors	8	1,107,840		1,028,786	
Cash at bank and in hand		-		35,431	
		1,108,110		1,064,217	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	9	(1,186,190)		(859,196)	
NET CURRENT (LIABILITIES)/ASSETS			(78,080)		205,021
TOTAL ASSETS LESS CURRENT LIABILITIES			(984)		291,250
PROVISIONS FOR LIABILITIES	10		-		(252)
NET (LIABILITIES)/ASSETS			(984)		290,998
SHARE CAPITAL AND RESERVES					
Called up share capital	11		150,000		150,000
Capital contribution reserve	12		6,983		-
Profit and loss account	13		(157,967)		140,998
TOTAL SHAREHOLDERS' (DEFICIT)/FUNDS	14		(984)		290,998

These financial statements were approved by the Board of Directors on 12 July 2007

Signed on behalf of the Board of Directors



S C Baxter
Director

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

CASH FLOW STATEMENT
Year ended 31 March 2007

	Notes	2007		2006	
		£	£	£	£
Net cash inflow/(outflow) from operating activities	15		61,004		(74,797)
Returns on investments and servicing of finance					
Interest received			4,690		12,123
Taxation					
UK corporation tax paid			(32,735)		(32,513)
Capital expenditure					
Payments to acquire tangible fixed assets		(29,551)		(57,529)	
Receipts from disposal of tangible fixed assets		8,561		3,000	
Net cash outflow from capital expenditure			(20,990)		(54,529)
Equity dividends paid			(75,132)		(20,000)
Decrease in cash in the year	17		(63,163)		(169,716)

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 March 2007**

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted, which have been applied consistently throughout the current and the prior financial year with the exception of FRS 20 'Share-Based Payments', are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Turnover

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

Tangible fixed assets and depreciation

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

Plant and office equipment	3 to 10 years
Motor vehicles	4 years

Leasing and hire purchase commitments

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

Long-term contracts

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the net sales value of the work done less amounts receivable as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included as long-term contract balances in stock.

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

Tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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 the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. 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.

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

1. ACCOUNTING POLICIES (continued)

Pension costs

The company participates in the MITIE Group PLC Pension Schemes. One is a defined benefit multi-employer scheme, the assets and liabilities of which are held independently from the group. For the purposes of Financial Reporting Standard 17 ('Retirement Benefits'), the company has been unable to identify its share of the underlying assets and liabilities in the main group scheme on a consistent and reasonable basis. Therefore the company is accounting for contributions to the scheme as if it were a defined contributions scheme.

For defined contributions schemes the amount charged to the profit and loss account is the contributions payable in the year.

Shared-based payments

The company participates in a number of MITIE Group PLC executive and employee share option schemes. For all grants of share options, the fair value as at the date of grant is calculated using the Black-Scholes model and the corresponding expense is recognised on a straight-line basis over the vesting period based on the company's estimate of shares that will actually vest.

On 1 April 2006, the company applied the requirement of FRS 20 'Share-Based Payment'. In accordance with the transitional provision, FRS 20 has been applied to all grants after 7 November 2002 that had not vested before 1 April 2005.

Change in accounting policy

The financial statements for the year ended 31 March 2007 have been drawn up using the same accounting policies as for the year ended 31 March 2006 subject to the adoption of FRS 20 'Share-Based Payment' this year. The effect of adopting FRS 20 has increased the retained loss at 31 March 2007 by £4,888, increased deferred tax assets by £2,095 and given rise to a capital contribution from MITIE Group PLC of £6,983. The impact on the prior year is not material, therefore a prior year adjustment has not been made.

2. OPERATING (LOSS)/PROFIT

	2007 £	2006 £
Operating (loss)/profit is stated after charging/(crediting)		
Depreciation on owned assets	31,304	25,537
Auditors' remuneration - audit services	3,960	3,600
Profit on disposal of tangible fixed assets	(1,181)	(3,000)

Fees payable to Deloitte & Touche LLP and their associates for non-audit services to the company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

3. INTEREST RECEIVED AND SIMILAR INCOME

	2007 £	2006 £
Bank interest	4,851	11,675

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2007

4. TAX (CREDIT)/CHARGE ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	2007	2006
(a) Analysis of (credit)/charge in year	£	£
United Kingdom corporation tax at 30% (2006 30%)	-	57,529
Adjustment in respect of prior years	(57,530)	994
Total current tax (note 4(b))	(57,530)	58,523
Deferred taxation		
Timing differences - origination and reversal	(38,824)	1,106
Adjustment in respect of prior years	(46)	(2,188)
Tax (credit)/charge on (loss)/profit on ordinary activities	(96,400)	57,441

(b) Factors affecting tax charge in year

The tax assessed for the year differs from that resulting from applying the standard rate of corporation tax in the UK of 30% (2006 30%) The differences are as follows

	£	£
(Loss)/profit on ordinary activities before tax	(320,233)	189,823
	£	£
Tax at 30% (2006 30%) thereon	(96,070)	56,947
Expenses not deductible for tax purposes	(496)	1,688
Difference between depreciation and capital allowances	9,037	(806)
Other timing differences	2,184	(300)
Generation of tax losses	85,345	-
Adjustment in respect of prior years	(57,530)	994
Current tax (credit)/charge for the year (note 4(a))	(57,530)	58,523

(c) Factors affecting future tax charges

The expected reduction in the corporation tax rate to 28% is not anticipated to materially affect the future tax charge

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2007

5. DIVIDENDS

The dividends approved and paid in the year are as follows	2007	2006
	£	£
90 52p (2006 18 46p) per share on £1 'A' ordinary shares	69,252	14,120
8p (2006 8p) per share on £1 'B' ordinary shares	5,880	5,880
	<u>75,132</u>	<u>20,000</u>

6. TANGIBLE FIXED ASSETS

	Plant and office equipment	Motor vehicles	Total
	£	£	£
Cost			
At 1 April 2006	23,816	106,902	130,718
Additions	18,560	10,991	29,551
Disposals	(2,760)	(11,883)	(14,643)
	<u>39,616</u>	<u>106,010</u>	<u>145,626</u>
At 31 March 2007			
Depreciation			
At 1 April 2006	8,995	35,494	44,489
Charge for the year	6,500	24,804	31,304
Disposals	(826)	(6,437)	(7,263)
	<u>14,669</u>	<u>53,861</u>	<u>68,530</u>
At 31 March 2007			
Net book value			
At 31 March 2007	<u>24,947</u>	<u>52,149</u>	<u>77,096</u>
At 31 March 2006	<u>14,821</u>	<u>71,408</u>	<u>86,229</u>

Capital commitments

At 31 March 2007 the directors had authorised capital expenditure of nil (2006 nil)

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2007

7. STOCKS	2007	2006
	£	£
Work in progress	270	-

8. DEBTORS	2007	2006
	£	£
Trade debtors	913,457	948,778
Amounts recoverable on contracts	61,029	79,313
Amounts owed by group undertakings	10,878	-
Other debtors	16,396	272
Prepayments	9,720	423
Corporation tax	57,742	-
Deferred tax	38,618	-
	1,107,840	1,028,786

A deferred tax asset of £38,618 has been recognised at 31 March 2007 (2006 nil). This asset relates to negative accelerated capital allowances, revenue losses and short term timing differences. The amount credited to the profit and loss account in the year was £38,870 (2006 credit of £1,082). The directors are of the opinion that suitable profits will be available in the periods when these differences will reverse.

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2007	2006
	£	£
Bank overdraft	27,732	-
Trade creditors	1,074,760	637,653
Amounts owed to group undertakings	40,662	105,619
Corporation tax	-	32,735
Other taxes and social security costs	22,489	49,345
Accruals and deferred income	19,966	33,844
Other creditors	581	-
	1,186,190	859,196

10. PROVISIONS FOR LIABILITIES	2007	2006
	£	£
Deferred taxation (see notes 4 and 8)	-	252

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2007

11. CALLED UP SHARE CAPITAL	2007 £	2006 £
Authorised		
153,000 £1 'A' ordinary shares	153,000	153,000
147,000 £1 'B' ordinary shares	147,000	147,000
	<u>300,000</u>	<u>300,000</u>
	£	£
Allotted, called up and fully paid		
76,500 £1 'A' ordinary shares	76,500	76,500
73,500 £1 'B' ordinary shares	73,500	73,500
	<u>150,000</u>	<u>150,000</u>

Rights attaching to shares

The rights attaching to the 'A' and 'B' £1 ordinary shares are as follows

Income

Subject to the approval of the board, the profits of the company available for distribution in respect of any financial year shall be applied

- (i) first, in paying to the shareholders of 'A' shares and 'B' shares a dividend of such amount as the board shall decide,
- (ii) second, in paying as a cumulative dividend to the holders together of the 'A' shares one half of the profits of the company available for distribution in each financial year less the amounts already paid in respect of the 'A' shares under clause (i) together with any arrears of such cumulative dividend unpaid from any previous financial year insofar as there is sufficient profit remaining after the payment in clause (i), and
- (iii) third, the balance of the profits available for distribution which are resolved to be distributed shall be distributed among the holders of the 'A' shares and 'B' shares *pari passu* as if they constituted one class of share

Every dividend shall be distributed to the appropriate shareholders *pro rata* according to the nominal value of the shares held by them respectively

Capital

On a return of capital, the assets of the company will be distributed equally to all ordinary shareholders

Voting

Each 'A' and 'B' share will carry one vote

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2007

12. CAPITAL CONTRIBUTION RESERVE

	£
At 1 April 2006	-
Increase for the financial year	6,983
	<hr/>
At 31 March 2007	6,983
	<hr/>

13. PROFIT AND LOSS ACCOUNT

	£
At 1 April 2006	140,998
Loss for the financial year	(223,833)
Dividends (note 5)	(75,132)
	<hr/>
At 31 March 2007	(157,967)
	<hr/>

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' (DEFICIT)/FUNDS

	2007 £	2006 £
(Loss)/profit for the financial year	(223,833)	132,382
Dividends (note 5)	(75,132)	(20,000)
Capital contribution reserve	6,983	-
	<hr/>	<hr/>
Net (reduction)/addition to shareholders' (deficit)/funds	(291,982)	112,382
Opening shareholders' funds	290,998	178,616
	<hr/>	<hr/>
Closing shareholders' (deficit)/funds	(984)	290,998
	<hr/>	<hr/>

15. RECONCILIATION OF OPERATING (LOSS)/PROFIT TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2007 £	2006 £
Operating (loss)/profit	(325,084)	178,148
Depreciation	31,304	25,537
Profit on disposal of tangible fixed assets	(1,181)	(3,000)
Increase in stocks	(270)	-
Increase in debtors	17,467	(620,594)
Increase in creditors	331,785	345,112
Share-based payment expense	6,983	-
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	61,004	(74,797)
	<hr/>	<hr/>

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2007

16. ANALYSIS OF CHANGES IN NET (DEBT)/FUNDS

	At 1 April 2006 £	Cash flow £	At 31 March 2007 £
Cash at bank and in hand	35,431	(35,431)	-
Overdraft	-	(27,732)	(27,732)
	<u>35,431</u>	<u>(63,163)</u>	<u>(27,732)</u>

17. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET (DEBT)/FUNDS

	2007 £	2006 £
Decrease in cash in the year	(63,163)	(169,716)
Net funds at beginning of year	35,431	205,147
Net (debt)/funds at end of year	<u>(27,732)</u>	<u>35,431</u>

18. FINANCIAL COMMITMENTS

Commitments on behalf of group undertakings

The company is party with other group undertakings to cross-guarantees of each other's bank overdrafts and loans. As at 31 March 2007, the overall commitment was £20 million (2006 £33 million)

19. DIRECTORS

	2007 £	2006 £
The emoluments of the directors of the company were		
Fees and other emoluments (excluding pension contributions but including benefits-in-kind)	<u>158,011</u>	<u>171,754</u>
	No.	No.
The number of directors paid by the company who were members of a defined benefit pension scheme	<u>1</u>	<u>2</u>

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

19. DIRECTORS (continued)

C S Acheson, S C Baxter, R McGregor-Smith and I R Stewart are remunerated by MITIE Group PLC, D Freeman is remunerated by MITIE Engineering Services Limited and J J Kavanagh is remunerated by MITIE Engineering Services (Midlands) Limited. It is not practicable to allocate their remuneration between their services as directors of MITIE Engineering Services (West Midlands) Limited and their services as directors of other group companies.

No directors exercised options in the shares of the ultimate holding company, MITIE Group PLC, during the year (2006: no directors).

C S Acheson, S C Baxter, R McGregor-Smith and I R Stewart are directors of MITIE Group PLC and their emoluments and pension details are disclosed in the group financial statements.

20. EMPLOYEES

Number of employees

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

	2007 No.	2006 No.
Administration and management	13	9
Employment costs	£	£
Wages and salaries	403,476	319,853
Social security costs	49,632	38,560
Pension costs	7,607	8,817
Share-based payments expense (see note 21)	6,983	-
	<u>467,698</u>	<u>367,230</u>

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2007

21. SHARE-BASED PAYMENTS

The company participates in the following MITIE Group PLC share option schemes

The MITIE Group PLC 2001 Executive share option scheme

The Executive share option scheme is open to all employees. The exercise price is equal to the market value of the shares on the date of grant. The vesting period is three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options may be forfeited if the employee leaves the Group. Before options can be exercised, the performance condition that must be satisfied is that the percentage growth in the earnings per share over a three year period must be equal or greater than 10.0% per annum compound.

The MITIE Group PLC 2001 Savings Related share option scheme

The Savings Related share option scheme is open to all employees. The exercise price is not less than 80.0% of the market value of the shares on the day preceding the date on which invitations to participate in the Scheme are issued. The vesting period is five years. If the options remain unexercised after a period of five years and nine months from the date of grant, the options expire. Options may be forfeited if the employee leaves the Group.

Details of the share options outstanding during the year are as follows

	2007		2006	
	Number of share options	Weighted average exercise price (in p)	Number of share options	Weighted average exercise price (in p)
Outstanding at the beginning of the period ⁽¹⁾	50,211	129	40,536	127
Granted during the period	6,830	165	9,675	138
Exercised during the period	(7,000)	132	-	-
Outstanding at the end of the period	50,041	134	50,211	129
Exercisable at the end of the period	27,000	129	20,000	128

⁽¹⁾ Included within this balance are 23,882 (2006: 23,882) options that have not been recognised in accordance with FRS 20 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with FRS 20. Their exercise prices range from 57p to 174p (2006: 57p to 174p).

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

21. SHARE-BASED PAYMENTS (continued)

The company recognised the following expenses related to share-based payments

	2007 £
2001 Executive share options	4,967
2001 Saving Related share options	2,016
	<u>6,983</u>

The weighted average share price at the date of exercise for share options exercised during the period was 239p (2006 nil)

The options outstanding at 31 March 2007 had a weighted average exercise price of 134p (2006 129p) and a weighted average remaining contractual life of 4.54 years (2006 5.71 years)

In the year ended 31 March 2007, options were granted on 22 June 2006 and 24 July 2006 in respect of the Executive and Savings Related share option schemes respectively. The aggregate of the estimated fair values of the options granted on those dates is £2,659.

In the year ended 31 March 2006, options were granted on 23 June 2005 and 20 July 2005 in respect of the Executive and Savings Related share option schemes respectively. The aggregate of the estimated fair values of the options granted on those dates is £3,586.

The fair value of options is measured by use of the Black-Scholes models. The inputs into the Black-Scholes model are as follows:

	2007	2006
Share price (p)	130 to 193	98 to 161
Exercise price (p)	120 to 191	99 to 162
Expected volatility (%)	28 to 30	28 to 30
Expected life (years)	4 to 6	5 to 6
Risk-free rate (%)	4.17 to 5.12	4.17 to 5.12
Expected dividends (%)	1.43 to 2.29	1.43 to 2.12

Expected volatility was based on historical volatility over the expected life of the schemes. The expected life is based upon historical data and has been adjusted based on management's best estimates for the effects of non-transferability, exercise restrictions and behavioural considerations.

MITIE ENGINEERING SERVICES (WEST MIDLANDS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

22. RELATED PARTY TRANSACTIONS

At 31 March 2007 MITIE Group PLC is a 64% shareholder of MITIE Engineering Services (West Midlands) Limited

MITIE Engineering Services (West Midlands) Limited paid management charges of £171,909 (2006 £159,712) to companies within MITIE Group PLC. An amount of £nil (2006 £5,875) remained outstanding in respect of these charges at the year end

MITIE Engineering Services (West Midlands) Limited received management charges of £1,750 (2006 £nil) from companies within MITIE Group PLC. An amount of £1,750 (2006 £nil) is included in debtors in respect of this income at the year end

During the year, MITIE Engineering Services (West Midlands) Limited provided goods and services amounting to £9,703 (2006 £9,426) to companies within the MITIE Group PLC on normal commercial terms. £9,703 (2006 £nil) is included in debtors in respect of these services at the year end

During the year, MITIE Engineering Services (West Midlands) Limited purchased goods and services amounting to £86,736 (2006 £365,802) from companies within the MITIE Group PLC on normal commercial terms. An amount of £40,662 (2006 £99,744) is included in creditors in respect of these charges at the year end

23. PENSION ARRANGEMENTS

The company participates in the MITIE Group PLC Pension Scheme. This is a defined benefit multi-employer scheme, the assets and liabilities of which are held independently from the group. For the purposes of Financial Reporting Standard 17 ('Retirement Benefits'), the company has been unable to identify its share of the underlying assets and liabilities in the main group scheme on a consistent and reasonable basis. Therefore the company is accounting for contributions to the scheme as if it were a defined contribution scheme. Note 30 to the Report and Accounts of the group sets out the details of the International Accounting Standard 19 'Employee Benefits' net pension surplus of £0.5 million (2006 £1.8 million)

Contributions to the scheme for the period are shown in note 20 and the agreed contribution rate for the next 12 months is 10% (2006 10%) and 7.5% (2006 7.5%) for the group and employees respectively

24. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

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