MEARS

GROUP PLC

UNAUDITED INTERIM REPORT 2005

IMPROVING HOMES, IMPROVING NEIGHBOURHOODS, **IMPROVING LIVES**

OUR VISION... TO CONTINUALLY STRENGTHEN OUR POSITION AS MARKET LEADER IN TRANSFORMING THE SOCIAL HOUSING ENVIRONMENT BY IMPROVING HOMES, IMPROVING NEIGHBOURHOODS AND IMPROVING LIVES.

Mears is the largest social housing repairs and maintenance provider in the UK. We work in partnership with clients to manage, maintain, repair and upgrade people's homes. We believe tenants should be treated as partners and always put their needs at the heart of what we do.

More than 2,300 Mears people are out there supporting our clients and helping tenants to enjoy a better quality of life. Together, we look after more than 450,000 homes and carry out more than one million repairs a year.

We listen carefully to the needs of our partners, we work hard to provide truly excellent services and we constantly try to find better ways to do things. Our continued strong performance in 2005 underlines the financial and operational strengths of this Group and our desire to be the recognised leader in our market.

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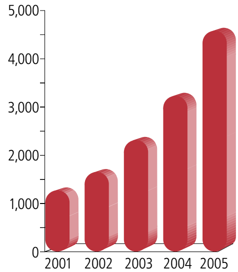
Financial Highlights

Turnover	up 18.4%
Pre tax profit*	up 41.8%
EPS**	up 40.6%
Interim dividend	up 40.0%
Net funds	£4.4m
Order book	£960m stretching to 2019

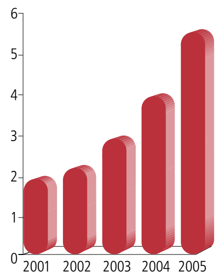
Profit before tax *
£'000

+41.8%



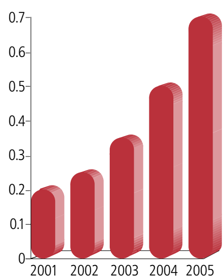
Earnings per share **
pence

+40.6%



Interim dividend per share
pence

+40.0%



* Pre-goodwill amortisation
** Full tax, pre-goodwill amortisation

EXCELLENT RESULTS... WE CONTINUE TO ENJOY A FANTASTIC OPPORTUNITY AT MEARS AND WE ARE LUCKY TO BE PART OF SOMETHING SPECIAL.

Chairman's Statement

The highlights of our performance for the first half of 2005 are:

- **Profit before tax and goodwill amortisation up 41.8%**
- **Social housing turnover up 51.8%**
- **Cash inflow of £1.7m after absorbing strong growth**
- **Contract wins valued at £220m**
- **Order book at £960m**
- **Normalised earnings per share pre-goodwill amortisation up 40.6%**
- **Dividend up 40%**

These results reflect the hard work of the Mears team who are committed to ***Improving Homes, Improving Neighbourhoods, Improving Lives.***

Our team is consistently delivering results that stand out in our sector because we are passionate about what we do in social housing.

Clarity and ambition

We are the market leader in social housing. Leadership is about excellent and sustainable financial performance; consistent, high quality, tenant-focused services, delivered in close partnership with good clients; and a genuinely innovative approach that makes a real difference to people's lives. I believe our job is to make tenants smile.

The opportunity continues to be huge

Social housing is a fragmented sector with relatively few large service providers. More and more Local Government clients are exploring the benefits of working with private sector providers and in developing long-term partnerships with a smaller number of large service providers. We see an addressable market opportunity in recurring repairs and maintenance of around £5bn a year.

The available spend from Central Government is also very healthy, with at least £3.5bn to be committed annually to the Decent Homes Standard, we believe the Decent Homes commitment is likely to last until 2015.

In Mears there is a strong client commitment to quality and to the community. Clients recognise that Mears people work extremely hard to meet their needs and the needs of their tenants. We are always looking to find better

Summary

- Consistent delivery of results that stand out in our sector
- Robust market with excellent addressable market opportunities
- Decent Homes commitment likely to last until 2015

ways to do things and to create long-term benefits and that approach resonates with those who care about the local community.

Community – at the heart of everything

Physical repairs and refurbishments are just one part of what makes a good neighbourhood tick. Communities are about people and I believe our work should set out to improve daily life in the neighbourhoods we serve. Our commitment to training and apprenticeship schemes demonstrates what can be achieved when service providers think outside the box. Through these schemes we employ and train people so they can manage and maintain housing in their area. This gives a boost to local employment and makes Mears part of the fabric of everyday life.

We have recently completed our 100 Days in the Community programme where all our stakeholders were able to contribute time and resource to locally based community initiatives. I was particularly heartened by the inclusion of shareholders, clients and of course our own employees of whom over 1,500 took part. A fantastic commitment to the wider community, well done.

Doing things the right way

As Mears grows it is increasingly important for us to recruit, develop and manage people to a consistently high standard. Our services are delivered at a local level and we must ensure that everyone within Mears is committed to providing truly excellent service.

Chairman's Statement continued

Doing things the right way continued
We continue to develop a One Mears Way, which plays an effective role in enabling current and new employees to understand and follow the right way to do things. We have built our success on these principles and everyone within the management team is dedicated to ensuring that our passion and standards continue to unite us as we grow.

Management team strengthened
We made a number of significant new appointments in the first half of the year to further strengthen the business. Stuart Black, the new Chief Executive, has strengthened the sales and marketing departments to ensure that the Group continues to be seen as a preferred supplier of services.

Looking ahead
I would like to thank everyone again at Mears for their continued hard work in 2005 and to congratulate them on the success they have achieved. The excellent figures reported are down to them and they should also take great satisfaction from the way their work has helped to improve the lives of others.

We continue to enjoy a fantastic opportunity at Mears and we are very lucky to be part of something special. If we can all rise to the challenges ahead we can achieve an enormous amount – together.

This is a very exciting time; I hope everyone at Mears will join me in working to strengthen our position as the outstanding leader in the social housing sector.

Bob Holt
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Chairman
30 August 2005

EXCEPTIONAL GROWTH... 2005 IS ALL ABOUT DELIVERING EXCELLENT SERVICES AND MAINTAINING EXCEPTIONAL LEVELS OF GROWTH, WHILE BRINGING EVEN GREATER FOCUS TO WHAT WE DO AND HOW WE DO IT.

Operating and Financial Review

Our performance underlines that Mears is the market leader in the social housing sector and is able to deliver impressive and sustainable growth.

Turnover
In the first half of 2005 we grew turnover to £96.3m (2004: £81.3m), an increase of 18.4%. Within this overall figure social housing turnover was up 51.8% reflecting the contract awards in the last year.

Profit before taxation and goodwill amortisation
We achieved profit before taxation and goodwill amortisation of £4.6m (2004: £3.2m), a 41.8% increase. Operating margins in our social housing activities edged up to 5.7% (2004: 5.5%), despite major growth in new work from contracts secured in late 2003 and 2004. United Fleet Distribution (UFD) achieved a 4.2% operating margin (2004: 4.0%).

Our ongoing investment in Group infrastructure provides scope for better margins and even greater customer satisfaction.

Goodwill amortisation at £0.3m was unchanged from 2004.

Acquisitions
The painting businesses we have acquired are now integrated into our social housing division and are focused on developing significant growth opportunities in the public sector.

Excellent market opportunities in social housing mean that organic growth is likely to maintain our momentum. However, we continue to seek out quality businesses which further our strategic ends and enable us to improve or broaden our services.

Interest
The Group maintained its broadly neutral cash position throughout the half year and generated a net interest receipt of £6k (2004: £0.07m charge). The focus on working capital management remains vital given the scale of growth we are experiencing.

Earnings per share and dividend
Basic earnings per share (EPS) before goodwill increased 41.0% to 5.67p (2004: 4.02p). Even after applying a full tax charge, EPS is still up 40.6% at 5.51p (2004: 3.92p).

The dividend increase is in line with our earnings growth. An interim dividend of 0.7p per share is declared (2004: 0.5p).

Operating and Financial Review continued

Earnings per share and dividend continued

The dividend is payable on 7 November 2005 to shareholders on the register on 21 October 2005.

Cash flow

The cash flow position underlines our strength as a business. A net cash inflow of £1.7m was achieved in the first half (2004: £0.3m inflow). The Group converted 94.7% of EBITDA into operating cash flow (2004: 70.0%). Some £1.9m was invested in new technology and operational bases, with six new sites opened in the period. Acquisitions absorbed £0.5m of cash.

Order book

The visibility of our earnings continues to improve. £220m of new work was secured in the first half year from eight customers. Our order book now stands at £960m. The element of market forecast turnover secured for 2006 is 72%, with some 62% of 2007.

We continue to place great emphasis on winning good quality contracts that can provide clear and sustainable margins. We also hold a healthy mix of Decent Homes and repairs and maintenance work, giving us a balanced position in the social housing market that is not reliant on clients' future discretionary spending.

Net assets

Asset value rose in the six months from £16.4m to £19.1m at June 2005. Net current assets within this improved by £0.6m to £5.0m. Net funds stood at £4.4m compared with £2.7m at December 2004.

Major contract wins

We achieved a number of major successes, winning contracts valued at £220m in total. Highlights included:

- ***Nottingham City Homes***
  Five year £50m contract to carry out Decent Homes improvements.
- ***Wakefield & District Housing***
  £100m over five years as part of the total spend of £420m to bring 32,000 houses up to meet the Decent Homes Standard.
- ***Shoreline Housing Partnership***
  £26m contract over five years to undertake Decent Homes improvements.
- ***Brighton & Hove City Council***
  Five year £10m contract to perform responsive repairs and voids work for 12,700 homes.

Market overview
Both the Decent Homes and repair and maintenance markets continue to offer significant opportunity for the Group.

It is now highly likely that the Government's Decent Homes Standard capital programme is likely to be extended as there are still over one million homes that do not meet the standard. 58 authorities out of the scheduled 192 missed the Government's deadline of July 2005 to start the process by submitting options appraisals.

The repair and maintenance market continues to thrive with a significant amount of activity coming from some of the larger conurbations in the north of England with Manchester, Newcastle, and Oldham all looking to enter into joint working arrangements with the private sector for repair and maintenance activity.

Local Authorities continue to come under increased Central Government scrutiny with the audit commission paying particular attention to delivery of repair and maintenance activities. A new key line of enquiry (KLOE) has been introduced to focus specifically on value for money and efficiency of maintenance services.

Our strategy
Social housing continues to offer the biggest and best long-term growth opportunities for Mears and our focus is firmly on this sector. In other words, our work is all about ***Improving Homes, Improving Neighbourhoods, Improving Lives.***

To support and reinforce our strategy we have introduced a number of operational and service changes during the first half:

- ***Group Executive established***
  In March we established our Group Executive responsible for all day to day operations. Its constitution is drawn from the key operational units together with all of our support functions. It operates on a monthly reporting cycle and is responsible to the PLC board for delivering the Group's business plan.

- ***Senior team strengthened***
  We have continued to build and develop our senior management team with senior appointments in Marketing and Sales, HR, IT, Procurement and Operations. We would like

WE HAVE THE RIGHT PEOPLE, THE RIGHT APPROACH AND A TREMENDOUS OPPORTUNITY TO REINFORCE OUR POSITION AS MARKET LEADER.

Operating and Financial Review continued

Senior team strengthened continued

to take this opportunity to welcome all of our new colleagues to the Group and wish them every success in their new roles. We are confident that each of them will play a significant role in our future development.

Integration of acquisitions

We have been particularly pleased with the progress of the newly acquired businesses within the Group. As such we have taken the decision to further integrate Scion and the smaller painting companies into mainstream Group activities. Scion is now part of our Haydon mechanical and electrical services and the painting companies are now part of our mainstream social housing offering. We believe that these changes will allow the acquired businesses to develop further and faster within the Group.

Investing in our support infrastructure

In addition to recruitment we have continued to invest in our support infrastructure. During the first half we have introduced a number of new systems and processes in HR, Finance, Sales and IT which develop further our support infrastructure. We are confident that these changes, together with those planned for the rest of the year, will ensure that we have the appropriate controls in place to support our growth.

Developing our service offering

We continually strive to improve the quality of our service, seeking new ways to enhance our offering, making it more relevant to the issues facing the social housing market. We are therefore pleased to announce that we have established a joint venture with one of our key clients Richmond Housing Partnership. The joint venture will be called Evolve and will pursue white collar housing management opportunities. The joint venture is in an embryonic stage at present but we are confident that it will help the Group broaden further our overall service offering.

Summary

- Significant opportunities for growth
- Clear strategic and operational focus on social housing sector
- Increased margins in core activities

→ *Exiting the FM marketplace*

As part of the strategic review undertaken early in 2005 we reviewed the progress of our FM operations. We reached the conclusion that our facilities management company lacked both the critical mass and presence to make a significant impact on the marketplace. This combined with the enormous opportunity in social housing resulted in our decision to exit the FM marketplace.

Outlook

Given our current bid pipeline of £645m and our prequalification pipeline of £1,453m we are confident that the social housing marketplace and the recent developments within it offer the Group significant opportunities for growth. Our market prospects and overall business outlook are excellent and we remain confident that we have the right people, the right approach and a tremendous opportunity to reinforce our position as market leader in the social housing sector.

David Robertson
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Finance Director
30 August 2005

Stuart Black
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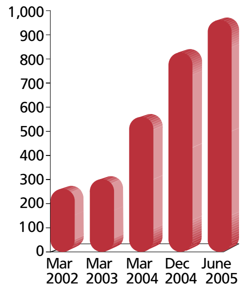
Chief Executive
30 August 2005

Order book growth
£m

£960m



Unaudited Interim Profit and Loss Account

for the six months ended 30 June 2005

	Note	**6 months to 30 June 2005 £'000**	6 months to 30 June 2004 £'000	Year to 31 December 2004 £'000
Turnover	1	**96,295**	81,331	173,685
Cost of sales		**(68,710)**	(61,082)	(128,766)
Gross profit		**27,585**	20,249	44,919
Administrative expenses		**(23,312)**	(17,345)	(38,081)
Operating profit		**4,273**	2,904	6,838
Share of operating profit in associate		**–**	3	4
		4,273	2,907	6,842
Net interest received/(paid)		**6**	(32)	(68)
Profit on ordinary activities before taxation		**4,279**	2,875	6,774
Tax on profit on ordinary activities	2	**(1,278)**	(911)	(1,855)
Profit on ordinary activities after taxation		**3,001**	1,964	4,919
Equity minority interests		**(2)**	(6)	(5)
Profit for the financial period		**2,999**	1,958	4,914
Dividends	3	**(410)**	(290)	(1,105)
Profit retained		**2,589**	1,668	3,809

Earnings per share				
Basic	4	**5.18p**	3.42p	8.54p
Basic – normalised, pre-amortisation	4	**5.51p**	3.92p	9.04p
Diluted	4	**4.79p**	3.20p	7.98p
Diluted – normalised, pre-amortisation	4	**5.10p**	3.68p	8.45p

Unaudited Consolidated Balance Sheet

as at 30 June 2005

	Note	**As at 30 June 2005 £'000**	As at 30 June 2004 £'000	As at 31 December 2004 £'000
Fixed assets				
Intangible assets		**10,123**	12,519	10,406
Tangible assets		**5,593**	3,654	4,450
Investment in associate		**–**	48	48
Investments		**–**	62	–
		15,716	16,283	14,904
Current assets				
Stocks		**7,345**	2,798	4,628
Debtors		**34,331**	29,292	30,410
Cash at bank and in hand		**11,688**	5,834	8,078
		53,364	37,924	43,116
Creditors: amounts falling due within one year		**(48,317)**	(34,835)	(38,624)
Net current assets		**5,047**	3,089	4,492
Total assets less current liabilities		**20,763**	19,372	19,396
Creditors: amounts falling due after more than one year		**(1,713)**	(5,211)	(2,960)
		19,050	14,161	16,436
Capital and reserves				
Called up share capital		**580**	576	579
Share premium account		**3,384**	3,230	3,362
Shares to be issued		**90**	90	90
Profit and loss account		**14,899**	10,169	12,310
Equity shareholders' funds	8	**18,953**	14,065	16,341
Equity minority interests		**97**	96	95
		19,050	14,161	16,436

Unaudited Consolidated Cash Flow Statement

for the six months ended 30 June 2005

	Note	**6 months to 30 June 2005 £'000**	6 months to 30 June 2004 £'000	Year to 31 December 2004 £'000
Net cash inflow from operating activities	5	**4,960**	2,569	6,661
Returns on investments and servicing of finance				
Interest received		**48**	8	16
Interest paid		**(39)**	(16)	(61)
Finance lease interest paid		**(4)**	(8)	(26)
Net cash inflow/(outflow) from returns on investments and servicing of finance		**5**	(16)	(71)
Taxation paid		**(875)**	(463)	(1,312)
Capital expenditure				
Purchase of tangible fixed assets		**(1,850)**	(826)	(2,540)
Sale of tangible fixed assets		**–**	–	11
Net cash outflow from capital expenditure		**(1,850)**	(826)	(2,529)
Acquisitions				
Purchase of subsidiary undertakings		**(550)**	(1,157)	(1,176)
Sale of associated undertaking		**30**	–	–
Net cash acquired with subsidiary undertakings		**–**	100	88
Net cash outflow from acquisitions		**(520)**	(1,057)	(1,088)
Equity dividends paid		**–**	–	(864)
Financing				
Issue of shares		**23**	195	330
Capital element of finance lease rentals		**(58)**	(115)	(210)
Net cash (outflow)/inflow from financing		**(35)**	80	120
Increase in cash	6	**1,685**	287	917

Unaudited Notes to the Financial Statements

for the six months ended 30 June 2005

1. Turnover and profit on ordinary activities before taxation

Turnover and profit on ordinary activities before taxation are attributable to the following activities carried out entirely within the UK.

	Turnover		Profit before taxation		Net assets	
	6 months to 30 June 2005 £'000	6 months to 30 June 2004 £'000	**6 months to 30 June 2005 £'000**	6 months to 30 June 2004 £'000	**As at 30 June 2005 £'000**	As at 30 June 2004 £'000
Maintenance, mechanical and electrical services	**91,864**	75,856	**4,032**	2,603	**17,084**	12,367
Vehicle collection and delivery	**4,431**	5,475	**247**	272	**1,966**	1,794
	96,295	81,331	**4,279**	2,875	**19,050**	14,161

2. Taxation

The tax charge for the six months ended 30 June 2005 has been based on the estimated tax rate for the full year.

3. Dividends

	6 months to 30 June 2005 £'000	6 months to 30 June 2004 £'000
Ordinary shares		
– interim dividend of 0.70p (2004: 0.50p) per share proposed	**410**	290

4. Earnings per share

Basic earnings per share is based on equity earnings of £3.00m (2004: £1.96m) and 57.94m (2004: 57.29m) ordinary shares of 1p each, being the average number of shares in issue during the period.

A normalised pre-amortisation earnings per share is disclosed in order to show performance undistorted by amortisation, the tax effect of the exercise of share options and the utilisation of tax losses acquired. The normalised pre-amortisation earnings per share is based on equity earnings (after adding back amortisation) of £3.19m (2004: £2.25m).

For diluted earnings per share the average number of shares in issue is increased to 62.65m (2004: 61.15m) to reflect the potential diluting effect of employee share schemes.

Unaudited Notes to the Financial Statements
continued
for the six months ended 30 June 2005

5. Net cash inflow from operating activities

	6 months to 30 June 2005 £'000	6 months to 30 June 2004 £'000	Year to 31 December 2004 £'000
Operating profit	**4,273**	2,904	6,838
Depreciation and amortisation	**924**	794	1,746
Loss on disposal of fixed assets	**18**	1	33
Increase in stocks	**(2,717)**	(2,258)	(2,043)
Increase in debtors	**(3,872)**	(2,023)	(5,235)
Increase in creditors	**6,334**	3,151	5,322
Net cash inflow from operating activities	**4,960**	2,569	6,661

6. Reconciliation of net cash flow to movement in net funds

	6 months to 30 June 2005 £'000	6 months to 30 June 2004 £'000	Year to 31 December 2004 £'000
Increase in cash	**1,685**	287	917
Cash outflow from financing	**58**	115	210
	1,743	402	1,127
Loans and finance leases acquired with subsidiaries	**–**	(36)	(30)
Net funds at 1 January 2005	**2,697**	1,600	1,600
Net funds at 30 June 2005	**4,440**	1,966	2,697

7. Analysis of changes in net funds

	At 1 January 2005 £'000	Cash flow £'000	**At 30 June 2005 £'000**
Cash at bank and in hand	8,078	3,610	**11,688**
Overdraft	(5,260)	(1,925)	**(7,185)**
	2,818	1,685	**4,503**
Finance leases	(121)	58	**(63)**
Cash at bank and in hand	2,697	1,743	**4,440**

8. Reconciliation of movements in equity shareholders' funds

	6 months to 30 June 2005 £'000	6 months to 30 June 2004 £'000	Year to 31 December 2004 £'000
Profit for the financial period	**2,999**	1,958	4,914
Dividends	**(410)**	(290)	(1,105)
	2,589	1,668	3,809
Issue of shares	**23**	195	330
Net increase in equity shareholders' funds	**2,612**	1,863	4,139
Equity shareholders' funds at start of period	**16,341**	12,202	12,202
Equity shareholders' funds at end of period	**18,953**	14,065	16,341

9. Preparation of interim financial information

The interim financial statements have been prepared on a basis consistent with the accounting policies disclosed in the Annual Report and Accounts for the year ended 31 December 2004.

The consolidated results for the year ended 31 December 2004 have been extracted from the financial statements for that year and do not constitute full statutory accounts for the Group. The Group accounts for the year ended 31 December 2004 received an unqualified audit report and did not include a statement under section 237 (2) or (3) of the Companies Act 1985 and have been filed with the Registrar of Companies.

10. Interim financial statements

Further copies of the interim statements are available from the registered office of Mears Group PLC at The Leaze, Salter Street, Berkeley, Gloucestershire GL13 9DB, or www.mearsgroup.co.uk.

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