

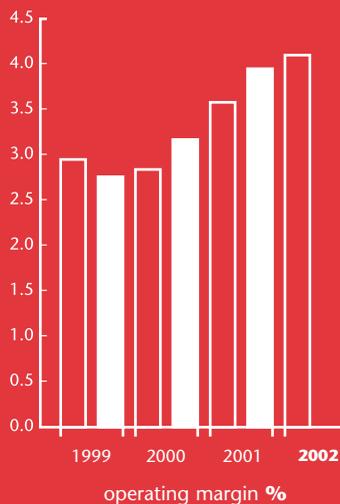
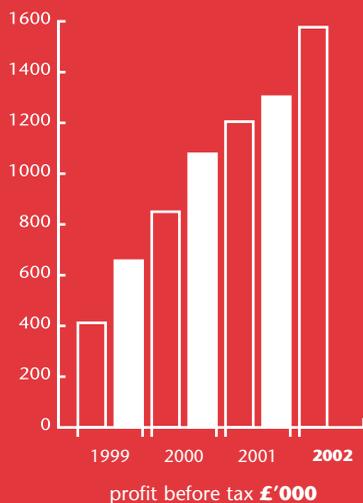
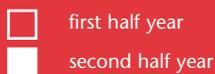


GROUP PLC

**Unaudited Interim Statement**  
for the six months ended 30 June 2002

national provider of facilities  
and support services

## Financial Highlights



		6 months to 30 June 2002	6 months to 30 June 2001	Change
Turnover	£'000	<b>38,061</b>	35,225	+8%
Operating profit	£'000	<b>1,559</b>	1,260	+24%
Profit before tax	£'000	<b>1,577</b>	1,205	+31%
Normalised earnings per share	Pence	<b>2.02</b>	1.59	+27%
Interim dividend per share	Pence	<b>0.25</b>	0.20	+25%

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I am again pleased to announce record profits for the six months ended 30 June 2002.

Profits before tax were up 31% at £1,577,418 (2001: £1,205,057) on turnover increased by 8% to £38,060,571 (2001: £35,224,884).

Earnings increased by 27% to 2.02p per share, after providing for a notional full tax charge and the amortisation of goodwill. The normalised earnings for the same period in 2001 were 1.59p per share. Of particular mention, again, is the significant improvement in net profit margin which increased to 4.1% from 3.4% in the comparable period last year and from 3.7% in the year ended 31 December 2001.

The Group has made excellent progress in the six months ended 30 June 2002 and continues to develop long-term partnership strategies with its customers. It has strengthened further its relationships in all core markets in which it operates. Each of the divisions of the Group is trading ahead of expectations. The non-cyclical nature of our revenue for the core business which is underpinned by long-term contracts provides highly visible and robust revenues. The order book of £267 million includes £170 million of future work at fixed net margins.

The excellent management of cash again resulted in the generation of £1.6 million of positive cash flow in the period. The Board has declared an interim dividend of 0.25p per share (2001: 0.20p) an increase of 25%, payable on 8 November 2002 to shareholders on the register on 18 October 2002.

The Group continues to expand in a controlled manner and is highly selective when looking for growth opportunities. The further increase again in gross margins, operating margins and net profit margins and the continual generation of cash, underline the determination to build a long-term business on solid foundations.

The Group was awarded its two largest ever contracts within the last twelve months. Both these contracts have contributed to profitability in the period reported and are likely to increase as the Group demonstrates an ability to take on further services. In addition the Group is in discussion with a number of other existing customers to increase both the size and length of certain contracts. The partnership ethos continues to bring to the Group excellent long-term opportunities for profitable, cash generative growth.

### **Operational structure**

The Group operates principally in four sectors.

#### **Public sector services**

By far the largest part of the Group is the provision of a range of maintenance services in the social housing sector. The sector provides the Group with long-term contracts with local authorities, registered social landlords and housing associations. The current level of spend in this sector is in the order of £5 billion per annum. The Group is the largest provider of such services in the public sector and the outlook for our primary business has never been stronger.

#### **Mechanical and electrical services**

The business operates as Haydon and Company Limited in the housing, education and healthcare sectors providing primarily fast track mechanical and electrical fit-out services to private sector customers. The business enjoys excellent relationships with its customers, the majority of whom have dealt with Haydon over many years. The business was acquired by the Group in 1999 and has been an excellent contributor to both profit and cash.

#### **Motor vehicle distribution**

United Fleet Distribution ('UFD') was acquired by the Group in 1998 and provides vehicle

collection and delivery services to the commercial sector with trade plated drivers who, typically, collect individual vehicles at the end of their lease period and deliver the vehicles into the retail or vehicle auction markets. UFD, which holds some of the largest contracts in the UK for these services, has performed excellently in the period. The business expanded its activities significantly in the current period. Again, this business is the market leader for trade plated drivers in the UK.

### **Facility management**

The Group formed this subsidiary in 2001 having headhunted a senior manager from Interserve PLC to head up the business. In its first year the business has been successful in winning contracts in the private sector with GAP, Unwins and most recently for a full FM contract for the Veritas buildings in Reading. Although early days, I am excited at the prospects for this Group company.

### **Strategy**

The Group has positioned itself well in the emerging public sector markets and continues to grow in its traditional public and private sector markets. The education and health sectors are two areas for growth in which the Group is working to become more involved. The Group has recently expanded its central business development team with the recruitment of two managers with senior level negotiating skills from the private and public sectors.

The Group has a proven, robust and sustainable business model upon which to expand the size and range of services provided. The demand for our services has never been stronger and we continue to seek out those customers who are looking to forge long-term relationships.

Our future earnings are highly visible whilst the excellent generation of cash from our operation continues.

With the recent debate within the support services sector regarding the accounting treatment of contract bidding costs, I am pleased to confirm that we write-off all such costs as incurred and therefore have no such historical costs to be written off against future profits. Our financial management is, and will continue to be, of a prudent nature.

The record order book demonstrates a commitment to building a long-term business in stable market sectors. This commitment would not be possible without the positive approach to business that our team ethos engenders and staff at all levels are to be commended.

Again I should like to express publicly my most sincere congratulations to all those involved in the progress of the Group to date and to applaud those employees who have invested in our third Save As You Earn Share Option Scheme, and given their firm commitment to the future success of the Group – well done.

I look forward to bringing further news of developments in the Group in the future.



**R Holt**  
Chairman

2 September 2002

Margin improvement at gross and operating levels is a most pleasing aspect in the period. Gross profit rose to 25.2% from 23.9%, whilst operating margin hit 4.1% up from 3.6% in the first half of last year. These improvements came from tighter business controls and business retention at increased rates.

The Group achieved a net interest receipt of £17,589 in the period and continues to trade with £nil borrowings. Significant investment in information technology and internal audit personnel should further secure the predictability of future earnings.

I am pleased to confirm that all development and bid costs are expensed as they are incurred. Furthermore, the Group continues to adopt a prudent approach to revenue recognition on long-term contracts and does not have any defined benefit pension schemes.



**D J Robertson**  
Finance Director

2 September 2002

	Note	6 months to 30 June 2002 £	6 months to 30 June 2001 £	Year to 31 December 2001 £
<b>Turnover</b>	1	<b>38,060,571</b>	35,224,884	68,579,597
Cost of sales		<b>(28,477,657)</b>	(26,801,734)	(51,638,639)
<b>Gross profit</b>		<b>9,582,914</b>	8,423,150	16,940,958
Administrative expenses		<b>(8,023,611)</b>	(7,162,662)	(14,362,652)
<b>Operating profit</b>		<b>1,559,303</b>	1,260,488	2,578,306
Share of operating profit in associate		<b>526</b>	—	—
		<b>1,559,829</b>	1,260,488	2,578,306
Net interest		<b>17,589</b>	(55,431)	(69,908)
<b>Profit on ordinary activities before taxation</b>		<b>1,577,418</b>	1,205,057	2,508,398
Tax on profit on ordinary activities	2	<b>(473,000)</b>	(237,000)	(378,500)
<b>Profit on ordinary activities after taxation</b>		<b>1,104,418</b>	968,057	2,129,898
Equity minority interests		<b>22,964</b>	(2,200)	10,157
<b>Profit for the financial period</b>		<b>1,127,382</b>	965,857	2,140,055
Dividends	3	<b>(141,271)</b>	(106,720)	(444,131)
<b>Profit retained</b>		<b>986,111</b>	859,137	1,695,924
<b>Earnings per share</b>	4			
Basic		<b>2.02p</b>	1.82p	4.00p
Basic – normalised		<b>2.02p</b>	1.59p	3.30p
Diluted earnings per share		<b>1.95p</b>	1.65p	3.61p

	Note	As at 30 June 2002 £	As at 30 June 2001 £	As at 31 December 2001 £
<b>Fixed assets</b>				
Intangible assets		<b>2,518,083</b>	2,261,867	2,243,136
Tangible assets		<b>1,547,366</b>	1,099,130	1,360,633
Investment in associate		<b>30,526</b>	—	—
Investments		<b>55,677</b>	55,677	55,677
		<b>4,151,652</b>	3,416,674	3,659,446
<b>Current assets</b>				
Stocks		<b>1,240,702</b>	1,836,482	1,232,170
Debtors		<b>15,779,938</b>	16,471,212	15,739,056
Cash at bank and in hand		<b>6,181,253</b>	2,656,091	4,576,203
		<b>23,201,893</b>	20,963,785	21,547,429
<b>Creditors: amounts falling due within one year</b>		<b>(18,786,970)</b>	(18,265,594)	(18,194,870)
<b>Net current assets</b>		<b>4,414,923</b>	2,698,191	3,352,559
<b>Total assets less current liabilities</b>		<b>8,566,575</b>	6,114,865	7,012,005
<b>Provisions for liabilities and charges</b>		<b>—</b>	(6,500)	—
		<b>8,566,575</b>	6,108,365	7,012,005
<b>Capital and reserves</b>				
Called up share capital		<b>565,084</b>	536,102	537,352
Share premium account		<b>2,966,555</b>	2,382,538	2,397,851
Other reserve		<b>—</b>	(249,898)	—
Profit and loss account		<b>5,045,841</b>	3,472,841	4,059,730
<b>Equity shareholders' funds</b>	8	<b>8,577,480</b>	6,141,583	6,994,933
Equity minority interests		<b>(10,905)</b>	(33,218)	17,072
		<b>8,566,575</b>	6,108,365	7,012,005

	Note	6 months to 30 June 2002 £	6 months to 30 June 2001 £	Year to 31 December 2001 £
<b>Net cash inflow from operating activities</b>	5	<b>1,717,604</b>	1,604,211	4,288,850
<b>Returns on investments and servicing of finance</b>				
Interest received		<b>18,723</b>	1,473	3,112
Interest paid		<b>(3,158)</b>	(62,404)	(76,617)
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>		<b>15,565</b>	(60,931)	(73,505)
<b>Taxation received/(paid)</b>		<b>4,502</b>	(36,496)	(104,912)
<b>Capital expenditure</b>				
Purchase of tangible fixed assets		<b>(402,543)</b>	(208,335)	(665,169)
Sale of tangible fixed assets		<b>2,000</b>	21,376	38,373
Purchase of investment		<b>(30,000)</b>	—	—
<b>Net cash outflow from capital expenditure</b>		<b>(430,543)</b>	(186,959)	(626,796)
<b>Equity dividends paid</b>		—	—	(373,771)
<b>Financing</b>				
Issue of shares		<b>247,826</b>	94,712	111,275
Repayment of borrowings		—	(600,040)	(1,100,040)
<b>Net cash inflow/(outflow) from financing</b>		<b>247,826</b>	(505,328)	(988,765)
<b>Increase in cash</b>	6	<b>1,554,954</b>	814,497	2,121,101

**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 2002 £	6 months to 30 June 2001 £	6 months to 30 June 2002 £	6 months to 30 June 2001 £	As at 30 June 2002 £	As at 30 June 2001 £
Maintenance, mechanical and electrical services	<b>30,879,385</b>	30,865,169	<b>1,082,931</b>	887,541	<b>7,325,413</b>	5,196,920
Motor vehicle distribution	<b>7,181,186</b>	4,359,715	<b>494,487</b>	317,516	<b>1,241,162</b>	911,445
	<b>38,060,571</b>	35,224,884	<b>1,577,418</b>	1,205,057	<b>8,566,575</b>	6,108,365

**2 Taxation**

The tax charge for the six months ended 30 June 2002 has been based on the estimated tax rate for the full year before adjustments.

**3 Dividends**

	6 months to 30 June 2002 £	6 months to 30 June 2001 £
Ordinary shares		
– interim dividend of 0.25p (2001: 0.20p) per share payable on 8 November 2002	<b>141,271</b>	106,720

**4 Earnings per share**

Basic earnings per share is based on equity earnings of £1,127,382 (2001: £965,857) and 55,765,018 (2001: 52,964,842) ordinary shares of 1p each, being the average number of shares in issue during the period.

For diluted earnings per share the average number of shares in issue is increased to 57,828,439 (2001: 58,596,220) to reflect the potential diluting effect of employee share schemes.

The earnings in previous years were enhanced by the utilisation of tax losses in 2000 and 2001 generated by Haydon and Company Limited in 1999 and 2000, and the write-back of negative goodwill in both those years. In order to show earnings per share performance undistorted by those tax benefits, earnings per share comparatives are shown on a fully taxed basis. The normalised earnings per share is based on equity earnings of £1,127,157 (2001: £841,340) subject to a notional corporation tax charge of 30% (2001: 30%).

	Basic 2002 P	Basic 2001 P	Diluted 2002 P	Diluted 2001 P
Earnings per share	<b>2.02</b>	1.82	<b>1.95</b>	1.65
Effect of full tax adjustment	—	(0.23)	—	(0.21)
Normalised earnings per share	<b>2.02</b>	1.59	<b>1.95</b>	1.44

**5 Net cash inflow from operating activities**

	6 months to 30 June 2002 £	6 months to 30 June 2001 £	Year to December 2001 £
Operating profit	<b>1,559,303</b>	1,260,488	2,578,306
Depreciation and amortisation	<b>280,915</b>	211,167	451,398
Loss/(profit) on disposal of fixed assets	<b>1,547</b>	(1,659)	(2,178)
(Increase)/decrease in stocks	<b>(8,532)</b>	(99,329)	504,983
(Increase)/decrease in debtors	<b>(40,882)</b>	(278,536)	473,620
(Decrease)/increase in creditors	<b>(74,747)</b>	512,080	282,721
Net cash inflow from operating activities	<b>1,717,604</b>	1,604,211	4,288,850

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

	6 months to 30 June 2002 £	6 months to 30 June 2001 £	Year to December 2001 £
Increase in cash in the period	<b>1,554,954</b>	814,497	2,121,101
Cash outflow from debt financing	—	600,040	1,100,040
Change in net funds resulting from cash flows and movement in net funds in the period	<b>1,554,954</b>	1,414,537	3,221,141
Net funds/(debt) at start of period	<b>2,612,747</b>	(608,394)	(608,394)
Net funds at end of period	<b>4,167,701</b>	806,143	2,612,747

**7 Analysis of changes in net funds**

	At 1 January 2002 £	Cash flow £	At 30 June 2002 £
Cash at bank and in hand	4,576,203	1,605,050	<b>6,181,253</b>
Overdrafts	(1,963,456)	(50,096)	<b>(2,013,552)</b>
Funds	2,612,747	1,554,954	<b>4,167,701</b>

**8 Reconciliation of movements in equity shareholders' funds**

	<b>6 months to 30 June 2002 £</b>	6 months to 30 June 2001 £	Year to December 2001 £
Profit for the financial period	<b>1,127,382</b>	965,857	2,140,055
Dividends	<b>(141,271)</b>	(106,720)	(444,131)
	<b>986,111</b>	859,137	1,695,924
Issue of shares	<b>596,436</b>	230,337	246,900
Net increase in equity shareholders' funds	<b>1,582,547</b>	1,089,474	1,942,824
Equity shareholders' funds at start of period	<b>6,994,933</b>	5,052,109	5,052,109
Equity shareholders' funds at end of period	<b>8,577,480</b>	6,141,583	6,994,933

**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 2001.

The consolidated results for the year ended 31 December 2001 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 2001 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 on [www.mearsgroup.co.uk](http://www.mearsgroup.co.uk).

## Directors and Advisers

### Registered office

The Leaze  
Salter Street  
Berkeley  
Gloucestershire  
GL13 9DB  
Tel: 01453 511911  
www.mearsgroup.co.uk

### Company registration number

3232863

### Directors

#### Chairman and Chief Executive

R Holt

#### Finance Director

D J Robertson BSc, CA

#### Executive Director

P L Molloy

#### Non-Executive

M A Macario FCA

#### Non-Executive

R B Pomphrett ACIS, MSI

#### Secretary

R B Pomphrett ACIS, MSI

### Bankers

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### Solicitors

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### Auditors

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Registered Auditors  
Chartered Accountants  
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Cheltenham  
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### Nominated adviser and stockbroker

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## Mears Group PLC

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