

MEARS

GROUP PLC

UNAUDITED INTERIM REPORT 2004

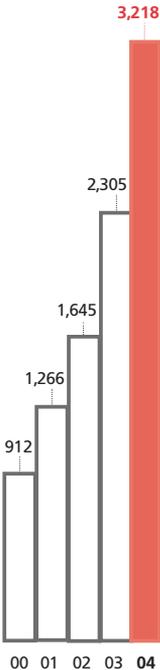


IMPROVING HOMES, IMPROVING NEIGHBOURHOODS, IMPROVING LIVES

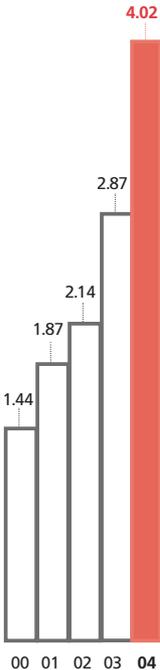
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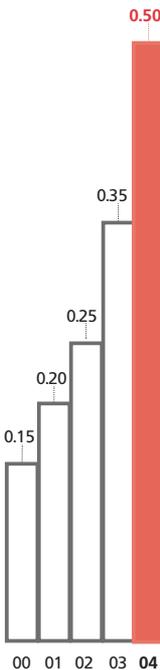
Profit before tax*
£'000



Earnings per share*
pence



Interim dividend per share
pence



* Figures are stated before amortisation of goodwill

Highlights

“Mears operates in the extremely attractive outsourcing market with significant opportunities for growth.”

Bob Holt, Chairman

>	Turnover	up 64%	
>	Pre tax profit*	up 40%	
>	EPS*	up 40%	
>	Interim dividend	up 43%	
>	Cash	£2.2m	after absorbing 35% organic growth
>	Major contract award	£200m	over seven years for Sheffield City Council
>	Order book	£750m	stretching to 2019
>	Profit growth rate*	42%	compound profit growth since AIM listing in October 1996

* Figures are stated before amortisation of goodwill

> “As reported at the Annual General Meeting on 2 June 2004, the strong order book had resulted in buoyant trading results. This has continued and leads the Board to remain confident of the outcome for the year.”

Chairman's Statement

I am pleased to announce record results for the six months ended 30 June 2004. Mears has again achieved substantial increases in all the key indicators. Profit before tax and amortisation of goodwill is up 40% on turnover of £81.3m, producing an increase in earnings per share to 4.02p (up 40%).

Operating margins excluding Scion continue to improve to 4.6% (2003: 4.5%) and excellent cash management has resulted in £2.2m in the bank. During the period £0.3m of net cash was generated after absorbing 35% organic growth, a remarkable achievement.

Mears profits have shown an annual compound growth rate of 42% since listing on the Alternative Investment Market in October 1996.

In view of the strong cash position and to demonstrate the Board's confidence, a substantial increase of 43% in the dividend is proposed.

Acquisitions

I am pleased to confirm that the turnaround of the recently acquired Scion Group Limited, a multi-disciplined facility services group, is largely complete. The business is now focused on generating growth from a profitable base.

The building of a national painting and decorating business by acquisition continues. The businesses acquired are now integrated and looking to the public sector for significant growth opportunities.

Trading review

Mears operates in the extremely attractive outsourcing market with significant opportunities for growth.

As reported at the Annual General Meeting on 2 June 2004, the strong order book had resulted in buoyant trading results. This has continued and leads the Board to remain

confident of the outcome for the year.

Social housing represents a huge addressable market where growth is both strong and robust. Mears operates in the top tier of the social housing sector with very few focused competitors. The market is highly fragmented. The Group is well positioned to capitalise upon the anticipated increased spending up to 2008 proposed by The Chancellor of the Exchequer in the Comprehensive Spending Review announced in July.

Our vision is to be market leader in transforming the housing environment, improving homes, improving neighbourhoods, improving lives.

Our growth is a natural function of our strong management and operational delivery platform.

Mears has continued its excellent progress in the period and has been

Chairman's Statement

selected as a preferred supplier by Sheffield City Council to undertake up to £200m of planned works in the next seven years. In addition the Group has been awarded contracts, mostly on a long-term partnership basis, with Stevenage Borough Council, Wolverhampton City Council, Carrick District Council and Penwith Housing Association. The order book of £750m stretches as far ahead as 2019.

It should be remembered that Mears provides 'essential support services' and is not subject in its core business to any aspect of discretionary spending from its customers.

All divisions in the Group have performed well in the period and are covered in more detail in the "Operations Review". Further financial information, including the dividend and acquisitions are contained in the "Financial Review".

Strategy and expansion

Throughout Mears we operate a reward based culture with bonus and incentive arrangements in place at all levels. Of equal importance is the ethos of partnership, both within the Group and towards its customers. We are seen as an employer who is admired internally and externally and I have been impressed by the number of our people who want to be a Mears employee for a very long time.

In an age where loyalty is almost a forgotten word we have a management team who look to embrace change, welcoming new colleagues into the Group and seeking to build long-term futures for all. Record profits reflect this approach with employees at all levels committed to a common ethos.

We are looking to strengthen the management of the Group at all levels with a particular emphasis on the recruitment of the best

management from within the social housing and services sector. As such we are looking to be regarded as the number one employer at attracting the very top talent available. We are conscious that Mears needs to be best placed for the future and have for some time been seeking to strengthen the main Board at the Executive level. In this regard I am pleased to announce that we have identified an individual to take up the position of Chief Operating Officer and further details will be given in due course.

The Group has been successful in recruiting people early in the cycle of bidding for contracts ensuring that the management is already in situ when contracts have been awarded. Within this proactive approach to recruitment it is unlikely that the Group will place any undue pressure on the existing management team in any particular area. The management team

> "Our growth is a natural function of our strong management and operational delivery platform."

Chairman's Statement

is in place already to cope with the current anticipated growth in demand and a recruitment drive to bring on board the additional people required for the future is already in hand to capitalise on the significant growth opportunities available.

I commented last year that we were looking to embrace an even wider corporate social responsibility (CSR) ethos by our commitment to improving homes, improving neighbourhoods, and improving lives. I am delighted to confirm that all our recent initiatives are working well. We have a formalised CSR approach with the formation of a committee, chaired by Mears managers and represented throughout the Group with employees from all the business units plus a client representative and a community based representative from Business in the Community. We recently held a CSR 'Champions Day' where 49 employees were rewarded

for their commitment to their community.

We have appointed our very first Community Affairs Manager, an internal promotion. The Group ethos is to allow every Mears employee to be actively involved in the community.

In addition we continue to support a large number of community based schemes on a national basis with the emphasis on improving the local community for all.

It is, I believe, these types of initiatives which will continue to set Mears apart from its competitors. Success can and will be judged in different ways and the Group has been tremendously successful to date and can continue to improve with the commitment of all. I commend this commitment and the support of staff at all levels.

We continue to invest heavily in the business at all levels and will not compromise our determination

in providing the operational side of our business with the highest level of central services. All our central support functions have seen major investment in the period with particular emphasis on IT and training.

Mears has a proven, robust and sustainable business model upon which to expand both the size of the Group and the range of services provided. The social housing sector continues to provide significant opportunities for growth. The demand for our services has never been stronger.

Our future earnings are highly visible and our order book has risen to £750m, whilst the generation of cash from our operations allows us to continually reinvest back into the business as well as seek out earnings enhancing acquisition opportunities. Some mergers and acquisitions activity is likely and I anticipate a consolidation of service providers to maximise the significant opportunities for public

Chairman's Statement

> Summary

- > The order book of £750m stretches as far ahead as 2019
- > The social housing sector continues to provide significant opportunities for growth
- > The demand for our services has never been stronger

sector contracts which are getting bigger and longer. It is becoming the norm for contracts to be awarded for well in excess of five years.

We have a significant bid pipeline, demonstrating both the current growth opportunities and our status as a preferred provider of outsourced services in the public sector.

The record order book demonstrates a commitment to long-term partnership opportunities in stable and growing market sectors.

Again my sincere congratulations to everyone involved within the business, all the individuals are aware of the Board's tremendous gratitude. I also extend a warm welcome to everyone who has recently joined the Group.

The senior management team of the Group is highly focused and fully recognises that a growth

record like ours is highly regarded. We do not in any way take this success for granted and are committed to providing substantial stakeholder returns.

I look forward to bringing further news of exciting developments for Mears as the year progresses.



Bob Holt
Chairman
31 August 2004

> "Our future earnings are highly visible and our order book has risen to £750m."

Operations Review

Mears operates principally in five sectors.

Public sector services

By far the largest part of Mears, representing 72% of Group turnover, is the provision of a range of maintenance services to the social housing and central Government sectors. The Group is well positioned to take significant advantage of the public sector reform agenda.

The Government has made a commitment to bring all council housing up to a decent standard by 2010. This is driven by the Decent Homes Standard initiative and will make a significant impact on the estimated £19 billion backlog of repair and improvement work required to local authority housing in England and Wales. Mears has been successful in the award of long-term partnering contracts to ensure that social housing providers comply with that standard. The contracts are

typically for five years or longer and contain annual benchmarked spending requirements.

Mears provides a mixture of both rapid response and planned maintenance, to deliver a total quality outsourced building maintenance service.

The partnership ethos embraces the tenant, client, employee and every stakeholder in that process. As the contracts near the end of their term the Group has demonstrated an excellent record of contract renewal. The division has enjoyed buoyant trading conditions and continues to be recognised as a preferred supplier.

Mechanical and electrical services

This business provides mechanical and electrical services in the commercial, housing, education and healthcare sectors operating as Haydon Mechanical & Electrical (Haydon). Haydon has performed well in the period and has

increased its exposure within the social housing sector working alongside other Group companies to provide a domestic heating installation and refurbishment service. The business has expanded into both new sectors and new geographical areas with the acquisition of Powersave and Scion Technical Services. The London based housing division has performed excellently and is well positioned to capitalise upon the current housing initiatives promoted by central Government in the recent Comprehensive Spending Review which set out the anticipated spending for the next three years.

Vehicle collection and delivery

United Fleet Distribution (UFD) provides a collection and delivery service to large commercial customers who typically own a large vehicle fleet. UFD is the market leader in the single vehicle collection sector and holds some of the largest contracts for these services in the UK operating from

Operations Review

> Summary

- > Public sector services represent 72% of Group turnover
- > All council housing up to a decent standard by 2010
- > Contracts are typically for five years or longer

a number of locations. The business performed well in the period.

Facility management (FM)

Mears FM provides a total building management service to its customers managing a large number of individual services.

Painting and decorating services

The Group continues to build a national painting and decorating services business primarily by acquiring a number of regional businesses. The strategy is to maximise the opportunities that are available in the social housing and other sectors.

Financial Review

Turnover

I am delighted to report another six months of profitable growth across the Group. Total turnover to June 2004 increased by 63.8% to £81.3m (2003: £49.7m). Acquired companies contributed £14.3m of the overall growth leaving organic growth at 34.9% in the period. This increase arose primarily from the recent contract awards and the gradual acceleration of spend to planned levels on contracts secured in the latter part of 2003.

Profit on ordinary activities before tax and goodwill amortisation

Profit on ordinary activities before tax and goodwill amortisation was up 39.6% at £3.22m. Operating margins in the original maintenance, mechanical and electrical services business reached 4.7% up from 4.5%. This excludes the effect of Scion Group (acquired in August 2003) where there was a small loss before taxation. In total the acquisitions contributed £0.15m operating profit

to the Group result. United Fleet Distribution managed to maintain its margin at 5.0% on a reduced turnover of £5.5m (2003: £6.5m).

Goodwill

The acquisitions in 2003 of Scion Group and Powersave together with the four decorating subsidiaries contributed to the increase in amortisation of goodwill from £0.1m to £0.3m in the period.

Acquisitions

On 30 April 2004 the Group acquired the entire share capital of R Carter & Son (Painting Contractors) Limited and on 21 May 2004 the Group acquired the entire share capital of Chas A Critchley (General Contractors) Limited. The total consideration payable including acquisition costs of these painting and decorating businesses is £1.0m.

Interest

Overall the Group incurred a net interest charge of £0.03m compared

with an interest credit of £0.06m in 2003.

Earnings per share

Earnings per share before goodwill amortisation grew in the period by 40.1% to 4.02p up from 2.87p.

Dividend

The Board has declared an interim dividend of 0.50p per share payable on 8 November 2004 to shareholders on the register on 22 October 2004.

Cash flow

Net cash inflow from operating activities represented 88% of operating profit whilst 70% of EBITDA was converted into operating cash flow. The Group remained cash positive at £2.2m at 30 June 2004 despite the impact of acquisitions which resulted in a net outflow of £1.1m. Capital expenditure at £0.8m (2002: £0.4m) mainly reflects the investment in IT to control the expanded contract base. The significant organic growth

Financial Review

> Summary

- > Operating margins in the original maintenance, mechanical and electrical services business reached 4.7% up from 4.5%
- > Earnings per share before goodwill amortisation grew in the period by 40.1%
- > Net cash inflow from operating activities represented 88% of operating profit

in turnover required some £4.4m of working capital. This was offset, however, by an improvement in work in progress and debtor days of some three days.

Net assets

At 30 June 2004 the Group's net assets had risen from £12.3m to £14.2m. Net current assets within this have increased to £3.1m.

Order book

The record forward order book of £750m provides further visibility of earnings. The element of planned turnover for 2005 which has been secured now stands at 70%.



David J Robertson
Finance Director
31 August 2004

> "Turnover increased by 63.8%
to £81.3m"

Unaudited Interim Profit and Loss Account for the six months ended 30 June 2004

	Note	6 months to 30 June 2004 £'000	6 months to 30 June 2003 £'000	Year to 31 December 2003 £'000
Turnover	1	81,331	49,652	112,271
Cost of sales		(61,082)	(37,166)	(83,268)
Gross profit		20,249	12,486	29,003
Administrative expenses		(17,345)	(10,396)	(24,276)
Operating profit		2,904	2,090	4,727
Share of operating profit in associate		3	3	9
		2,907	2,093	4,736
Net interest (paid)/received		(32)	64	78
Profit on ordinary activities before taxation		2,875	2,157	4,814
Tax on profit on ordinary activities	2	(911)	(690)	(1,571)
Profit on ordinary activities after taxation		1,964	1,467	3,243
Equity minority interests		(6)	10	7
Profit for the financial period		1,958	1,477	3,250
Dividends	3	(290)	(200)	(773)
Profit retained		1,668	1,277	2,477
Earnings per share				
Basic	4	3.42p	2.61p	5.72p
Basic pre amortisation	4	4.02p	2.87p	6.47p
Diluted	4	3.20p	2.52p	5.48p
Diluted pre amortisation	4	3.77p	2.78p	6.20p

Unaudited Consolidated Balance Sheet as at 30 June 2004

	Note	As at 30 June 2004 £'000	As at 30 June 2003 £'000	As at 31 December 2003 £'000
Fixed assets				
Intangible assets		12,519	5,285	12,273
Tangible assets		3,654	1,705	3,093
Investment in associate		48	40	45
Investments		62	62	62
		16,283	7,092	15,473
Current assets				
Stocks		2,798	1,828	2,487
Debtors		29,292	16,627	24,875
Cash at bank and in hand		5,834	6,410	3,408
		37,924	24,865	30,770
Creditors: amounts falling due within one year		(34,835)	(19,362)	(28,600)
Net current assets		3,089	5,503	2,170
Total assets less current liabilities		19,372	12,595	17,643
Creditors: amounts falling due after more than one year		(5,211)	(1,735)	(5,351)
		14,161	10,860	12,292
Capital and reserves				
Called up share capital		576	569	570
Share premium account		3,230	3,023	3,041
Shares to be issued		90	—	90
Profit and loss account		10,169	7,301	8,501
Equity shareholders' funds	8	14,065	10,893	12,202
Equity minority interests		96	(33)	90
		14,161	10,860	12,292

Unaudited Consolidated Cash Flow Statement for the six months ended 30 June 2004

	Note	6 months to 30 June 2004 £'000	6 months to 30 June 2003 £'000	Year to 31 December 2003 £'000
Net cash inflow from operating activities	5	2,569	1,695	4,691
Returns on investments and servicing of finance				
Interest received		8	65	103
Interest paid		(16)	—	(8)
Finance lease interest paid		(8)	—	(14)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(16)	65	81
Taxation paid		(463)	(146)	(1,543)
Capital expenditure				
Purchase of tangible fixed assets		(826)	(352)	(829)
Sale of tangible fixed assets		—	—	3
Net cash outflow from capital expenditure		(826)	(352)	(826)
Acquisitions				
Purchase of subsidiary undertakings		(1,157)	(475)	(2,037)
Net cash acquired with subsidiary undertakings		100	—	(3,351)
Net cash outflow from acquisitions		(1,057)	(475)	(5,388)
Equity dividends paid		—	—	(623)
Financing				
Issue of shares		195	57	76
Capital element of finance lease rentals		(115)	—	(97)
Repayment of borrowings		—	—	(36)
Net cash inflow/(outflow) from financing		80	57	(57)
Increase/(decrease) in cash	6	287	844	(3,665)

Unaudited Notes to the Financial Statements for the six months ended 30 June 2004

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 2004 £'000	6 months to 30 June 2003 £'000	6 months to 30 June 2004 £'000	6 months to 30 June 2003 £'000	As at 30 June 2004 £'000	As at 30 June 2003 £'000
Maintenance, mechanical and electrical services	75,856	43,138	2,603	1,834	12,367	9,485
Vehicle collection and delivery	5,475	6,514	272	323	1,794	1,375
	81,331	49,652	2,875	2,157	14,161	10,860

2. Taxation

The tax charge for the six months ended 30 June 2004 has been based on the estimated tax rate for the full year.

3. Dividends

	6 months to 30 June 2004 £'000	6 months to 30 June 2003 £'000
Ordinary shares		
– interim dividend of 0.50p (2003: 0.35p) per share proposed	290	200

4. Earnings per share

Basic earnings per share is based on equity earnings of £1.96m (2003: £1.48m) and 57.29m (2003: 56.64m) ordinary shares of 1p each, being the average number of shares in issue during the period.

Basic pre amortisation earnings per share is based on equity earnings before charging for the amortisation of goodwill of £2.30m (2003: £1.63m).

For diluted earnings per share the average number of shares in issue is increased to 61.15m (2003: 58.54m) to reflect the potential diluting effect of employee share schemes.

Unaudited Notes to the Financial Statements for the six months ended 30 June 2004

5. Net cash inflow from operating activities

	6 months to 30 June 2004 £'000	6 months to 30 June 2003 £'000	Year to 31 December 2003 £'000
Operating profit	2,904	2,090	4,727
Depreciation and amortisation	794	436	1,122
Loss on disposal of fixed assets	1	—	39
Increase in stocks	(2,258)	(562)	(1,069)
Increase in debtors	(2,023)	(708)	(3,461)
Increase in creditors	3,151	439	3,333
Net cash inflow from operating activities	2,569	1,695	4,691

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

	6 months to 30 June 2004 £'000	6 months to 30 June 2003 £'000	Year to 31 December 2003 £'000
Increase/(decrease) in cash	287	844	(3,665)
Cash outflow from financing	115	—	133
	402	844	(3,532)
Loans and finance leases acquired with subsidiaries	(36)	—	(434)
Net funds at 1 January 2004	1,600	5,566	5,566
Net funds at 30 June 2004	1,966	6,410	1,600

7. Analysis of changes in net funds

	At 1 January 2004 £'000	Cash flow £'000	Acquisition £'000	At 30 June 2004 £'000
Cash at bank and in hand	3,408	2,306	120	5,834
Overdraft	(1,507)	(2,119)	(20)	(3,646)
	1,901	187	100	2,188
Finance leases	(301)	115	(36)	(222)
Cash at bank and in hand	1,600	302	64	1,966

Unaudited Notes to the Financial Statements for the six months ended 30 June 2004

8. Reconciliation of movements in equity shareholders' funds

	6 months to 30 June 2004 £'000	6 months to 30 June 2003 £'000	Year to 31 December 2003 £'000
Profit for the financial period	1,958	1,477	3,250
Dividends	(290)	(200)	(773)
	1,668	1,277	2,477
Shares to be issued	—	—	90
Issue of shares	195	57	76
Net increase in equity shareholders' funds	1,863	1,334	2,643
Equity shareholders' funds at start of period	12,202	9,559	9,559
Equity shareholders' funds at end of period	14,065	10,893	12,202

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 2003.

The consolidated results for the year ended 31 December 2003 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 2003 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.

Directors and Advisers

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Company registration number
3232863

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and Chief Executive**
R Holt

Finance Director
D J Robertson

Executive Director
P L Molloy

Non-Executive
M A Macario

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Secretary
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