

**MOUNT ANVIL CONSTRUCTION
LIMITED**

Report and Financial Statements

31 December 1998

**Deloitte & Touche
Verulam Point
Station Way
St Albans
Hertfordshire
AL1 5HE**



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DIRECTORS

B J Bennett
D L Borer
C K Hurley
S D Kelf (appointed 2 March 1999)
R R MacGillivray
A E Martin (appointed 22 March 1999)
P Sebry (resigned 25 February 1999)
R Upton

SECRETARY

C K Hurley

REGISTERED OFFICE

Anvil House
Radlett Road
Colney Street
St Albans
Hertfordshire
AL2 2HA

SOLICITORS

Vizards
42 Bedford Row
London
WC1R 4JL

BANKERS

Bank of Ireland plc
Bank House
High Street
Hampton Wick
Kingston Upon Thames
Surrey
KT1 4DS

AUDITORS

Deloitte & Touche
Verulam Point
Station Way
St Albans
Hertfordshire
AL1 5HE

DIRECTORS' REVIEW OF THE YEAR AND FUTURE PROSPECTS

FINANCIAL REVIEW

Turnover and profits

At the end of 1997 Mount Anvil identified both the need and the opportunity for growth of its business. A planned approach to growth over a five year period was adopted and implemented. The 1998 year, under review in this report, saw the successful completion of the first phase of this strategy, with achievement of significant growth in both turnover and profits.

Turnover for the year at £24.5M was 94% ahead of 1997 (£12.6m) and profit before tax of £500,000 (1997 £202,000) represents an increase of over 147%. The profit margin before tax increased to 2% compared to 1.6% in 1997. This net profit margin increase was predicted in last year's report and it is pleasing to see that it has become a reality.

Since 1996, pre-tax profits have increased three and a half times on a trebling of turnover. The Company's key objective of controlled profitable growth is therefore being met. To effectively manage this increased turnover, the number of people employed during the year has increased from 49 to 85.

Equity shareholder funds at the year-end amounted to £1,143,000 (1997 £805,000).

OPERATING REVIEW

Customer Focus

Our commitment to customer focus and understanding our client's business is reflected in our ability to secure negotiated work. In 1998, despite virtually doubling our turnover, we continued to negotiate in excess of 50% of our work.

The high level of repeat business achieved, together with the significant increase in the number of Housing Association clients, are other satisfying features of the year.

Specialist Refurbishment Work

During 1998 some 25% of the Company's work consisted of specialist refurbishment, ranging from individual street properties to complex works on listed buildings. This type of work has been highlighted in the Strategic Plan as a key area for the Company and will again feature prominently in the 1999 workload.

Housing Associations and Local Authorities

The work flowing from clients within these sectors made up the majority of the turnover in 1998. These two client groups will continue to be the most important in the future growth of the Company. During the year a wide variety of work, ranging from tenant in place repair and renewal to green-field new build contracts was carried out. Partnering with clients was once again a feature on a number of the contracts. In order to develop this further, the Company has strengthened both its Business Development and Construction departments with senior appointees, experienced in partnering contracts.

Education Sector

The Company's first major contract in 1992 was a £10M student accommodation project for the University of Greenwich. Involvement in this sector has continued ever since, with the development of approximately 2000 student bed spaces.

The Company is pleased that the client on that 1992 contract has continued to be a repeat customer. In partnership with a major Housing Association, Mount Anvil is working on a design and build finance and operate package for an 80,000 square foot mixed use development, adjacent to the National Maritime Museum, in the millennium borough of Greenwich. This development is appropriately scheduled for completion in the year 2000.

During 1998 Mount Anvil commenced work on a £7M, 380-bed scheme in West London for Brunel University. A significant amount of value engineering was necessary to make this scheme viable

Health Sector

A £5.7M contract for the provision of custom-built doctors and nurses accommodation for a NHS Trust in Sidcup was the most significant project during 1998. This contract, which was due for handover in May 1999, was successfully handed over in February 1999 - three months earlier than contracted. A partnership approach was adopted at the outset of this scheme and its success is a credit to all involved.

The Company is at an advanced stage with a number of new opportunities in this sector.

Our People

The most important asset in implementing our strategy continues to be our people. Exceeding client expectations on deliverability and quality can only be achieved if the Company has outstanding people. Thanks to the excellence of its staff, the Company continues to be recognised as dynamic and innovative across its range of activities. Mount Anvil is focused, not only on maintaining this reputation, but also on continuously enhancing it. The Company will be fully registered with Investors in People during 1999.

Awards

A feature of the Company's performance, during an extremely busy year, has been recognition on a wide range of fronts of the excellence of its team and the quality of its construction.

Health and safety is critically important in the construction industry and within Mount Anvil. Based on the Company's record in this area, it recently received a national safety award from the British Safety Council.

One of the Company's Site Managers is currently on a shortlist for Site Manager of the Year. This is a national award, sponsored by the Construction Industry Federation. The final decision will be made in the second half of 1999.

The Company's site at Holy Trinity Church, Maidstone; a complex listed building refurbishment and conversion, was one of 54 regional winners of the Considerate Constructors Gold Awards. In addition, this development was awarded the National Prize for the best overall site from among 779 competing projects. The competition for this national award was intense and the Company is proud to be the winner of this prestigious accolade. This regional and national competition was organised by the Construction Industry Board.

Year 2000 Compliance

An entirely new computerised financial management system will be installed during 1999, thus ensuring that the core systems are fully year 2000 compliant.

All the Company's information systems are already being upgraded to make them compliant. The total cost will be approximately £100,000. Appropriate steps have also been taken to ensure that all suppliers and clients will be fully compliant in so far as it affects the Company's business.

Offices

In December 1998 the Company opened a major additional office in Bexley, bringing it closer geographically to a significant proportion of its work; about half of the staff now operate from there. The head office of the Company remains in St Albans.

FUTURE PROSPECTS

Mount Anvil will continue to be a leading force in the successful delivery of construction partnerships in social housing, education and healthcare during 1999 and beyond. The Company is projecting continued controlled profitable growth in the business in the year ahead. This growth will be at a much lower level than the previous year with the focus being on enhancing the quality of earnings and further strengthening our customer base. The Company will continue to successfully explore ways of exceeding the expectations and objectives of the Egan report - 'Rethinking Construction'.

The new year has started well, and the number of opportunities open to the Company is the highest ever. The directors are confident that, with the ability, enthusiasm, and professionalism of the team that makes up Mount Anvil, these opportunities will be transformed into completed projects which more than satisfy its clients' objectives.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 December 1998.

PRINCIPAL ACTIVITIES

The principal activity of the company in the year under review was that of design and build contractors and property developers.

RESULTS AND DIVIDENDS

The company's profit for the year before taxation was £500,125 (1997: £201,722) as detailed on page 7. No dividends are proposed (1997: £nil).

REVIEW OF THE YEAR AND FUTURE PROSPECTS

The directors' review of the year and future prospects is on pages 2 and 3.

DIRECTORS AND THEIR INTERESTS

The directors who served throughout the year are shown on page 1. None of the directors held any beneficial interest in the company during the period.

The interests of Messrs Bennett, Hurley, MacGillivray and Upton in the shares of the ultimate holding company, Mount Anvil Holdings Limited, are shown in the report and financial statements of that company.

YEAR 2000 COMPLIANCE

The company's action on year 2000 compliance is described in the directors's review of the year and future prospects on pages 2 and 3.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office, as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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


C K HURLEY

Secretary

18 May 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



AUDITORS' REPORT TO THE MEMBERS OF

MOUNT ANVIL CONSTRUCTION LIMITED

We have audited the financial statements on pages 7 to 17 which have been prepared under the accounting policies set out on page 12.

Respective responsibilities of directors and auditors

As described on page 5 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and Registered
Auditors
19 May 1999

PROFIT AND LOSS ACCOUNT
Year ended 31 December 1998

	Note	Year ended 31 December 1998 £	Year ended 31 December 1997 £
TURNOVER	2	24,461,624	12,650,495
Cost of sales		(22,352,974)	(11,391,085)
Gross profit		2,108,650	1,259,410
Establishment and administrative expenses		(1,624,909)	(1,051,530)
OPERATING PROFIT	3	483,741	207,880
Interest receivable		28,342	12,747
Interest payable and similar charges	4	(11,958)	(18,905)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		500,125	201,722
Tax on profit on ordinary activities	6	(162000)	(72,049)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		338,125	129,673
Retained profit brought forward		254,998	125,325
Retained profits carried forward		593,123	254,998

All turnover and expenses have been derived from continuing operations.

There are no recognised gains or losses other than the profits for the current year and the preceding financial year. Accordingly, no Statement of Total Recognised Gains or Losses is given.


Mount Anvil Construction Limited

BALANCE SHEET 31 December 1998

	Note	31 December 1998 £	31 December 1997 £
FIXED ASSETS			
Tangible assets	7	512,112	287,866
CURRENT ASSETS			
Work in progress		19,701	156,932
Debtors	8	4,780,858	2,838,108
Cash at bank and in hand		1,810,142	614,191
		6,610,701	3,609,231
CREDITORS: amounts falling due Within one year	9	(5,852,698)	(2,972,801)
NET CURRENT ASSETS		758,003	636,430
TOTAL ASSETS LESS CURRENT LIABILITIES		1,270,115	924,296
CREDITORS: amounts falling due after more than one year	10	(126,992)	(119,298)
		1,143,123	804,998
CAPITAL AND RESERVES			
Called up share capital	11	550,000	550,000
Profit and loss account		593,123	254,998
EQUITY SHAREHOLDERS' FUNDS	12	1,143,123	804,998

These financial statements were approved by the Board of Directors on 18 May 1999

Signed on behalf of the Board of Directors


C K HURLEY
Director


B J BENNETT
Director

CASH FLOW STATEMENT
Year ended 31 December 1998

	1998 £	1997 £
Net cash inflow from operating activities	1,518,565	590,145
Returns on investments and servicing of finance	16,384	(6,158)
Taxation (paid)	(66,848)	(27,327)
Capital expenditure and financial investment	(119,306)	(81,672)
	1,348,795	474,988
Financing	(152,844)	-
Increase in cash in the year	1,195,951	474,988

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1998 £	1997 £
Operating profit	483,741	207,880
Depreciation charge	148,160	104,353
(Profit) on sale of tangible fixed assets	(20,729)	(18,913)
Decrease/(Increase) in stocks	137,231	(5,296)
Increase in debtors	(1,942,750)	(807,902)
Increase in creditors	2,712,912	1,110,023
Net cash inflow from operating activities	1,518,565	590,145

NOTES TO THE CASH FLOW

Year ended 31 December 1998

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	1998 £	1997 £
Increase in cash in the year/period	1,195,951	474,988
Cash inflow from increase in lease financing	<u>152,844</u>	<u>-</u>
Change in net debt resulting from cash flows	1,348,795	474,988
New finance leases	<u>(232,372)</u>	<u>(126,537)</u>
Change in net debt	1,116,423	348,451
Opening net funds	407,565	59,114
Net funds at 31 December	<u><u>1,523,988</u></u>	<u><u>407,565</u></u>

ANALYSIS OF NET FUNDS

	1997 £	Cash Flow	Non-Cash Flow	1998 £
Cash in hand and at bank	614,191	1,195,951	-	1,810,142
Finance leases	<u>(206,626)</u>	<u>152,844</u>	<u>(232,372)</u>	<u>(286,154)</u>
Total	<u><u>407,565</u></u>	<u><u>1,348,795</u></u>	<u><u>(232,372)</u></u>	<u><u>1,523,988</u></u>

NOTES TO THE CASH FLOW

Year ended 31 December 1998

ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	1998 £'000	1997 £'000
Returns on investments and servicing of finance		
Interest received	28,342	12,747
Interest paid	-	(3,000)
Interest element of hire purchase contracts and finance leases	(11,958)	(15,905)
	<u>16,384</u>	<u>(6,158)</u>
Taxation		
Corporation tax (paid)/recovered	(66,848)	(27,327)
	<u>(66,848)</u>	<u>(27,327)</u>
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(172,429)	(113,372)
Receipts from sales of fixed assets	53,123	31,700
	<u>(119,306)</u>	<u>(81,672)</u>
Financing		
Capital element of finance lease payments	(152,844)	-
	<u>(152,844)</u>	<u>-</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Turnover

This represents amounts invoiced during the year for work certified as complete, net of Value Added Tax.

Tangible fixed assets

Tangible fixed assets are depreciated on a straight line basis at the following rates to reduce the cost to the anticipated residual value at the end of the expected useful lives of these assets:

Leasehold improvements	25% per annum
Plant and machinery	33.3% per annum
Motor vehicles	25% to 33.3% per annum
Fixtures and fittings	33.3% per annum

Work in progress

Contract work in progress is stated at cost plus, where the outcome can be assessed with reasonable certainty, estimated profits attributable to the state of completion, less provision for any known or anticipated losses and progress payments receivable on account.

Advance and progress payments are included under creditors to the extent that they exceed the related book value of work-in-progress.

Leases

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

Operating lease rentals are charged to income in equal annual amounts over the lease term.

2. TURNOVER

The turnover and pre-tax profit all of which arise in the United Kingdom, are attributable to the activity of design and build contractors and property developers.

NOTES TO THE ACCOUNTS

Year ended 31 December 1998

3. OPERATING PROFIT

	Year Ended 31 December 1998 £	Year ended 31 December 1997 £
Operating profit is after charging/(crediting):		
Depreciation and amortisation		
Owned assets	46,749	38,441
Leased assets	101,411	65,912
Rentals under operating leases		
Hire of plant and machinery	168,533	38,173
Early payment discounts	(85,657)	(69,440)
(Profit) on disposal of fixed assets	(20,729)	(18,913)
Management charges to group companies	(120,000)	-
Auditors' remuneration		
Audit fee	12,000	11,500
Other services	3,000	3,000
	<u> </u>	<u> </u>

4. INTEREST PAYABLE AND SIMILAR CHARGES

	£	£
Bank interest	-	3,000
Hire purchase and finance lease interest	11,958	15,905
	<u>11,958</u>	<u>18,905</u>

Mount Anvil Construction Limited

NOTES TO THE ACCOUNTS

Year ended 31 December 1998

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Year Ended 31 December 1998 £	Year ended 31 December 1997 £
Directors' emoluments		
Fees and salaries	458,010	292,804
Other emoluments	37,591	19,503
Pension	17,413	13,175
	<u>513,014</u>	<u>325,482</u>

Emoluments of the highest paid director are as follows:

Fees and salaries	77,107	70,592
Other emoluments	6,460	4,863
Pension	6,928	6,928
	<u>90,495</u>	<u>82,383</u>

Three directors took remuneration in the form of direct payments into their own personal pension schemes.

Average number of persons employed	No.	No.
Site	49	30
Administration	36	19
	<u>85</u>	<u>49</u>
	£	£

Staff costs during the year (including directors)

Wages and salaries	1,904,324	1,024,685
Social security costs	188,469	101,293
	<u>2,092,793</u>	<u>1,125,978</u>

Mount Anvil Construction Limited

NOTES TO THE ACCOUNTS

Year ended 31 December 1998

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 1998 £	Period Ended 31 December 1997 £
United Kingdom corporation tax charge at 31% (1997 - 31%)	162,000	66,148
Adjustments to prior years' tax provisions	-	5,901
Corporation tax	<u>162,000</u>	<u>72,049</u>

7. TANGIBLE FIXED ASSETS

	Leasehold Improvements £	Plant and Machinery £	Motor Vehicles £	Fixtures and Fittings £	Total £
Cost					
At 1 January 1998	28,201	15,374	378,951	116,876	539,402
Additions	117,575	-	229,810	57,415	404,800
Disposals	-	-	(122,305)	-	(122,305)
At 31 December 1998	<u>145,776</u>	<u>15,374</u>	<u>486,456</u>	<u>174,291</u>	<u>821,897</u>
Accumulated depreciation					
At 1 January 1998	10,780	13,180	141,435	86,141	251,536
Charge for the year	11,920	2,194	110,473	23,573	148,160
Disposals	-	-	(89,911)	-	(89,911)
At 31 December 1998	<u>22,700</u>	<u>15,374</u>	<u>161,997</u>	<u>109,714</u>	<u>309,785</u>
Net book value					
At 31 December 1998	<u>123,076</u>	<u>-</u>	<u>324,459</u>	<u>64,577</u>	<u>512,112</u>
At 31 December 1997	<u>17,421</u>	<u>2,194</u>	<u>237,516</u>	<u>30,735</u>	<u>287,866</u>

Included in motor vehicles are assets purchased under hire purchase arrangements. At 31 December 1998, the net book value of these assets amounted to £312,264 (1997: £217,321). During the year depreciation of £101,411 (1997: £65,912) was charged in respect of these vehicles.

Mount Anvil Construction Limited

NOTES TO THE ACCOUNTS Year ended 31 December 1998

8. DEBTORS

	31 December 1998 £	31 December 1997 £
Trade debtors	2,448,011	1,125,021
Amounts recoverable on contracts	956,080	1,148,505
Amounts owed by group undertakings	1,183,867	493,371
Other debtors	125,514	23,473
Prepayments and accrued income	67,386	47,738
	<u>4,780,858</u>	<u>2,838,108</u>

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	£	£
Obligations under finance lease and hire purchase agreements	159,162	87,328
Trade creditors	5,139,207	2,728,432
Current corporation tax	161,300	66,148
Other taxes and social security	117,906	5,985
Accruals and deferred income	275,123	84,908
	<u>5,852,698</u>	<u>2,972,801</u>

10. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	£	£
Amounts owed under finance lease and hire purchase agreements payable between 2 and 5 years	<u>126,992</u>	<u>119,298</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

11. CALLED UP SHARE CAPITAL

	31 December 1998 £	31 December 1997 £
Authorised 1,000,000 ordinary shares of £1 each	1,000,000	1,000,000
Called up and allotted and fully paid 550,000 ordinary shares of £1 each	550,000	550,000

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£	£
Opening shareholders' funds	804,998	675,325
Retained profit for the financial year	338,125	129,673
	1,143,123	804,998

13. ULTIMATE PARENT COMPANY

The ultimate parent company and controlling entity is Mount Anvil Holdings Limited. Copies of the financial statements for that company are available from Anvil House, Radlett Road, Colney Street, St Albans Hertfordshire AL2 2HA.