MORGAN SINDALL

interim report 2005

Morgan Sindall plc is a top ten United Kingdom construction group employing over 5,000 people. Leading businesses operate within four specialist divisions; fit out, construction, infrastructure services and affordable housing. The inherent strength of the Group is derived from this balance of activity and the ability to provide a coordinated approach to integrated solutions.

overbury
a passion for perfection

Morgan Lovell

vivid interiors

backbone furniture

bluestone

fit out

Fit Out operates through four businesses. Overbury is the leading office fit out and refurbishment specialist and Morgan Lovell provides a complete office transformation service. Vivid Interiors refurbishes and fits out retail, leisure and entertainment facilities. Backbone Furniture offers supply, refurbishment and move management of commercial furniture.

construction

Through a network of local offices across England and Wales, Bluestone provides consistent, high quality construction solutions to private and public sector clients. Operating under a variety of procurement routes, the division's sector expertise is in education, healthcare, industrial, commercial and retail where it undertakes new build, refurbishment and maintenance projects.

MORGAN SINDALL

morgan est

LOVELL

infrastructure services

Morgan Est specialises in complex engineering projects and provides high standards of expertise, commitment and delivery. Operating in both the public and private sectors, its culture of Early Solutions Together underpins its innovative approach to client relationships. Morgan Est operates four business units; Water, Utilities, Tunnelling and Civil Engineering.

affordable housing

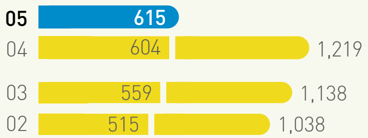
Lovell is the country's leading provider of affordable housing, specialising in mixed tenure and major refurbishment opportunities. It works in partnership with social housing providers at the cutting edge of urban regeneration to create sustainable communities.

contents

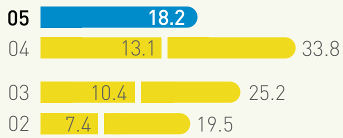
financial highlights

	Six months to June 2005 £m	Six months to June 2004 £m	% increase
Group revenue	**615**	604	+2%
Operating profit	**17.4**	13.0	+34%
Profit before tax	**18.2**	13.1	+39%
Earnings per share	**29.72p**	21.89p	+36%
Interim dividend per share	**7.00p**	5.25p	+33%

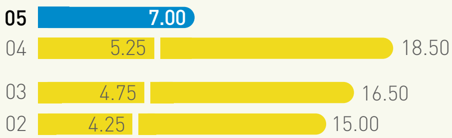
revenue (£m)



profit before tax (£m)



dividend declared (p)



The results for the six months to 30 June 2005 and 2004 and the balance sheets at those dates have not been audited and do not constitute statutory accounts. The figures for the year to 31 December 2004 are an unaudited restatement of the Group's statutory accounts prepared under UK GAAP, which received an unqualified audit report and have been filed with the Registrar of Companies. The 02 and 03 figures were calculated under UK GAAP and have been adjusted to reflect changes under IFRS for the purpose of comparison. 04 figures have been restated under IFRS and 05 has been calculated under IFRS.

chairman and chief executive's statement

The Group has had an excellent first half and we are pleased to announce record results for the six month period to 30 June 2005. Profit before tax rose by 39% to £18.2m (2004: £13.1m) from an increased revenue of £615m (2004: £604m). Earnings per share for the period grew by 36% to 29.72p (2004: 21.89p). In light of the positive start to the year the Board has declared an increased interim dividend, up by 33%, of 7.00p (2004: 5.25p).

The increase in profitability was driven primarily by the performance of the Fit Out and Affordable Housing divisions. Fit Out continued to consolidate its market leadership in a recovering commercial property market, while Lovell again delivered a strong performance in the fast growing affordable housing sector. In addition, Construction's margins improved further as a result of its more tightly focused strategy and Infrastructure Services performed in line with expectations by holding its margins on lower volumes.

Cash at 30 June 2005 was £35m (2004: £39m) with the movement since the start of the year reflecting investment in work in progress at Affordable Housing and lower levels of cash generated by Infrastructure Services as its volumes have reduced.

divisional reviews

fit out

Fit Out saw strong growth during the first half of 2005 with profit increasing by 41% to £7.9m (2004: £5.6m) on revenue increasing by 26% to £152m (2004: £121m). The opening of the Northern office, the establishment of a team focused on larger projects, the withdrawal of a number of competitors in 2004 and improving conditions in the London market all contributed to the growth of the business. The margin increased to 5.2% compared with more typical historic levels of 4.5%, although it remains to be seen whether these higher margins can be sustained in the longer term. With further market improvement anticipated and a healthy forward order book of £117m, the division looks well set for the future.

construction

Construction successfully continued its focus on key sectors and framework contracts, increasing its margin to 0.8% (2004: 0.5%). Operating profit more than doubled to £1.3m (2004: £0.6m) on revenue which increased by 27% to £164m (2004: £130m). This performance benefited from positive contributions from the three offices and associated contracts acquired at the end of last year. Two thirds of the division's workload now comes from its chosen sectors of health, education, light industrial and property services compared to 40% four years ago.

In the health sector, the division achieved financial close on the East Hampshire Fareham and Gosport LIFT (Local Improvement Finance Trust) during the period and it is at preferred bidder stage with the Doncaster LIFT. In the meantime the next wave of LIFT schemes has been announced which offers exciting opportunities for the future. In addition, the division is on track to achieve its target of 60% of workload sourced from key client and framework contracts by the end of 2006, having achieved a level of 48% during the first six months of this year, compared with a 35% base in 2001. The achievement of this target will be assisted by the recently signed Driving Standards Agency framework to deliver up to £40m of new motorcycle testing centres across the UK over the next three years. With the planned move towards longer term framework agreements the forward order book has increased to £482m from £197m at the start of the year.

infrastructure services

Infrastructure Services produced an operating profit in the first half of £2.8m (2004: £2.9m) on revenue of £118m (2004: £177m). As previously announced the division's revenue and profit will be lower this year as two large civil engineering projects, the tunnels at Heathrow Terminal 5 and a section of the Channel Tunnel Rail Link, draw to a close. Nevertheless, Infrastructure Services has been successful in the utilities sector, securing a contract with United Utilities worth up to £450m for the renewal and maintenance of water and electricity distribution networks over the next five years. As this contract commenced in July and since work on the contract secured with National Grid, with a potential value of up to £320m, only began in April, the division's performance this year will be weighted slightly to the second half. The division's forward order book stands at a record £911m (December 2004: £626m) with workload moving toward these longer term utilities contracts.

affordable housing

Affordable Housing increased its profit by 36% to a record £7.7m (2004: £5.7m) on revenue at a similar level to last year of £180m (2004: £177m). It achieved a significantly better margin of 4.3% compared with 3.2% for the corresponding period last year. The business maintained its position as market leader securing, among others, key refurbishment opportunities at Sheffield and Cheltenham during the first half.

As previously announced, the phasing of key projects will result in this year's performance being weighted to the second half. The forward order book increased again to £1.4bn from £1.3bn at the start of the year.

outlook

The Group's forward order book now stands at a record £2.9bn. With Fit Out and Affordable Housing strongly positioned in their chosen markets, Construction now realising the benefits of its focused strategy and Infrastructure Services securing longer term framework contracts, the Group has never been better placed. As we reported in June, we are confident of meeting our expectations for the current year and are excited by the challenges and opportunities for 2006 and beyond.

John Morgan

John Morgan
Chairman

Paul Smith
Chief Executive

8 August 2005

reporting under international financial reporting standards (IFRS)

From 2005 Morgan Sindall plc will produce its consolidated report and accounts in accordance with IFRS. Previously the Group reported under UK Generally Accepted Accounting Practice (UK GAAP). This commentary highlights the key changes that have arisen due to the transition from reporting under UK GAAP to reporting under IFRS. The Group's date of transition to IFRS is 1 January 2004, which is the beginning of the comparative period for the 2005 financial year. Therefore the opening balance sheet for IFRS purposes is that reported at 31 December 2003 as amended for changes due to IFRS.

This interim financial report is the first to be prepared under IFRS, which results in the comparative figures being prepared on the same basis and are therefore restated from those previously reported under UK GAAP. To help understand the impact of the transition, reconciliations have been produced to show the changes made to statements previously reported under UK GAAP in arriving at the equivalent statements under IFRS.

The following are the five unaudited reconciliations which are included on pages 20 to 24 of this report:

1 Balance sheet at 1 January 2004
2 Income statement for the year to 31 December 2004
3 Balance sheet at 31 December 2004
4 Income statement for the six months to 30 June 2004
5 Balance sheet at 30 June 2004

The income statement for the six months to 30 June 2005 and the balance sheet at that date are reported under IFRS. As they have not previously been reported under UK GAAP no reconciliation to IFRS is provided.

Key accounting policy changes are included within this report. A full set of IFRS accounting policies will be published in the Group's report and accounts for the year to 31 December 2005.

The net effect of presenting the 2004 full year financial statements under IFRS rather than UK GAAP is to increase profit before tax reported from £27.9m to £33.8m and net assets from £93.2m to £98.2m. The changes have no impact on the cash flows previously reported. The key areas of change are outlined below.

first time adoption

IFRS1 'First Time Adoption of International Financial Reporting Standards' sets out the approach to be followed when IFRS are applied for the first time. IFRS accounting policies are, in general, to be applied retrospectively although IFRS1 provides a number of exceptions to this general principle. The policy choices made under IFRS1 are mentioned under the relevant headings below.

goodwill

Under UK GAAP, goodwill was amortised over its useful economic life. Under IFRS3 'Business Combinations' goodwill is not amortised but is carried at cost with impairment reviews being undertaken annually or when there is an indication that the carrying value has been reduced. Under IFRS1 the Group has applied the change from the date of transition as opposed to full application to all business combinations prior to that date.

The goodwill in the balance sheet at the date of transition to IFRS was £53.0m. The impact on the 2004 income statement is a reversal of the amortisation previously charged under UK GAAP of £3.1m.

Subsequent to the transition date, goodwill of £3.7m arose on the acquisition in December 2004 giving the balance at 30 June 2005 of £56.7m.

dividends

Under UK GAAP proposed dividends were accrued at the balance sheet date although there was no obligation to pay until formal approval by shareholders was granted at the Annual General Meeting. Under International Accounting Standard (IAS)10 'Events after the Balance Sheet Date', a liability should only be recognised once there is an obligation to pay. As a result the dividend will only be recognised once shareholders approve it. The impact is that the proposed dividends have been added back and have resulted in an increase in net assets of £4.8m at 31 December 2003, £2.2m at 30 June 2004 and £5.6m at 31 December 2004.

pension

Under UK GAAP, FRS17 'Retirement Benefits' required the pension deficit to be shown by way of memorandum disclosure in the notes to the accounts rather than accounted for in the balance sheet. IAS19 'Employee Benefits' requires that the operating and financing costs of defined benefit pension schemes are shown separately in the income statement and allows a number of options for the recognition of actuarial gains and losses. The Group has adopted the approach of recognising the full pension deficit at the date of transition. The overall impact of recognising the pension deficit is a reduction in net assets of £0.7m at 31 December 2003, £0.9m at 30 June 2004, and £2.0m at 31 December 2004. Actuarial gains and losses have been recognised in full in the consolidated statement of recognised income and expense (SORIE) on the assumption that the EU will endorse the revised version of IAS19 during 2005. The impact of the transition on the income statement is an increase for the six months to 30 June 2004 of nil and £0.2m for the year to 31 December 2004.

deferred tax

Under UK GAAP deferred tax was provided for timing differences between when an amount was taxable or allowable for tax purposes as against when it was recognised in the profit and loss account and was only recognised if realisable in the short term.

Under IAS12 'Income Taxes' deferred tax is provided on temporary differences based upon the discrepancy between the tax base and the carrying value of assets and liabilities. The accounting changes made are principally related to the deferred tax provided on the revaluation of investment properties in our joint venture, Primary Medical Properties, and the pension deficit recognised as noted above. The net result is a decrease in net assets of £1.2m at 31 December 2003 and at 30 June 2004 and £1.8m at 31 December 2004.

share based payments

Under UK GAAP no charge was made to the profit and loss account for the value of options granted to employees as options were granted at their intrinsic value. Under IFRS2 'Share Based Payments' a charge is made reflecting the fair value of options granted since 7 November 2002, which is applying the exemption permitted under IFRS1. The impact has been a charge to operating profit for the six months to 30 June 2004 of £0.01m, £0.03m for the year to 31 December 2004 and £0.07m for the six months to 30 June 2005. There is no impact on net assets as the income statement charge is offset by an equivalent amount credited to the equity reserve.

joint ventures

Under UK GAAP the results of joint ventures were included within turnover, operating profit and taxation in the profit and loss account and the net investment as a single line in the balance sheet albeit gross assets and liabilities were disclosed.

Under the option allowed in IAS31 'Interests in Joint Ventures', the approach adopted by the Group is that joint ventures are accounted for using the equity method and are reported in the income statement as part of operating profit and the net investment in the balance sheet on a single line as before. Previously revaluation gains (or losses) on joint venture properties were recognised in the revaluation reserve. Under IFRS this treatment no longer exists and revaluation gains will now be recognised in the income statement. The net impact is to reduce profit before tax for the six months to 30 June 2004 by £0.1m and to increase profit before tax by £2.8m for the year to 31 December 2004 as a result of the joint venture tax charge and revaluation gains now being reflected in arriving at profit before tax.

treasury instruments

Certain of the Group's joint ventures make use of interest rate swaps in order to reduce the risk exposure to changes in interest rates. Under IAS39 'Financial Instruments Recognition and Measurement' these interest rate swaps are recognised and measured at fair value. These swaps are designated as part of a hedging relationship and hence any changes in fair value are accounted for in equity. IAS39 will be applied from 1 January 2005 as permitted under the transition arrangements in IFRS1. The impact of IAS39 has been to reduce net assets at 30 June 2005 by £1.8m by the creation of a hedge reserve within equity.

Currently there are proposals to take a different approach in accounting for service concessions with regard to the valuation of financial assets. Until a standard is issued the Group will follow the above approach under IAS39.

The financial statements presented are unaudited and there is a possibility that adjustments may be required before they are incorporated as part of the first audited annual report and accounts prepared under IFRS, which will be published in March 2006.

consolidated income statement
for the six months to 30 June 2005

	Unaudited Six months to 30 June 2005 £'000s	Unaudited Six months to 30 June 2004 (restated) £'000s	Audited Year to 31 December 2004 (restated) £'000s
Continuing operations			
Revenue (note 2)	**615,154**	604,445	1,219,297
Cost of sales	**(546,284)**	(549,461)	(1,095,932)
Gross profit	**68,870**	54,984	123,365
Administrative expenses	**(51,668)**	(42,087)	(93,248)
Other operating income	**80**	17	21
Share of profits of joint ventures	**122**	54	2,810
Operating profit	**17,404**	12,968	32,948
Investment income	**1,744**	1,228	3,235
Finance costs	**(943)**	(1,068)	(2,413)
Profit before tax	**18,205**	13,128	33,770
Tax (note 3)	**(5,795)**	(4,012)	(9,736)
Profit for the period from continuing operations	**12,410**	9,116	24,034
Earnings per share			
From continuing operations			
Basic (note 5)	**29.72p**	21.89p	57.61p
Diluted (note 5)	**28.95p**	21.00p	56.54p

consolidated balance sheet
at 30 June 2005

	Unaudited 30 June 2005 £'000s	Unaudited 30 June 2004 (restated) £'000s	Audited 31 December 2004 (restated) £'000s
Non current assets			
Goodwill	**56,666**	53,002	55,961
Tangible assets	**15,710**	13,413	14,890
Interest in joint ventures	**11,076**	5,300	9,145
Investments	**103**	103	103
Deferred tax assets	**1,448**	1,243	1,513
	85,003	73,061	81,612
Current assets			
Inventories	**89,573**	65,020	60,817
Trade and other receivables	**242,953**	197,800	203,093
Cash and cash equivalents	**34,902**	39,044	73,447
	367,428	301,864	337,357
Total assets	**452,431**	374,925	418,969
Current liabilities			
Trade and other payables	**(337,902)**	(280,651)	(309,000)
Tax liabilities	**(5,601)**	(4,403)	(5,572)
	(343,503)	(285,054)	(314,572)
Net current assets	**23,925**	16,810	22,785
Non current liabilities			
Retirement benefit obligation	**(2,010)**	(888)	(2,225)
Deferred tax liabilities	**(2,306)**	(1,434)	(2,306)
Obligations under finance leases	**(1,814)**	(1,394)	(1,707)
	(6,130)	(3,716)	(6,238)
Total liabilities	**(349,633)**	(288,770)	(320,810)
Net assets	**102,798**	86,155	98,159
Equity			
Called up share capital	**2,111**	2,105	2,107
Share premium account	**25,828**	25,590	25,679
Investment in own shares	**(1,775)**	(1,094)	(993)
Capital redemption reserve	**623**	623	623
Equity reserve	**112**	20	39
Hedge reserve	**(1,814)**	-	-
Retained earnings	**77,713**	58,911	70,704
Total equity	**102,798**	86,155	98,159

consolidated cash flow statement

for the six months to 30 June 2005

	Unaudited Six months to 30 June 2005 £'000s	Unaudited Six months to 30 June 2004 (restated) £'000s	Audited Year to 31 December 2004 (restated) £'000s
Net cash (used in)/from operating activities (note 6)	**(28,563)**	29,406	70,242
Investing activities			
Interest received	**1,754**	1,246	3,217
Dividends received from joint ventures	**-**	335	335
Proceeds on disposal of property, plant and equipment	**75**	188	501
Purchases of property, plant and equipment	**(2,224)**	(1,831)	(4,296)
Payments to acquire investments in joint ventures	**(3,619)**	-	-
Acquisition of business	**(120)**	-	(3,409)
Net cash used in investing activities	**(4,134)**	(62)	(3,652)
Financing activities			
Proceeds from issue of share capital	**153**	203	294
Dividends paid	**(5,530)**	(4,889)	(7,099)
Repayments of obligations under finance leases	**(471)**	(227)	(951)
Net cash used in financing activities	**(5,848)**	(4,913)	(7,756)
Net (decrease)/increase in cash and cash equivalents	**(38,545)**	24,431	58,834
Cash and cash equivalents at beginning of period	**73,447**	14,613	14,613
Cash and cash equivalents at end of period	**34,902**	39,044	73,447

consolidated statement of recognised income and expense

for the six months to 30 June 2005

	Unaudited Six months to 30 June 2005 £'000s	Unaudited Six months to 30 June 2004 (restated) £'000s	Audited Year to 31 December 2004 (restated) £'000s
Losses on cash flow hedges	**(1,814)**	-	-
Actuarial gains/(losses) on defined benefit pension scheme	**215**	(152)	(1,493)
Tax on items taken directly to equity	**(65)**	45	448
Net income recognised directly in equity	**(1,664)**	(107)	(1,045)
Profit for the period from continuing operations	**12,410**	9,116	24,034
Total recognised income and expense for the period attributable to equity shareholders	**10,746**	9,009	22,989

consolidated statement of changes in equity

for the six months to 30 June 2005

	Unaudited Six months to 30 June 2005 £'000s	Unaudited Six months to 30 June 2004 (restated) £'000s	Audited Year to 31 December 2004 (restated) £'000s
Balance at start of period	**98,159**	81,754	81,754
Profit for the period	**12,410**	9,116	24,034
Recognition of share based payments	**73**	14	33
Interim dividend declared and paid	**-**	-	(2,188)
Prior year final dividend paid	**(5,551)**	(4,824)	(4,824)
Actuarial gains/(losses) on defined benefit pension scheme	**215**	(154)	(1,493)
Income taxes on pension benefit	**(65)**	46	448
Own shares purchased	**(782)**	-	(48)
Options exercised	**153**	203	294
LTIP shares vested	**-**	-	149
Losses on cash flow hedges	**(1,814)**	-	-
Balance at end of period	**102,798**	86,155	98,159

notes to the interim report

1 key changes in accounting policies

The interim report has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS). The policies with significant changes on the transition from UK Generally Accepted Accounting Practice (UK GAAP) are disclosed below.

basis of accounting

The financial statements and reconciliations shown in this report have been prepared on an historic cost basis except for certain financial instruments and pension assets and liabilities, which are measured at fair value. The statements are also prepared on the basis of IFRS expected to be in issue at 31 December 2005. In addition, the Group has elected to adopt the amendments to IAS19 'Employee Benefits' issued in December 2004 in advance of their effective date of 1 January 2006. The financial statements presented are unaudited.

acquisitions

The results of acquired businesses are included in the consolidated income statement from the date of acquisition. Goodwill is the difference between the fair value of consideration given on acquisition and the aggregate fair value of its identifiable net assets. In accordance with IFRS3 'Business Combinations', goodwill is no longer amortised but stated at cost less any provision for impairment in value. Goodwill is reviewed annually for any impairment in its value or at such time there is an indication that its value has reduced.

pensions

The expense of defined benefit pension schemes is determined using the projected unit method and charged to the income statement based on actuarial assumptions at the beginning of the financial year. Actuarial gains and losses are recognised in full in the statement of recognised income and expense in the period in which they occur. Net pension obligations are included in the balance sheet at the present value of the scheme liabilities, less the fair value of the scheme assets.

The expense of the defined contribution pension schemes and other employee benefits is charged in the income statement as incurred.

share based payments

The value of share based payments is determined at the date of grant and recognised as an expense over the vesting period taking account of the anticipated number of shares that will vest. The fair value is determined by use of a modified Black Scholes model.

deferred taxation

Deferred tax is provided in full on temporary differences which 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 laws. Temporary differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. In a change from the previous policy, deferred tax is provided on temporary differences arising from the differences between the tax value and the balance sheet value of assets and liabilities. This accounting change principally relates to the deferred tax provided on the revaluation of fixed assets in our joint venture, Primary Medical Properties. 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.

financial instruments

Derivative financial instruments are used by joint ventures to hedge long term interest rate risks. Under IAS39 'Financial Instruments', interest rate swaps are stated in the balance sheet at fair value. Where financial instruments are designated as a cash flow hedge and are deemed to be effective, gains and losses on remeasurement are recognised in equity. When the financial instrument is determined to be no longer effective as a hedge, gains or losses are recognised in the income statement. IAS39 will be applied from 1 January 2005 as permitted under the transition arrangements in IFRS1.

notes to the interim report

2 analysis of revenue and profit from business segments

	Unaudited Six months to 30 June 2005 Revenue £'000s	Unaudited Six months to 30 June 2005 Profits/(losses) £'000s	Unaudited Six months to 30 June 2004 Revenue £'000s	Unaudited Six months to 30 June 2004 Profits/(losses) (restated) £'000s
Fit Out	**152,495**	**7,886**	120,923	5,583
Construction	**164,098**	**1,274**	129,688	597
Infrastructure Services	**118,171**	**2,753**	176,506	2,910
Affordable Housing	**180,390**	**7,723**	177,328	5,674
Group activities	**-**	**(2,354)**	-	(1,850)
Joint ventures	**-**	**122**	-	54
	615,154	**17,404**	604,445	12,968
Investment income		**1,744**		1,228
Finance costs		**(943)**		(1,068)
Profit before tax		**18,205**		13,128
Tax		**(5,795)**		(4,012)
Profit for the period from continuing operations		**12,410**		9,116

3 tax

	Unaudited Six months to 30 June 2005 £'000s	Unaudited Six months to 30 June 2004 (restated) £'000s
Current year UK corporation tax	**(5,795)**	(4,011)
Current year deferred tax	**-**	(1)
	(5,795)	(4,012)

Corporation tax for the interim period is charged at 32% (2004: 31%), being the estimated effective corporation tax rate for the full financial year.

4 dividends

	Unaudited Six months to 30 June 2005 £'000s	Unaudited Six months to 30 June 2004 (restated) £'000s
Final dividend for the prior year recognised in the period of 13.25p per share (2004: 11.75p)	**5,551**	4,824
Proposed interim dividend for the current year of 7.00p per share (2004: 5.25p)	**2,920**	2,188

The proposed interim dividend was approved by the Board on 8 August 2005 and has not been included as a liability at 30 June 2005. It will be paid on 16 September 2005 to shareholders on the register at 19 August 2005. The ex-dividend date will be 17 August 2005.

5 earnings per share

The calculation of the earnings per ordinary share is based on the weighted average number of 41,756,000 (30 June 2004: 41,643,000) ordinary shares in issue during the period and on the profit for the period attributable to ordinary shareholders of £12,410,000 (30 June 2004: £9,116,000).

In calculating the diluted earnings per share, the weighted average number of ordinary shares is adjusted for the dilutive effect of share options by 920,000 (30 June 2004: 1,569,000) and a further 190,000 (30 June 2004: 202,000) for contingent awards under the Long Term Incentive Plan giving an adjusted number of ordinary shares of 42,866,000 (30 June 2004: 43,414,000).

In calculating the diluted earnings per share in June 2004, options to buy 47,500 ordinary shares at 495 pence per share were excluded because they were classified as antidilutive options as the strike price of the options was below the market price of the share. These options were issued on 14 February 2002 and will be exercisable between 14 February 2007 and 13 February 2009 and therefore they were not exercised during the six months to 30 June 2004.

notes to the interim report

6 notes to the consolidated cash flow statement

	Unaudited Six months to 30 June 2005 £'000s	Unaudited Six months to 30 June 2004 (restated) £'000s	Audited Year to 31 December 2004 (restated) £'000s
Operating profit	**17,404**	12,968	32,948
Adjusted for:			
Share of profits of joint ventures	**(122)**	(54)	(2,810)
Depreciation of property, plant and equipment	**1,982**	1,642	3,465
Expense in respect of share options	**73**	14	33
Income on pensions assets	**-**	(2)	(4)
Loss/(gain) on disposal of property, plant and equipment	**30**	(37)	20
Operating cash flows before movements in working capital	**19,367**	14,531	33,652
(Increase)/decrease in inventories	**(28,756)**	391	4,594
(Increase)/decrease in receivables	**(39,870)**	(3,247)	(5,784)
Increase/(decrease) in payables	**27,360**	20,344	46,223
Cash (utilised)/generated by operations	**(21,899)**	32,019	78,685
Income taxes paid	**(5,766)**	(1,577)	(6,134)
Interest paid	**(898)**	(1,036)	(2,309)
Net cash (used in)/from operating activities	**(28,563)**	29,406	70,242

Additions to fixtures and equipment during the period amounting to £0.53 million were financed by new finance leases.

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short term highly liquid investments with a maturity of three months or less.

7 acquisition of business

On 13 December 2004 Bluestone plc acquired part of the trade and certain assets and contracts from Benson Limited. The cash consideration was £3.4m with acquisition costs of £0.3m. The net assets acquired were nil following fair value adjustments of £2.9m made during 2004. The resultant goodwill arising on acquisition is £3.7m.

The acquisition has been accounted for by the acquisition method of accounting. The fair values are provisional to allow the directors the opportunity to consider and finalise them in the coming year. The provisional fair value adjustments are in relation to accruals for contract liabilities.

8 retirement benefit schemes

The Group operates a plan on defined contribution principles which includes some defined benefit liabilities, full details of which were disclosed under UK GAAP in the Group's annual report and accounts. For the purposes of understanding these interim financial statements details of the valuation of the scheme are given below.

	Unaudited Six months to 30 June 2005 £'000s	Unaudited Six months to 30 June 2004 (restated) £'000s	Audited Year to 31 December 2004 (restated) £'000s
Fair value of scheme assets	**4,083**	3,819	3,918
Present value of scheme liabilities	**(6,093)**	(4,707)	(6,143)
Scheme shortfall	**(2,010)**	(888)	(2,225)
Related deferred taxation at 30.0%	**604**	267	669
Net pension liability	**(1,406)**	(621)	(1,556)

9 related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below:

investing transactions in joint ventures

During the period the Group increased its investment in Morgan Vinci Limited by £1.4m and in Claymore Roads (Holdings) Limited by £2.2m. These scheduled investments were both made by way of loan notes. The other joint venture partners have also invested in the same proportion so that the relative shareholdings at 50% have remained unchanged.

reconciliations on transition to IFRS

The balance sheet reconciliations at 1 January 2004 (date of transition to IFRS) and at 31 December 2004 (date of last UK GAAP financial statements) and the reconciliation of profit for 2004, as required by IFRS1 are shown below. The balance sheet reconciliation at 30 June 2004 and the reconciliation of profit for the six months to 30 June 2004 have also been included to enable a comparison of the 2005 interim figures with those published in the corresponding period of the previous financial year.

1 Unaudited balance sheet reconciliation at 1 January 2004

	UK GAAP £'000s	IAS10 Post Balance Sheet - Dividends £'000s	IAS12 Income Taxes £'000s	IAS19 Employee Benefits £'000s	IAS12 Income Taxes £'000s	IAS31 Interests in Joint Ventures £'000s	IFRS2 Share Based Payments £'000s	Reclass £'000s	IFRS £'000s
Non current assets									
Goodwill	53,002	-	-	-	-	-	-	-	53,002
Tangible assets	13,375	-	-	-	-	-	-	-	13,375
Interests in joint ventures	5,798	-	-	-	-	-	-	-	5,798
Investments	103	-	-	-	-	-	-	-	103
Deferred tax assets	-	-	-	-	221	-	-	976	1,197
	72,278	-	-	-	221	-	-	976	73,475
Current assets									
Inventories	65,411	-	-	-	-	-	-	-	65,411
Trade and other receivables	195,546	-	-	-	-	-	-	(976)	194,570
Cash and cash equivalents	14,613	-	-	-	-	-	-	-	14,613
	275,570	-	-	-	-	-	-	(976)	274,594
Total assets	**347,848**	-	-	-	221	-	-	-	**348,069**
Current liabilities									
Trade and other payables	(262,511)	-	-	-	-	-	-	-	(262,511)
Dividends	(4,890)	4,824	-	-	-	-	-	-	(66)
	(267,401)	4,824	-	-	-	-	-	-	(262,577)
Non current liabilities									
Obligations under finance leases	(1,569)	-	-	-	-	-	-	-	(1,569)
Deferred tax	-	-	(1,433)	-	-	-	-	-	(1,433)
Defined benefit pensions	-	-	-	(736)	-	-	-	-	(736)
	(1,569)	-	(1,433)	(736)	-	-	-	-	(3,738)
Total liabilities	**(268,970)**	4,824	(1,433)	(736)	-	-	-	-	**(266,315)**
Net assets	**78,878**	4,824	(1,433)	(736)	221	-	-	-	**81,754**
Equity									
Issued capital	2,100	-	-	-	-	-	-	-	2,100
Share premium account	25,392	-	-	-	-	-	-	-	25,392
Investment in own shares	(1,094)	-	-	-	-	-	-	-	(1,094)
Capital redemption reserve	623	-	-	-	-	-	-	-	623
Revaluation reserve	5,507	-	-	-	-	(5,507)	-	-	-
Equity reserve	-	-	-	-	-	-	6	-	6
Retained earnings	46,350	4,824	(1,433)	(736)	221	5,507	(6)	-	54,727
Total equity	**78,878**	4,824	(1,433)	(736)	221	-	-	-	**81,754**

2 Unaudited income statement reconciliation for the year to 31 December 2004

Continuing operations	UK GAAP £'000s	IAS19 Employee Benefits £'000s	IAS12 Income Taxes £'000s	IAS36 Impairment of Assets £'000s	IAS31 Interests in Joint Ventures £'000s	IFRS2 Share Based Payments £'000s	Reclass £'000s	IFRS £'000s
Revenue	1,219,297	-	-	-	-	-	-	1,219,297
Cost of sales	(1,095,932)	-	-	-	-	-	-	(1,095,932)
Gross profit	**123,365**	-	-	-	-	-	-	**123,365**
Administrative expenses	(96,536)	220	-	3,101	-	(33)	-	(93,248)
Other operating income	21	-	-	-	-	-	-	21
Share of profit of joint ventures	-	-	-	-	2,542	-	268	2,810
Operating profit	**26,850**	220	-	3,101	2,542	(33)	268	**32,948**
Share of profit of joint ventures	268	-	-	-	-	-	(268)	-
Investment income	3,235	-	-	-	-	-	-	3,235
Finance costs	(2,413)	-	-	-	-	-	-	(2,413)
Profit before tax	**27,940**	220	-	3,101	2,542	(33)	-	**33,770**
Tax	(9,891)	-	(66)	-	221	-	-	(9,736)
Profit for the period from continuing operations	**18,049**	220	(66)	3,101	2,763	(33)	-	**24,034**

3 Unaudited balance sheet reconciliation at 31 December 2004

	UK GAAP £'000s	Prior year adjustment to 31 December 2003 £'000s	IAS10 Post Balance Sheet- Dividends £'000s	IAS10 Post Balance Sheet - Dividends £'000s	IAS19 Employee Benefits £'000s	IAS12 Income Taxes £'000s	IAS31 Interests in Joint Ventures £'000s	IAS36 Impairment of Assets £'000s	IFRS2 Share Based Payments £'000s	IFRS £'000s
Non current assets										
Goodwill	52,860	-	-	-	-	-	-	3,101	-	55,961
Tangible assets	14,890	-	-	-	-	-	-	-	-	14,890
Interests in joint ventures	9,145	-	-	-	-	-	-	-	-	9,145
Investments	103	-	-	-	-	-	-	-	-	103
Deferred tax assets	-	1,197	-	-	-	316	-	-	-	1,513
	76,998	1,197	-	-	-	316	-	3,101	-	81,612
Current assets										
Inventories	60,817	-	-	-	-	-	-	-	-	60,817
Trade and other receivables	204,002	(976)	-	-	-	67	-	-	-	203,093
Cash and cash equivalents	73,447	-	-	-	-	-	-	-	-	73,447
	338,266	(976)	-	-	-	67	-	-	-	337,357
Total assets	**415,264**	221	-	-	-	383	-	3,101	-	**418,969**
Current liabilities										
Trade and other payables	(314,809)	-	-	-	216	-	-	-	-	(314,593)
Dividends	(5,530)	4,824	(4,824)	5,551	-	-	-	-	-	21
	(320,339)	4,824	(4,824)	5,551	216	-	-	-	-	(314,572)
Non current liabilities										
Obligations under finance leases	(1,707)	-	-	-	-	-	-	-	-	(1,707)
Deferred tax	-	(1,433)	-	-	-	(873)	-	-	-	(2,306)
Defined benefit pensions	-	(736)	-	-	(1,489)	-	-	-	-	(2,225)
	(1,707)	(2,169)	-	-	(1,489)	(873)	-	-	-	(6,238)
Total liabilities	**(322,046)**	2,655	(4,824)	5,551	(1,273)	(873)	-	-	-	**(320,810)**
Net assets	**93,218**	2,876	(4,824)	5,551	(1,273)	(490)	-	3,101	-	**98,159**
Equity										
Issued capital	2,107	-	-	-	-	-	-	-	-	2,107
Share premium account	25,679	-	-	-	-	-	-	-	-	25,679
Investment in own shares	(993)	-	-	-	-	-	-	-	-	(993)
Capital redemption reserve	623	-	-	-	-	-	-	-	-	623
Revaluation reserve	9,142	(5,507)	-	-	-	-	(3,635)	-	-	-
Equity reserve	-	6	-	-	-	-	-	-	33	39
Retained earnings	56,660	8,377	(4,824)	5,551	(1,273)	(490)	3,635	3,101	(33)	70,704
Total equity	**93,218**	2,876	(4,824)	5,551	(1,273)	(490)	-	3,101	-	**98,159**

4 Unaudited income statement reconciliation for the six months to 30 June 2004

Continuing operations	UK GAAP £'000s	IAS19 Employee Benefits £'000s	IAS12 Income Taxes £'000s	IAS36 Impairment of Assets £'000s	IFRS2 Share Based Payments £'000s	IAS31 Interests in Joint Ventures £'000s	Reclass £'000s	IFRS £'000s
Revenue	604,445	-	-	-	-	-	-	604,445
Cost of sales	(549,461)	-	-	-	-	-	-	(549,461)
Gross profit	54,984	-	-	-	-	-	-	54,984
Administrative expenses	(43,626)	2	-	1,551	(14)	-	-	(42,087)
Other operating income	17	-	-	-	-	-	-	17
Share of profit of joint ventures	-	-	-	-	-	(56)	110	54
Operating profit	11,375	2	-	1,551	(14)	(56)	110	12,968
Share of profit of joint ventures	110	-	-	-	-	-	(110)	-
Investment income	1,229	-	-	-	-	-	-	1,229
Finance costs	(1,069)	-	-	-	-	-	-	(1,069)
Profit before tax	11,645	2	-	1,551	(14)	(56)	-	13,128
Tax	(4,067)	-	(1)	-	-	56	-	(4,012)
Profit for the period from continuing operations	**7,578**	2	(1)	1,551	(14)	-	-	**9,116**

5 Unaudited balance sheet reconciliation at 30 June 2004

	UK GAAP £'000s	Prior year adjustment to 31 December 2003 £'000s	IAS10 Post Balance Sheet – Dividends £'000s	IAS10 Post Balance Sheet – Dividends £'000s	IAS19 Employee Benefits £'000s	IAS12 Income Taxes £'000s	IAS36 Impairment of Assets £'000s	IFRS2 Share Based Payments £'000s	IFRS £'000s
Non current assets									
Goodwill	51,451	-	-	-	-	-	1,551	-	53,002
Tangible assets	13,413	-	-	-	-	-	-	-	13,413
Interests in joint ventures	5,300	-	-	-	-	-	-	-	5,300
Investments	103	-	-	-	-	-	-	-	103
Deferred tax assets	-	1,197	-	-	-	46	-	-	1,243
	70,267	1,197	-	-	-	46	1,551	-	73,061
Current assets									
Inventories	65,020	-	-	-	-	-	-	-	65,020
Trade and other receivables	198,776	(976)	-	-	-	-	-	-	197,800
Cash and cash equivalents	39,044		-	-	-	-	-	-	39,044
	302,840	(976)	-	-	-	-	-	-	301,864
Total assets	**373,107**	221	-	-	-	46	1,551	-	**374,925**
Current liabilities									
Trade and other payables	(285,054)	-	-	-	-	-	-	-	(285,054)
Dividends	(2,188)	4,824	(4,824)	2,188	-	-	-	-	-
	(287,242)	4,824	(4,824)	2,188	-	-	-	-	(285,054)
Non current liabilities									
Obligations under finance leases	(1,394)	-	-	-	-	-	-	-	(1,394)
Deferred tax	-	(1,433)	-	-	-	(1)	-	-	(1,434)
Defined benefit pensions	-	(736)	-	-	(152)	-	-	-	(888)
	(1,394)	(2,169)	-	-	(152)	(1)	-	-	(3,716)
Total liabilities	**(288,636)**	2,655	(4,824)	2,188	(152)	(1)	-	-	**(288,770)**
Net assets	**84,471**	2,876	(4,824)	2,188	(152)	45	1,551	-	**86,155**
Equity									
Issued capital	2,105	-	-	-	-	-	-	-	2,105
Share premium account	25,590	-	-	-	-	-	-	-	25,590
Investment in own shares	(1,094)	-	-	-	-	-	-	-	(1,094)
Capital redemption reserve	623	-	-	-	-	-	-	-	623
Revaluation reserve	5,507	(5,507)	-	-	-	-	-	-	-
Equity reserve	-	6	-	-	-	-	-	14	20
Retained earnings	51,740	8,377	(4,824)	2,188	(152)	45	1,551	(14)	58,911
Total equity	**84,471**	2,876	(4,824)	2,188	(152)	45	1,551	-	**86,155**

share prices

The Company's share price (15 minute delay) is displayed on the Company's website.

The EPIC code as used in the Topic and Datastream Share Price information service is MGNS.

telephone share dealing service

Details of a low cost telephone dealing service with Stocktrade are available on the Company's website under Investor Relations.

electronic communications

Shareholders may now view their shareholdings on line through the website of our registrars, Capita Registrars. If you wish to view your shareholding, please log onto www.capitaregistrars.com and click on the link 'shareholder services' then follow the instructions.

The Company would also like to take advantage of recent changes to the law, which allows communication with shareholders in electronic form. If you would like to receive future communications in this way, please register your e-mail address on the registrars' website, following the instructions provided.

This form of communication offers a cost benefit to the Company and provides for an environmentally friendly way of communicating. The Company would therefore encourage shareholders to make use of this enhanced service which will require confirmation of your surname, UK Post Code and Investor Code. The Investor Code may be found on a recent share certificate, in the bottom right hand corner, or on the tax voucher for the forthcoming dividend payment.

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