

The Mowlem Construction Company

(East Africa) Limited

Directors' report and financial statements

31 December 1998

Registered number 775010



Directors' report and financial statements

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Directors' report

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

Principal activities and business review

The principal activity of the Company during the year was the carrying out of drilling and civil engineering contracts in Africa.

Results

The results for the year ended 31 December 1998 are disclosed in the profit and loss account on page 5.

The directors do not recommend the payment of a dividend (1997: £nil).

Fixed assets

Significant changes in fixed assets are set out in note 9 to the financial statements.

Directors and directors' interests

The directors who held office during the year were as follows:

FAJ Tarrant (resigned 7 October 1998)
DJ Ridley
CR Evans

Directors' interests in the ordinary share capital of John Mowlem & Company PLC, the ultimate holding company, are as follows:

	Ordinary shares of 25p each			
	31 December 1998		31 December 1997	
	Beneficially held	Options	Beneficially held	Options
FAJ Tarrant	-	-	2,996	19,988
DJ Ridley	10,346	232,329	9,952	182,329
CR Evans	1,294	2,465	1,246	-

Directors' report - (continued)

Directors and directors interests (continued)

Except as noted above, none of the directors had an interest in the share capital of the Company or any other group company.

There were no contracts or arrangements in which the directors of the Company had interests which are required to be disclosed under the Companies Act 1985.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution concerning the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



DJ Booth
Secretary

22/9/99

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, subject to any material departures disclosed and explained in the financial statements;
- 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.



KPMG Audit Plc

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

**Report of the auditors to the members of The Mowlem Construction Company
(East Africa) Limited**

We have audited the financial statements on pages 5 to 16.

Respective responsibilities of directors and auditors

As described on page 3 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 as at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

2320phewbo 1999

Profit and loss account

for the year ended 31 December 1998

	<i>Note</i>	1998 £	1997 £
Turnover	2	1,255,978	1,456,885
Operating costs		(1,511,143)	(1,518,087)
		<hr/>	<hr/>
Operating loss	3	(255,165)	(61,202)
Interest receivable and similar income	6	4,800	3,355
Interest payable and similar charges	7	(8,477)	(5,652)
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(258,842)	(63,499)
Tax on loss on ordinary activities	8	78,738	23,040
		<hr/>	<hr/>
Retained loss for the year	16	(180,104)	(40,459)
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 8 to 16 form part of these financial statements.

Balance sheet

at 31 December 1997

	Note	1998	1997
		£	£
Fixed assets			
Tangible assets	9	169,537	304,537
Current assets			
Stocks	11	151,179	166,889
Debtors	12	1,084,563	500,189
Cash at bank and in hand		6,370	67,028
		<u>1,242,112</u>	<u>734,106</u>
Creditors: amounts falling due within one year	13	<u>(1,223,836)</u>	<u>(674,657)</u>
Net current assets		<u>18,276</u>	<u>59,449</u>
Net assets		<u>187,813</u>	<u>363,986</u>
Capital and reserves			
Called up share capital	15	100,000	100,000
Profit and loss account	16	87,813	263,986
		<u>187,813</u>	<u>363,986</u>

The notes pages 8 to 16 form part of these financial statements.

These financial statements were approved by the board of directors on 22/9/99 and were signed on its behalf by:

Director



Total recognised gains and losses

for the year ended 31 December 1998

	1998 £	1997 £
Loss for the financial year	(180,104)	(40,459)
Currency translation differences	3,931	(50,371)
	<hr/>	<hr/>
Total gains and losses recognised in year	(176,173)	(90,830)
	<hr/> <hr/>	<hr/> <hr/>

Note of historical cost profits and losses

for the year ended 31 December 1998

Historical cost profits and losses are shown in the profit and loss account on page 5.

Movements in shareholders' funds

for the year ended 31 December 1998

	1998 £	1997 £
Loss for the financial year	(180,104)	(40,459)
Other recognised gains and losses relating to the year	3,931	(50,371)
	<hr/>	<hr/>
Net decrease to shareholders' funds	(176,173)	(90,830)
Opening shareholders' funds	363,986	454,816
	<hr/>	<hr/>
Closing shareholders' funds	187,813	363,986
	<hr/> <hr/>	<hr/> <hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The Company's financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Foreign currencies

Assets and liabilities denominated or recorded in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Trading results are translated at the average rate for the year. Exchange differences arising on the retranslation of the net assets of overseas operations at the commencement of the year and of their retained results for the year are taken to reserves. Other exchange differences arising in the ordinary course of trading are included in the profit and loss account.

Turnover

Contracting turnover comprises of work executed during the year including the settlement of monetary claims arising from previous years, and includes the Company's share of joint venture turnover.

Profit

Operating profit comprises the results of carrying out of building and civil engineering contracts in Africa. It includes the results attributable to contracts completed and contracts in progress after deducting amounts recognised in previous years and after making provision for foreseeable losses. Claims receivable are recognised as income when received or certified for payments, except that in estimating the amounts of foreseeable losses, a prudent and reasonable assessment of such claims is made.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Short leasehold land and buildings	-	life of lease
Plant and machinery	-	3 to 7 years

Notes (continued)

1 Accounting policies (continued)

Deferred taxation

Deferred taxation is accounted for using the liability method in relation to timing differences in respect of which there is a reasonable probability that they will reverse in the foreseeable future without being replaced by similar differences. It has been assumed that losses surrendered to other group companies will continue to be paid for at the corporation tax rate applicable at that time.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Contract work in progress

Amounts recoverable on contracts, which include attributable profit on contracts determined on the basis of measured work to the balance sheet date, are included in debtors. Deductions are made for net foreseeable losses and progress payments received.

This policy is applied irrespective of the length of the contract since, in the opinion of the directors, it is not appropriate to adopt a separate accounting policy for short term contracts.

Payments received in excess of amounts recoverable on contracts are included in credit balances on long term contracts.

2 Turnover

The Company has only one class of business which is generated in East Africa.

3 Operating loss is stated after charging/(crediting)

	1998	1997
	£	£
Auditors' remuneration:		
Audit	5,375	3,505
Depreciation	90,703	124,779
Exchange gains/ (losses)	(8,972)	977
Redundancy costs	11,005	-
	<u> </u>	<u> </u>

Notes (continued)

4 Remuneration of directors

The directors of the Company are employed by John Mowlem & Company PLC and are remunerated by that company in respect of their services to the group as a whole. They receive no emoluments from this Company.

5 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	1998	1997
Direct labour and operations	71	66
Technical, supervisory and administrative staff	10	18
	<hr/>	<hr/>
	81	84
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	1998	1997
	£	£
Wages and salaries	287,616	401,998
Social security costs	2,046	2,005
Other pension costs	37,478	38,544
	<hr/>	<hr/>
	327,140	442,547
	<hr/>	<hr/>

Notes (continued)

6 Interest receivable and similar income

	1998	1997
	£	£
Rental income	4,800	3,355
	<u> </u>	<u> </u>

7 Interest payable

	1998	1997
	£	£
On bank loans, overdrafts and other loans wholly repayable within five years	8,477	5,652
	<u> </u>	<u> </u>

8 Taxation on profit/(loss) on ordinary activities

	1998	1997
	£	£
United Kingdom		
- corporation tax at 31% (1997 : 31.5%)	71,291	9,854
- prior year adjustments	-	4,621
- deferred taxation	8,321	11,044
- deferred tax prior year adjustment	(874)	(2,479)
	<u> </u>	<u> </u>
	78,738	23,040
	<u> </u>	<u> </u>

Notes (continued)

9 Tangible fixed assets

	Short leasehold land and buildings £	Plant and machinery £	Total £
Cost			
1 January 1998	45,802	644,676	690,478
Additions	-	35,720	35,720
Disposals	-	(164,817)	(164,817)
Currency translation	428	2,179	2,607
	<hr/> 46,230 <hr/>	<hr/> 517,758 <hr/>	<hr/> 563,988 <hr/>
Depreciation			
1 January 1998	(18,756)	(367,185)	(385,941)
Released on disposal	-	83,947	83,947
Charge for year	(1,471)	(89,232)	(90,703)
Currency translation	(135)	(1,619)	(1,754)
	<hr/> (20,362) <hr/>	<hr/> (374,089) <hr/>	<hr/> (394,451) <hr/>
Net book value			
At 31 December 1998	<hr/> 25,868 <hr/>	<hr/> 143,669 <hr/>	<hr/> 169,537 <hr/>
At 31 December 1997	<hr/> 27,046 <hr/>	<hr/> 277,491 <hr/>	<hr/> 304,537 <hr/>

Notes (continued)

10 Investments

The subsidiaries of the Company, both of which are wholly owned and were non-trading through the year, are:

	Country of incorporation
The Mowlem Construction Company (Kenya) Limited	Kenya
The Mowlem Construction Company (Uganda) Limited	Uganda

The interest in subsidiary companies comprises:

	£
At 1 January and 31 December 1998:	-
Cost of shares	20,500
Provision against cost	(20,500)
	<hr/>
	-
	<hr/>

Group financial statements are not presented as the Company is itself a wholly owned subsidiary of another company incorporated in Great Britain. Group financial statements are prepared by the ultimate holding company, disclosed in note 19.

11 Stocks

	1998	1997
	£	£
Raw materials and consumables	151,179	166,889
	<hr/>	<hr/>

Notes (continued)

12 Debtors: amounts falling due within one year

	1998	1997
	£	£
Amounts recoverable on contracts	692,833	238,227
Other debtors	139,238	96,552
Prepayments and accrued income	108,142	104,419
Deferred tax (note 14)	68,438	60,991
UK Tax	75,912	-
	<hr/>	<hr/>
	1,084,563	500,189
	<hr/> <hr/>	<hr/> <hr/>

13 Creditors: amounts falling due within one year

	1998	1997
	£	£
Bank overdraft	34,761	39,599
Trade creditors	154,011	55,634
Other creditors	10,887	19,285
Corporation tax	-	78,791
Overseas corporation tax	27,000	28,715
Amounts owing to holding company	733,746	179,045
Accruals and deferred income	263,431	273,588
	<hr/>	<hr/>
	1,223,836	674,657
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

14 Deferred taxation

	£
At beginning of year	(60,991)
Credit for the year in the profit and loss account (note 8)	(7,447)
	<hr/>
Balance at end of year to debtors (note 12)	(68,438)
	<hr/> <hr/>

The amounts provided for deferred taxation:

	1998 Provided	1997 Provided £
Difference between accumulated depreciation and amortisation and capital allowances	(5,807)	2,554
Other timing differences	(62,631)	(63,545)
	<hr/>	<hr/>
	(68,438)	(60,991)
	<hr/> <hr/>	<hr/> <hr/>

15 Called up share capital

	1998 £	1997 £
<i>Authorised</i>		
Ordinary shares of £1 each	100,000	100,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	100,000	100,000
	<hr/>	<hr/>

Notes (continued)

16 Reserves

	Profit and loss account £
At beginning of year	263,986
Currency translation	3,931
Retained profit/(loss) for the year	(180,104)
	<hr/>
At end of year	87,813
	<hr/> <hr/>

17 Trading indemnities and bonding arrangements

The foregoing financial statements include contracts entered into by John Mowlem & Company PLC, the ultimate holding company, which, by arrangement, are executed directly by this Company, for which the appropriate third party counter-indemnities are issued by the ultimate holding company in the normal course of business.

The Company is liable in the ordinary course of its business to liquidated and ascertained damages for delay in completion of contracts beyond the period specified in the contract plus certified extensions of time. Adjustment is made in valuing contract work in progress for any probable liability, account being taken of current and foreseen time delays against programme and extensions of time which may reasonably be anticipated.

18 Cash flow statement

Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking. A cash flow statement is prepared by the ultimate holding company, disclosed in note 19.

19 Ultimate holding company

The ultimate holding company is John Mowlem & Company PLC which is registered in England and Wales. Copies of the accounts of the company may be obtained from White Lion Court, Swan Street, Isleworth, Middlesex TW7 6RN.