

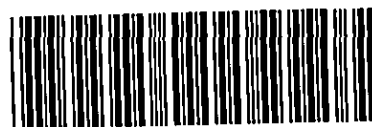
**The Carillion Construction Company (East Africa)
Limited**

**Directors' report and financial
statements**

Registered number 775010

Year ended 31 December 2006

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Contents

Directors' report	1
Statement of Directors' responsibilities in respect of the Directors' Report and the Financial Statements	3
Independent auditors' report to the members of The Carillion Construction Company (East Africa) Limited	4
Profit and loss account	6
Balance sheet	7
Statement of total recognised gains and losses	8
Notes	9

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

Principal activities and business review

The principal activity of the Company during the year was the carrying out of civil engineering and drilling contracts in Africa. Operations in East Africa are in the process of being wound down.

Results

The results for the year ended 31 December 2006 are disclosed in the financial statements on pages 6 to 13.

The directors do not recommend the payment of a dividend (2005 £Nil).

Significant event

On 23 February 2006, Carillion JM Limited (formerly Mowlem plc) was acquired by Carillion plc.

Directors and directors' interests

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

DJ Booth	
Carillion Management Limited (formerly Mowlem Management Limited)	
DJ Ridley	
PR Mainwaring	(resigned 11 May 2006)
R W Robinson	(appointed 11 May 2006)
J McDonough	(appointed 11 May 2006)
C F G Girling	(appointed 11 May 2006)

None of the directors had any interest in the share capital of the company.

The directors who held office at the end of the financial year and their families, other than those whose interests are disclosed in the financial statements of the ultimate holding company, had the following interests in, and options to subscribe for, ordinary shares of 50p each in Carillion plc:

The directors who held office at the end of the financial year and their families, other than those whose interests are disclosed in the financial statements of the ultimate holding company, had the following interests in, and options to subscribe for, ordinary shares of 50p each in Carillion plc:

	At 31 December 2006		Number of 50p ordinary shares		Share option movement		
	Shares	Options	At 1 January 2006		Granted	Exercised	Lapsed
			Shares	Options			
DJ Booth	5,287	840	-	-	840	-	-

As at 1 January 2006, the directors may have held interests in Carillion JM Limited (formerly Mowlem plc), the ultimate holding company at that time.

Following the acquisition of Carillion JM Limited, on 23rd February 2006, participants of the deferred award under the Share Matching Plan 2003 and the 2003 and 2004 Save As You Earn schemes were entitled to exercise their options for a period of six months following the acquisition for cash or shares in accordance with the offer document, which can be obtained from 24 Birch Street, Wolverhampton, WV1 4HY.

Disclosure of information to auditors

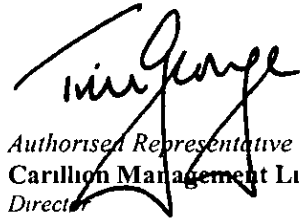
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' report (*continued*)

Auditors

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

By order of the board



Authorised Representative
Carillion Management Limited
Director

Birch Street
Wolverhampton
WV1 4HY

7 March 2007

Statement of Directors' responsibilities in respect of the Directors' Report and the Financial Statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 that 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG Audit Plc

2 Cornwall Street
Birmingham
B3 2DL
United Kingdom

Independent auditors' report to the members of The Carillion Construction Company (East Africa) Limited

We have audited the financial statements of The Carillion Construction Company (East Africa) Limited for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

Independent auditors' report to the members of The Carillion Construction Company (East Africa) Limited (*continued*)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



KPMG Audit Plc
Chartered Accountants
Registered Auditor

7 March 2007

Profit and loss account
for the year ended 31 December 2006

	<i>Note</i>	2006 £	2005 £
Turnover	2	734	8,130
Operating costs		(1,951)	(825,958)
Operating loss	3	(1,217)	(817,828)
Tax credit on profit on ordinary activities	6	15,641	-
Profit/(loss) on ordinary activities after taxation being loss for the financial year		14,424	(817,828)

The operations of the company are in the process of being wound down

There is no difference between the results as disclosed in the profit and loss account and the results on an unmodified historical cost basis

Reserve movements are given in note 9

The notes on page 9 to 13 form part of these financial statements

Balance sheet
at 31 December 2006

	<i>Note</i>	2006		2005	
		£	£	£	£
Current assets					
Cash at bank and in hand		8,890		11,072	
		<u>8,890</u>		<u>11,072</u>	
Creditors amounts falling due within one year	7	(677,365)		(695,291)	
Net current liabilities			(668,475)		(684,219)
Net liabilities			<u>(668,475)</u>		<u>(684,219)</u>
Capital and reserves					
Called up share capital	8	100,000		100,000	
Profit and loss account	9	(768,475)		(784,219)	
Shareholders' deficit			<u>(668,475)</u>		<u>(684,219)</u>

These financial statements were approved by the board of directors on 7 March 2007 and were signed on its behalf by



Authorised Representative

Carillion Management Limited
Director

Statement of total recognised gains and losses
for the year ended 31 December 2006

	2006 £	2005 £
Profit/(loss) for the financial year	14,424	(817,828)
Currency translation	1,320	(1,722)
Total recognised losses relating to the financial year	15,744	(819,550)

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 information

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain tangible fixed assets comprising land and buildings, and in accordance with applicable UK accounting standards

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding net liabilities of £668,475, which the directors believe to be appropriate for the following reasons. The company is dependent for its working capital on funds provided to it by Carillion plc, the company's ultimate parent undertaking. Carillion plc has indicated that for at least twelve months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Joint arrangements

Where the company is party to a joint arrangement, the company accounts directly for its share of the revenue and expenditure, net assets and liabilities.

Cash flow statement

Under FRS 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that Carillion plc, the company's ultimate parent undertaking, includes the company's cash flows in its own published consolidated cash flow statement.

Profit recognition

Profit on long term contracts is calculated in accordance with applicable accounting standards. In determining the attributable profit on contracts to a particular accounting period the company utilises estimation techniques. The principal estimation technique used is the preparation of profit and cash flow forecasts on a contract by contract basis which enables an assessment to be made of the final outturn on each contract. Profit is then recognised when the outcome of the contract can be foreseen with reasonable certainty and is attributed in line with the degree of completion of each contract.

Taxation

The charge for taxation is based on the result for each year and takes into account deferred taxation. Deferred tax assets or liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. Liabilities are calculated on a non-discounted full provision basis. Assets are calculated on the same basis, but are recognised only to the extent that it is probable that they will be recovered.

Notes (continued)

1 Accounting policies (continued)

Tangible fixed assets

The company has continued to follow the transitional provisions of FRS 15 "Tangible fixed assets" to retain the book value of freehold land and buildings which were last revalued in 1985

Depreciation is based on historical cost or revaluation, less the estimated residual values, and the estimated economic lives of the assets concerned. Freehold land is not depreciated. Other tangible assets are depreciated in equal annual instalments over the period of their estimated economic lives, which are principally as follows

Freehold buildings	50 years
Long leasehold land and buildings	50 years
Short leasehold land and buildings	Period of lease
Plant, machinery and vehicles	3-10 years

Long term contract balances

Amounts recoverable on contracts, which are included in debtors, are stated at cost plus attributable profit less any foreseeable losses. Payments received on account of contracts are deducted from amounts recoverable on contracts in debtors or long term contract balances in stock. Where such amounts have been received and exceed amounts recoverable, the net amounts are included in creditors.

Leased assets

Rental charges under operating leases are charged to the profit and loss account on a straight line basis over the life of each lease.

Assets held under finance leases and hire purchase contracts are included in tangible fixed assets and are depreciated over the shorter of the contract term or their useful life. The capital element of outstanding finance leases and hire purchase contracts is included in creditors. The finance charge element of rentals is charged to the profit and loss account at a constant periodic rate of charge on the outstanding obligations.

Foreign currencies

The investments in overseas subsidiaries and participating interests are translated into sterling at the rates of exchange ruling at the relevant dates of acquisition.

Transactions denominated in foreign currencies are translated into sterling and recorded using the contracted exchange rate. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

Pre-contract costs

Pre-contract costs are expensed as incurred until the company is appointed preferred bidder. Provided the contract is expected to generate sufficient net cash inflows to enable recovery and the award of the contract is virtually certain, pre-contract costs incurred post the appointment as preferred bidder are included in stocks. Where pre-contract bid costs are reimbursed at financial close, the proceeds are initially applied against the asset included in stocks. Any excess recoveries of costs are carried forward as deferred income and released to profit over the period of the contract to which the pre-contract costs relate.

Turnover

Turnover represents the net amount receivable, excluding value added tax, for goods and services supplied to all customers including fellow subsidiary undertakings. In respect of long term contracting activities, turnover reflects the value of work executed during the year. It also includes the company's proportion of work carried out by joint arrangements during the year.

2 Turnover

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

Notes (continued)

3 Operating loss

	2006 £	2005 £
<i>Operating loss is stated</i>		
<i>after charging/(crediting)</i>		
Provision for contract losses	-	807,417
Hire of plant and equipment	-	7,693
Profit on sale of fixed assets	-	3,218
	<u> </u>	<u> </u>

The audit fee for the year ended 31 December 2006 amounting to £3,000 was borne by Carillion JM Limited (formerly Mowlem plc)

Fees paid to the company's auditor, KPMG Audit Plc, and its associates for other than the statutory audit of the company are not disclosed in these financial statements since the consolidated financial statements of the company's parent, Carillion plc, are required to disclose non-audit fees on a consolidated basis. In 2005, the auditors' remuneration was paid by Carillion JM Limited (formerly Mowlem plc), the ultimate holding company at that time.

4 Directors' emoluments

The directors of the company are employed by Carillion JM Limited) and are remunerated by that company in respect of their services to the group as a whole. They receive no emoluments from The Carillion Construction Company (East Africa) Limited.

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 2006	2005
Direct labour and operatives	<u>1</u>	<u>1</u>

The aggregate payroll of these persons was as follows:

	£	£
Wages and salaries	<u>594</u>	<u>4,608</u>

6 Tax on loss on ordinary activities

Analysis of charge for the year

	2006 £	2005 £
UK corporation tax		
Current tax charge credit	<u>(15,641)</u>	<u>-</u>
Total current tax	<u>(15,641)</u>	<u>-</u>

Notes (continued)

6 Tax on loss on ordinary activities (continued)

Factors affecting tax charge for the year

The tax assessed differs from the application of the standard rate of corporation tax in the UK of 30% (2005 30%) to the company's profit before taxation for the following reasons

	2006 £	2005 £
<i>Current tax reconciliation</i>		
(Loss)/Profit on ordinary activities before tax	(1,217)	(817,828)
(Loss)/profit on ordinary activities at 30% (2005 30%)	365	245,348
Effects of		
Permanent differences	(334)	-
Profit on sale of fixed assets	-	965
Tax value of losses not utilised	-	(249,415)
Capital allowances in excess of depreciation	(15,672)	3,102
Total current tax credit	(15,641)	-

There is no actual or potential liability for deferred tax

7 Creditors: amounts falling due within one year

	2006 £	2005 £
Current tax	12,245	29,778
Amounts owing to holding company	601,291	494,321
Amounts owing by fellow subsidiaries	-	3,054
Other creditors	-	80,378
Accruals and deferred income	63,829	87,760
	677,365	695,291

8 Called up share capital

	2005 £	2004 £
<i>Authorised, allotted, called up and fully paid</i>		
100,000 ordinary shares of £1 each	100,000	100,000

9 Reserves – Profit and loss account

	2006 £	2005 £
At beginning of year	(784,219)	35,331
Currency translation	1,320	(1,722)
Profit/(loss) for the year	14,424	(817,828)
At end of year – deficit	(768,475)	(784,219)

Notes (continued)

10 Reconciliation of movements in shareholders' funds

	2006 £	2005 £
Profit/(loss) for the financial year	14,424	(817,828)
Other recognised gains/(losses) relating to the year	1,320	(1,722)
Net increase/(decrease) in shareholders' funds in the year	15,744	(819,550)
Opening shareholders' (deficit)/funds	(684,219)	135,331
Closing shareholders' (deficit)	(668,475)	(684,219)

11 Trading indemnities and bonding arrangements

The foregoing accounts may include contracts entered into by Carillion JM Limited (formerly Mowlem plc), the immediate parent company that, 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

12 Cash flow statement

Under FRS1, 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

13 Related party transactions

As a subsidiary of Carillion plc, the company is exempt from the requirements of FRS 8 'Related Party Transactions', to disclose transactions with entities that are part of the group or investees of the group qualifying as related parties

14 Ultimate holding company

The company's ultimate controlling company is Carillion plc which is incorporated in Great Britain

Copies of the group financial statements of Carillion plc are available from 24 Birch Street, Wolverhampton WV1 4HY