

**The Mowlem Construction Company**

**(East Africa) Limited**

**Directors' report and financial statements**

31 December 1997

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 1997.

### 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 1997 are disclosed in the profit and loss account on page 5.

The directors do not recommend the payment of a dividend (1996: *£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 1997		31 December 1996	
	Beneficially held	Options	Beneficially held	Options
FAJ Tarrant	2,996	19,988	2,996	19,988
DJ Ridley	9,952	182,329	9,660	41,833
CR Evans	1,246	-	1,211	-

**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

  
**D.J. Booth**  
Secretary

19 January 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, 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 1997 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

*19 January 1999*

## Profit and loss account

*for the year ended 31 December 1997*

	<i>Note</i>	1997 £	1996 £
<b>Turnover</b>	2	1,456,885	1,007,003
Operating costs		(1,518,087)	(1,040,136)
		<hr/>	<hr/>
<b>Operating loss</b>	3	(61,202)	(33,133)
Interest receivable and similar income	6	3,355	12,068
Interest payable and similar charges	7	(5,652)	(9,563)
		<hr/>	<hr/>
<b>Loss on ordinary activities before taxation</b>		(63,499)	(30,628)
Tax on loss on ordinary activities	8	23,040	(149,913)
		<hr/>	<hr/>
<b>Retained loss carried forward</b>	16	(40,469)	(180,541)
		<hr/> <hr/>	<hr/> <hr/>

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

## Balance sheet

at 31 December 1997

	Note	1997		1996	
		£	£	£	£
<b>Fixed assets</b>					
Tangible assets	9		304,537		377,713
<b>Current assets</b>					
Stocks	11	166,889		196,845	
Debtors	12	500,189		591,268	
Cash at bank and in hand		67,028		77,648	
		<u>734,106</u>		<u>865,761</u>	
<b>Creditors: amounts falling due within one year</b>	13	<u>(674,657)</u>		<u>(788,657)</u>	
<b>Net current assets</b>			59,449		77,104
<b>Net assets</b>			<u>363,986</u>		<u>454,817</u>
<b>Capital and reserves</b>					
Called up share capital	15	100,000		100,000	
Profit and loss account	16	263,986		354,817	
		<u>363,986</u>		<u>454,817</u>	

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

These financial statements were approved by the board of directors on 19.01.99 and were signed on its behalf by:

Director





## **Total recognised gains and losses**

*for the year ended 31 December 1997*

	1997 £	1996 £
<b>Loss for the financial year</b>	(40,459)	(180,541)
Currency translation differences	(50,372)	(29,281)
	<hr/>	<hr/>
<b>Total gains and losses recognised in year</b>	(90,831)	(209,822)
	<hr/> <hr/>	<hr/> <hr/>

## **Note of historical cost profits and losses**

*for the year ended 31 December 1997*

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 1997*

	1997 £	1996 £
<b>Loss for the financial year</b>	(40,459)	(180,541)
Other recognised gains and losses relating to the year	(50,372)	(29,281)
	<hr/>	<hr/>
<b>Net decrease to shareholders' funds</b>	(90,831)	(209,822)
Opening shareholders' funds	454,817	664,638
	<hr/>	<hr/>
<b>Closing shareholders' funds</b>	363,986	454,816
	<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)**

	1997	1996
	£	£
Auditors' remuneration:		
Audit	3,505	3,883
Other services	-	2,255
Depreciation	124,779	58,682
Exchange losses	977	-
Hire of plant and machinery	-	1,263
	<hr/>	<hr/>

## 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	
	1997	1996
Direct labour and operations	66	54
Technical, supervisory and administrative staff	18	11
	<u>84</u>	<u>65</u>

The aggregate payroll costs of these persons were as follows:

	1997	1996
	£	£
Wages and salaries	401,998	361,996
Social security costs	2,005	853
Other pension costs	38,544	43,311
	<u>442,547</u>	<u>406,160</u>

**Notes (continued)**

**6 Interest receivable and similar income**

	1997 £	1996 £
Rental income	3,355	12,068
	<u>3,355</u>	<u>12,068</u>

**7 Interest payable**

	1997 £	1996 £
On bank loans, overdrafts and other loans wholly repayable within five years	5,652	9,563
	<u>5,652</u>	<u>9,563</u>

**8 Taxation on profit/(loss) on ordinary activities**

	1997 £	1996 £
United Kingdom		
- corporation tax at 31.5% (1996:33%)	9,854	33,085
- prior year adjustments	4,621	(180,095)
- deferred taxation	11,044	(14,264)
- deferred tax prior year adjustment	(2,479)	-
Overseas tax	-	11,361
	<u>23,040</u>	<u>(149,913)</u>

**Notes (continued)**

**9 Tangible fixed assets**

	Short leasehold land and buildings £	Plant and machinery £	Total £
<b>Cost</b>			
1 January 1996	50,505	611,159	661,664
Additions	-	60,494	60,494
Disposals	-	(5,640)	(5,640)
Currency translation	(4,703)	(21,337)	(26,040)
	<hr/> 45,802	<hr/> 644,676	<hr/> 690,478
<b>Depreciation</b>			
31 December 1996	(19,118)	(264,833)	(283,951)
Released on disposal	-	5,642	5,642
Charge for year	(1,531)	(123,249)	(124,780)
Currency translation	1,893	15,255	17,148
	<hr/> (18,756)	<hr/> (367,185)	<hr/> (385,941)
<b>Net book value</b>			
At 31 December 1997	<hr/> 27,046	<hr/> 277,491	<hr/> 304,537
At 31 December 1996	<hr/> 31,387	<hr/> 346,326	<hr/> 377,713

## 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 1997:	-
Cost of shares	20,500
Provision against cost	20,500
	<hr/>
	-
	<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

	1997	1996
	£	£
Raw materials and consumables	166,889	196,845
	<hr/>	<hr/>

**Notes (continued)**

**12 Debtors: amounts falling due within one year**

	1997	1996
	£	£
Amounts recoverable on contracts	238,227	491,793
Other debtors	96,552	29,808
Deferred tax (note 14)	60,991	52,426
Prepayments and accrued income	104,419	17,241
	<hr/>	<hr/>
	500,189	591,268
	<hr/>	<hr/>

**13 Creditors: amounts falling due within one year**

	1997	1996
	£	£
Bank overdraft	39,599	47,109
Trade creditors	55,634	159,547
Other creditors	19,285	55,512
Corporation tax	78,791	60,182
Overseas corporation tax	28,715	32,665
Amounts owing to holding company	179,045	151,523
Accruals and deferred income	273,588	282,119
	<hr/>	<hr/>
	674,657	788,657
	<hr/>	<hr/>



## Notes (continued)

### 14 Deferred taxation

	£
At beginning of year	(52,426)
Credit for the year in the profit and loss account (note 8)	(8,565)
	<hr/>
Balance at end of year to debtors (note 12)	(60,991)
	<hr/> <hr/>

The amounts provided for deferred taxation:

	1997 Provided	1996 Provided
		£
Difference between accumulated depreciation and amortisation and capital allowances	2,554	14,246
Other timing differences	(63,545)	(66,672)
	<hr/>	<hr/>
	(60,991)	(52,426)
	<hr/> <hr/>	<hr/> <hr/>

### 15 Called up share capital

	1997 £	1996 £
<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/>	<hr/> <hr/>

## Notes (continued)

### 16 Reserves

	Profit and loss account £
At beginning of year	354,817
Currency translation	(50,372)
Retained profit/(loss) for the year	(40,459)
	<hr/>
At end of year	263,986
	<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.