

**Tarmac Construction (Contracts) International
Limited**

Directors' report and financial statements

31 December 1998

Registered number 959327



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

The company is principally engaged in civil engineering and building activities.

Business review and future developments

Turnover for the year amounted to £1,212,000 (1997: £4,873,000) and profit on ordinary activities before taxation was £35,000 (1997: £438,000).

The directors anticipate that the company will continue its present role within the group in the forthcoming year.

The company's ultimate holding company, Tarmac plc, has announced that it intends to separate its two business streams; Construction Services, of which Tarmac Construction (Contracts) International Limited is a part and Heavy Building Materials. The Directors believe that with a strong order book, Construction Services will continue to improve its performance as a separate business.

Dividends

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

Directors and directors' interests

The directors serving during the year were:

FM Kennedy
RD MacIver
BRH Nicoletti

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 immediate or ultimate holding company), had the following interests in, and options to subscribe for, the ordinary share or loan capital of Tarmac plc.

	Number of 50p ordinary shares				Share option movements in year		
	At 31 December 1998		At 1 January 1998				
	Fully paid	Share options	Fully paid	Share options	granted	exercised	lapsed
RD MacIver	-	150,454	-	110,454	40,000	-	-
BRH Nicoletti	-	80,000	-	60,000	20,000	-	-

No other director had any interest in, or rights to subscribe for, the share or loan capital of Tarmac plc.

No director had any beneficial interest in the share or loan capital of any subsidiary of Tarmac plc.

Directors' report (continued)

Year 2000

Tarmac recognises the importance of the Year 2000 problem and has established a Group-wide programme to ensure that the related risks are mitigated.

The programme, which is monitored regularly at Board level covers five main areas: business systems and associated hardware, embedded chips in buildings and production facilities, key suppliers, joint ventures and client solutions.

In each area an analysis of the risks has been performed, from which corrective action plans have been developed. These plans are designed to address all key issues well in advance of 31 December 1999, without disruption to the underlying business processes.

The company is one of many which is included within the Tarmac Construction Services Business Stream. The total cost of the programme to the business stream as a whole, along with the amount spent in 1998, is included in the financial statements of Tarmac Construction Limited, the company's controlling entity. The company shares its business systems with Tarmac Construction Limited and for this reason it is not possible to directly apportion costs associated with the Year 2000 problem to this company.

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 and of the profit or loss 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; 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 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 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.

Auditors

A resolution will be proposed at the forthcoming annual general meeting to re-appoint KPMG Audit Plc for the forthcoming year.

Approved by the Board and signed on its behalf by:



E McEwan
Secretary

Construction House
Birch Street
Wolverhampton
WV1 4HY

16 March 1999



KPMG Audit Plc

2 Cornwall Street
Birmingham
B3 2DL
United Kingdom

Report of the auditors to the members of Tarmac Construction (Contracts) International Limited

We have audited the financial statements on pages 4 to 12.

Respective responsibilities of directors and auditors

As described on page 2 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 profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink that reads 'KPMG Audit Plc' with a stylized flourish at the end.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

16 March 1999

Profit and loss account

for the year ended 31 December 1998

	<i>Note</i>	1998 £000	As restated 1997 £000
Turnover	<i>1</i>	1,212	4,873
Cost of sales		(1,177)	(4,447)
		<hr/>	<hr/>
Operating profit		35	426
Other interest receivable		-	12
		<hr/>	<hr/>
Profit on ordinary activities before taxation	<i>3</i>	35	438
Tax on profit on ordinary activities	<i>6</i>	(9)	(459)
		<hr/>	<hr/>
Retained profit/(loss) for the financial year	<i>13</i>	26	(21)
		<hr/>	<hr/>

The above results are all derived from continuing operations.

The company has no recognised gains or losses in either the current or preceding year other than those disclosed in the profit and loss account.

Balance sheet
at 31 December 1998

	<i>Note</i>	1998 £000	As restated 1997 £000	£000
Fixed assets				
Tangible assets	7		284	417
Current assets				
Debtors	9	84,461	84,033	
Cash at bank and in hand		351	810	
		<u>84,812</u>	<u>84,843</u>	
Creditors: amounts falling due within one year	10	<u>(11,860)</u>	<u>(11,989)</u>	
Net current assets			<u>72,952</u>	<u>72,854</u>
Total assets less current liabilities			<u>73,236</u>	<u>73,271</u>
Provisions for liabilities and charges				
Deferred taxation	11		-	(61)
Net assets			<u>73,236</u>	<u>73,210</u>
Capital and reserves				
Called up share capital	12	45,000		45,000
Share premium account	13	28,047		28,047
Profit and loss account	13	189		163
Equity shareholders' funds			<u>73,236</u>	<u>73,210</u>

These financial statements were approved by the board of directors on 16 March 1999 and signed on its behalf by:


RD MacIver
Director

Notes

(forming part of the financial statements)

Principal 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 accounting

These financial statements have been prepared in accordance with applicable accounting standards using the historical cost convention. The company's interest in its joint arrangement is included in the financial statements using the proportional consolidation method. Joint arrangements are unincorporated entities which participate in their own trade or business where no contractual management agreement exists between investors.

Restatement of comparatives

Comparative figures for 1997 have been restated in the profit and loss account and balance sheet and supporting notes to take into account the changes determined by the publication in the year of Financial Reporting Standard 9: Associates and Joint Ventures.

Long term contracts

Amounts recoverable on contracts, which are included in debtors, are stated at cost plus attributable profit less any foreseeable losses. The profit on each individual contract is recognised when the outcome of the contract can be foreseen with reasonable certainty and is the lower of profit earned to date and that forecast at completion. Profit for the year includes settlement of claims on contracts completed in prior years. Payments received on account are deducted from amounts recoverable on contracts. Such amounts which have been received and exceed amounts recoverable are included in creditors.

Tangible fixed assets

Depreciation is based on historic cost, less the estimated residual values, and the estimated economic lives of the assets concerned. Assets are depreciated in equal annual instalments over the period of their estimated economic lives, which are principally as follows:

Plant and equipment 2-5 years

Turnover

Turnover represents the net amount receivable, excluding value added tax, for goods and services supplied to all customers including fellow subsidiary undertakings and in respect of long term contracting activities, the value of work executed during the year.

Deferred taxation

Deferred taxation, calculation using the liability method, is included only where the effects of timing differences between results as stated in the accounts and as computed for taxation purposes are likely to crystallise in the foreseeable future.

Notes (continued)

Principal accounting policies (continued)

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded at the rates of exchange ruling at the dates of the transactions. 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.

Cash flow statement

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

Segmental reporting

All turnover and losses before taxation are derived from a single class of business, being civil engineering and building.

An analysis of turnover by geographical destination is as follows:-

	1998 £000	1997 £000
Middle East	1,094	4,518
Far East	118	355
	<hr/> 1,212 <hr/>	<hr/> 4,873 <hr/>

Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging the following:

	1998 £000	1997 £000
Depreciation of tangible fixed assets	133	411
Auditors' remuneration - audit	-	13
	<hr/>	<hr/>

Directors' remuneration

The directors neither received nor waived any emoluments during the year (1997: £Nil).

Notes (continued)

Staff numbers and costs

The average number of persons employed by the company (including directors) during the financial year was as follows:

	1998 Number	1997 Number
Construction and related operations	42	206
	<u>42</u>	<u>206</u>

The aggregate payroll costs of these persons during the year were as follows:

	1998 £000	1997 £000
Wages and salaries	57	717
Social security costs	27	44
	<u>84</u>	<u>761</u>

Tax on profit on ordinary activities

	1998 £000	1997 £000
UK corporation tax at 31% (1997: 31.5%)	52	131
Deferred tax (see note 11)	(297)	75
Adjustments in respect of previous years:		
Group relief payable	254	253
	<u>9</u>	<u>459</u>

Notes (continued)

Tangible fixed assets

	Plant and equipment £000
<i>Cost</i>	
At 31 December 1997	1,524
Restatement of opening balance	12
	<hr/>
At 1 January 1998	1,536
Disposals	(133)
	<hr/>
At end of year	1,403
	<hr/>
<i>Depreciation</i>	
At 31 December 1997	1,110
Restatement of opening balance	9
	<hr/>
At 1 January 1998	1,119
Charge for the year	133
Disposals	(133)
	<hr/>
At end of year	1,119
	<hr/>
<i>Net book value</i>	
At 31 December 1998	284
	<hr/>
At 31 December 1997	414
	<hr/>

Joint arrangements

The company has a 30% interest in the Kumagai Tarmac Joint Venture which is an unincorporated joint arrangement operating in Hong Kong. The address of its principal place of business is 15/F Gitic Centre, Queen's Road East, Hong Kong.

Notes (continued)

Debtors

	1998	As restated 1997
	£000	£000
<i>Amounts falling due within one year:</i>		
Trade debtors	3,028	864
Amounts recoverable on contracts	421	3,214
Amounts owed by group undertakings	78,556	77,902
Consortium relief receivable	7	-
Other debtors	2,213	2,053
	<hr/>	<hr/>
	84,225	84,033
<i>Amounts falling due after one year:</i>		
Deferred taxation (see note 11)	236	-
	<hr/>	<hr/>
Total debtors	84,461	84,033
	<hr/> <hr/>	<hr/> <hr/>

Creditors: amounts falling due within one year

	1998	As restated 1997
	£000	£000
Trade creditors	1,765	1,306
Amounts owed to group undertakings	6,114	6,606
Group taxation relief	507	242
Corporation tax	188	149
Accruals	3,286	3,686
	<hr/>	<hr/>
	11,860	11,989
	<hr/> <hr/>	<hr/> <hr/>

Deferred taxation

The movements on deferred taxation (assets)/liabilities were as follows:

	1998
	£000
At beginning of year	61
Transfer to profit and loss account	(297)
	<hr/>
At end of year	(236)
	<hr/> <hr/>

Notes (continued)

1 Deferred taxation (continued)

Amounts recognised and not recognised.

	1998		1997	
	Amounts provided/ (recognised) £000	Amounts not provided/ (not recognised) £000	Amounts provided/ (recognised) £000	Amounts not provided/ (not recognised) £000
Accelerated capital allowances	(236)	(306)	(15)	(204)
Other timing differences	-	(21)	76	(600)
Net (asset)/liability	(236)	(327)	61	(804)

The closing deferred tax asset is included within debtors.

2 Share capital

	1998 £000	1997 £000
<i>Authorised, allotted, called up and fully paid:</i>		
45,000,000 ordinary shares of £1 each	45,000	45,000

3 Reconciliation of movements in shareholders' funds

	Share capital £000	Share premium account £000	Profit and loss account £000	1998 Total £000	1997 Total £000
Retained profit/(loss) for the financial year	-	-	26	26	(21)
Net increase/(decrease) in shareholders' funds	-	-	26	26	(21)
Shareholders' funds at beginning of year	45,000	28,047	163	73,210	73,231
Shareholders' funds at end of year	45,000	28,047	189	73,236	73,210

4 Contingent liabilities

The company has contingent liabilities in respect of performance bonds, guarantees and claims under contracting and other agreements, including joint ventures, entered into in the normal course of business.

5 Related party transactions

As a 100% owned subsidiary of Tarmac plc, the company has taken advantage of the exemption under Financial Reporting Standard 8 not to provide information on related party transactions with other undertakings within the Tarmac group. Note 16 gives details of how to obtain a copy of the published financial statements of Tarmac plc.

Notes *(continued)*

6 Controlling and parent companies

The company's controlling company is Tarmac Construction Limited, its immediate parent company, whilst the company's ultimate controlling company is Tarmac plc, its ultimate parent company, both of which are incorporated in England and Wales.

Copies of the group financial statements for Tarmac plc are available from Construction House, Birch Street, Wolverhampton, WV1 4HY.