

COSTAIN BUILDING & CIVIL ENGINEERING LIMITED

REGISTERED NUMBER 1054232

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2006

KPMG Audit Plc
Chartered Accountants
Registered Auditor
LONDON

TUESDAY



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COSTAIN BUILDING & CIVIL ENGINEERING LIMITED
REPORT OF THE DIRECTORS
For the year ended 31 December 2006

BUSINESS REVIEW

The company operates as a holding company and in the civil engineering markets, outside the United Kingdom. Revenue for the year was £7.2 million (2005: £5.5 million). Developments during the year regarding certain contracts resulted in the need to take substantial write-downs against the anticipated value to be received on these contracts. As a result, the company recorded a loss of £18.7 million (2005: £120.0 million profit) and the shareholders' funds position has decreased to £40.5 million (2005: £59.1 million).

The parent company, Costain Group PLC, announced in June 2006 that it was closing its International division of which the Company formed part. As a result, the company is completing its remaining obligations overseas.

The principal risks, which could affect the operations and consequently the results of the company, are

- People – A flexible, highly skilled and well-motivated work force is essential to meeting the company's business objectives
- Health and Safety – Safety is the Number One priority within the company. It is a responsibility both of the company and individual employees to ensure that the company's operations are managed in a safe and healthy manner
- Contract risk – The company is exposed to financial, brand and reputational risk if it fails to complete contracts on time or within the contract price or fails to comply with the contract specification
- Contract disputes – The company takes a prudent view on valuing formal disputes on contracts. This will reduce the potential risk of over-valuation
- Supply chain – The company is reliant on its supply chain and if a sub-contractor or supplier failed financially or was responsible for late or inadequate delivery or poor quality of work on a project then it could impact the company
- Insurance – The company believes it has robust, comprehensive and adequate insurance cover but it recognises that a claim could be made against the company, which exceeds the limits of insurance cover or is in respect of a matter that is uninsurable
- Environment – The company recognises that its activities could potentially have a significant influence upon the quality and diversity of the environment and that a breach of its environmental obligations could be damaging to the company

The company considers the following Key Performance Indicators are the most effective measures of progress toward achieving its objectives: Profit before tax, Cash flow from operating activities and Accident frequency rate (AFR). The AFR for 2006 was 0.31. As part of monitoring these, every month, a Project Manager's Report is produced for each project and reviewed by senior management. This report contains a number of indicators regarding project performance: Health and Safety, Customer service, Programme, Financial performance, Claims and variations, Cash management, Resource levels and Risk management.

COSTAIN BUILDING & CIVIL ENGINEERING LIMITED
REPORT OF THE DIRECTORS
For the year ended 31 December 2006

DIRECTORS AND SHARE INTERESTS

Directors who held office during the year and their disclosable interests in shares, as recorded in the register of directors' interests

		At 01 01 06	At 31.12 06
A Wyllie *			
A O Bickerstaff (appointed 05.06.06)*			
L T Eames	a	28,958	28,958
	b	11,279	11,279
C L Franks	a	393	393
	c	152,238	152,238
	d	150,638	150,638
A J Handford	a	9,824	9,824
	b	5,639	5,639
	c	140,298	140,298
	d	140,425	140,425
	e	-	186,916
D H Jenkins	a	28,870	28,870
	b	11,279	11,279
	c	168,656	168,656
	d	163,404	163,404
	e	-	209,346
C J McCole (resigned 04 06.06)*			

- * - The interests of these directors in the shares of Costain Group PLC are disclosed in the accounts of that company.
- a - Costain Group PLC ordinary shares of 5p each.
- b - Options granted on 21 October 2004 to acquire Costain Group PLC ordinary shares under the 2004 Save As You Earn Share Option Scheme
- c - Options granted on 21 April 2004 to acquire Costain Group PLC ordinary shares under the 2004 Long Term Incentive Plan
- d - Options granted on 26 April 2005 to acquire Costain Group PLC ordinary shares under the 2005 Long Term Incentive Plan
- e - Options granted on 21 April 2006 to acquire Costain Group PLC ordinary shares under the 2006 Long Term Incentive Plan.

COSTAIN BUILDING & CIVIL ENGINEERING LIMITED
REPORT OF THE DIRECTORS
For the year ended 31 December 2006

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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

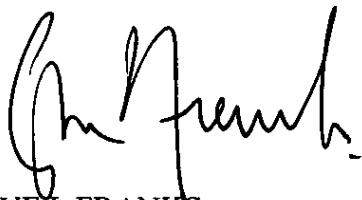
AUDITORS

Pursuant to a shareholders' resolution, the company is not obliged to re-appoint its auditors annually and KPMG Audit Plc will therefore continue in office

CREDITOR PAYMENT POLICY AND PRACTICE

As a result of the nature of the company's business, the contractual relationships with the suppliers of goods and services and with subcontractors vary according to circumstances. It is the company's policy to enter into an appropriate form of contractual agreement on payment terms and to pay according to those terms. The company does not follow any particular code of practice for the payment of creditors. In practice, the company makes every effort to pay when it can be confirmed that the supplier has provided the goods or services in accordance with the relevant terms of the contract. The amount for trade creditors shown in the balance sheet at the end of the financial year represents 35 days (2005 72 days) of average daily purchases

BY ORDER OF THE BOARD



CLIVE L FRANKS
SECRETARY
25 April 2007

REGISTERED OFFICE
Costain House, Nicholsons Walk,
Maidenhead, Berkshire SL6 1LN

COSTAIN BUILDING & CIVIL ENGINEERING LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS
For the year ended 31 December 2006

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 enable them to ensure that its 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COSTAIN
BUILDING & CIVIL ENGINEERING LIMITED**
For the year ended 31 December 2006

We have audited the financial statements of Costain Building & Civil Engineering Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, 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 to them 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

As described in the Statement of Directors' Responsibilities on page 4, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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.

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 loss 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

KPMG Audit Plc
Chartered Accountants
Registered Auditor
LONDON

25 April 2007 Date

COSTAIN BUILDING & CIVIL ENGINEERING LIMITED
PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2006

	Notes	2006 £	2005 £
Turnover	1/2	7,221,497	5,497,095
Cost of sales		(25,685,048)	(6,376,733)
		<hr/>	<hr/>
Gross loss		(18,463,551)	(879,638)
Administrative expenses		(222,971)	(243,643)
		<hr/>	<hr/>
Operating loss		(18,686,522)	(1,123,281)
Non-operating exceptional items		-	121,107,142
		<hr/>	<hr/>
		(18,686,522)	119,983,861
Interest receivable		4,536	52,326
		<hr/>	<hr/>
(Loss)/profit on ordinary activities before taxation	3	(18,681,986)	120,036,187
Taxation	6	61,494	(61,494)
		<hr/>	<hr/>
(Loss)/profit on ordinary activities after taxation		(18,620,492)	119,974,693
		<hr/>	<hr/>

There were no recognised gains or losses other than the loss for the year and the profit for the preceding year

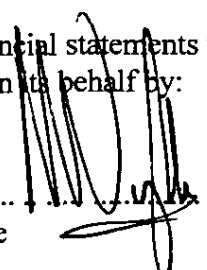
All operating losses are attributable to continuing operations

THE NOTES ON PAGES 8 TO 15 FORM PART OF THESE FINANCIAL STATEMENTS

COSTAIN BUILDING & CIVIL ENGINEERING LIMITED
BALANCE SHEET
As at 31 December 2006

	Notes	2006 £	2005 £
Fixed assets			
Tangible assets	7	601	17,991
Investments	8	14,809,580	14,809,580
		<hr/> 14,810,181	<hr/> 14,827,571
Current assets			
Debtors	9	57,786,050	158,761,773
Cash at bank and in hand	10	380,629	659,745
		<hr/> 58,166,679	<hr/> 159,421,518
Creditors amounts falling due within one year	11	(16,301,016)	(110,064,497)
		<hr/> 41,865,663	<hr/> 49,357,021
Net current assets			
		<hr/> 56,675,844	<hr/> 64,184,592
Total assets less current liabilities			
Creditors: amount falling due after more than one year	12	(15,401,473)	(5,000,000)
Provisions for liabilities and charges		(800,000)	(89,729)
		<hr/> 40,474,371	<hr/> 59,094,863
Net assets			
Capital and reserves			
Called up share capital	13	48,461,810	48,461,810
Profit and loss account	14	(7,987,439)	10,633,053
		<hr/> 40,474,371	<hr/> 59,094,863
Equity shareholders' funds	15		
		<hr/> 40,474,371	<hr/> 59,094,863

The financial statements were approved by the Board of Directors on 25 April 2007 and were signed on its behalf by:

.....  Director
A Wyllie

THE NOTES ON PAGES 8 TO 15 FORM PART OF THESE FINANCIAL STATEMENTS

COSTAIN BUILDING & CIVIL ENGINEERING LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2006

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 ACCOUNTING

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards under the historical cost convention.

Interests in joint arrangements, which are not subsidiary undertakings, are accounted for by recognising the company's share of the assets and liabilities, profits, losses and cash flows, measured according to the terms of the arrangement.

The company is exempt by virtue of S228 of the Companies Act 1985 from the requirement to prepare group accounts. The financial statements present information about the company as an individual undertaking and not about its group.

CASH FLOW STATEMENT

Under Financial Reporting Standard 1 (revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent company includes the company in its own published consolidated financial statements

TURNOVER

Turnover represents the amounts (excluding value added tax) receivable for goods and services provided and the value of work carried out during the year on long term contracts. Turnover includes the company's share of turnover of joint arrangement contracts

TAXATION

Deferred taxation has been recognised as a liability or asset, except as otherwise required by FRS 19 'Deferred Tax', if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the transfer of economic benefit in future is uncertain. Deferred tax assets and liabilities recognised have not been discounted

FOREIGN CURRENCY TRANSACTIONS

Monetary assets and liabilities denominated in foreign currencies have been translated into sterling at year end exchange rates. Exchange differences on such items and on transactions completed in the ordinary course of business are dealt with in profit on ordinary activities. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction.

COSTAIN BUILDING & CIVIL ENGINEERING LIMITED
NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2006

1 Accounting policies - continued

DEPRECIATION

Depreciation is provided to write off the cost of tangible fixed assets on a straight line basis as follows

	Percentage per annum
Plant and equipment, furniture and fittings	10 - 33 3

LONG TERM CONTRACTS

Amounts recoverable on long term contracts represent the excess of the value of work carried out over cumulative payments on account. Long term contracts are valued at cost plus attributable profit earned to date less provision for foreseeable losses.

PENSIONS

The company participates, on a defined contributions basis, in a pension scheme for the benefit of its seconded employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

The cost of pensions, in respect of the pension scheme in which the company participates, is charged to the profit and loss account and is equal to the contributions payable in the accounting period.

2 Geographical segment information

All turnover for 2006 and 2005 is derived from Hong Kong and the Middle East.

3 (Loss)/profit on ordinary activities before taxation

(Loss)/profit on ordinary activities is stated after charging

	2006 £	2005 £
Depreciation	4,815	6,382
Exchange losses on foreign currency	270,715	304,534
Profit on sale of investment in Costain Ltd	-	121,107,142
Provision for bad and doubtful debts	14,630,000	-
Auditors' remuneration - audit fees	14,459	12,378

Fees paid to KPMG Audit Plc for services other than the statutory audit of the company are not disclosed in Costain Building & Civil Engineering Ltd's accounts since the consolidated accounts of Costain Building & Civil Engineering Ltd's ultimate parent, Costain Group PLC, are required to disclose non-audit fees on a consolidated basis.

4 Remuneration of directors

Emoluments paid to the directors of the company were £nil (2005: £nil)

COSTAIN BUILDING & CIVIL ENGINEERING LIMITED
NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2006

5. Staff numbers and costs

The average number of persons employed by the company during the year, in the United Kingdom and overseas, were nil and 2 respectively (2005: nil and 3)

The aggregate payroll costs of these persons were as follows.

	2006	2005
	£	£
Wages & salaries	58,967	162,494
Pension costs	-	8,889
	<hr/>	<hr/>
	58,967	171,383
	<hr/>	<hr/>

The company incurred pension costs in respect of employees seconded from a group undertaking on a defined contributions basis. As from 1 April 2006, the seconded employees that participate in the Costain Group's UK defined benefit pension scheme, are provided with benefits based on a Career Average Revalued Earnings basis; details of this scheme are included in the financial statements of Costain Group PLC

The cost for the period of contributions to this scheme is included in the analysis above
There are no outstanding or prepaid contributions at the balance sheet date

6. Taxation

	2006	2005
	£	£
On (loss)/profit for the year		
UK corporation tax at 30%	-	(61,494)
Adjustments for prior years	61,494	-
	<hr/>	<hr/>
Tax on (loss)/profit on ordinary activities	61,494	(61,494)
	<hr/>	<hr/>
Tax reconciliation:	£	£
(Loss)/profit on ordinary activities before taxation	(18,681,986)	120,036,187
	<hr/>	<hr/>
Tax at 30%	7,299,596	(36,010,856)
Profit on group transfer of subsidiary	-	36,332,143
Provisions	(6,559,377)	(480,000)
Sundry disallowed expenditure	(13,169)	(1,411)
Exchange differences	926	12,613
Group relief free of charge	(21,376)	-
Deferred tax not recognised	(706,600)	86,017
Adjustments for prior years	61,494	-
	<hr/>	<hr/>
Total current tax	61,494	(61,494)
	<hr/>	<hr/>

COSTAIN BUILDING & CIVIL ENGINEERING LIMITED
NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2006

Taxation continued

No deferred taxation has been recognised on the unremitted earnings of an overseas subsidiary as no dividends are proposed.

The Company has deferred taxation assets that have not been recognised on the basis that their future economic benefit was not assured as at the balance sheet date. Tax relief will be obtained if suitable profits arise in future accounting periods

The full potential deferred taxation assets not recognised at 30% were

	2006 £	2005 £
Accelerated capital allowances	349,431	377,831
Other timing differences	705,000	-
	<hr/>	<hr/>

7 Tangible fixed assets

	Plant and Equipment £
Cost	
At 1 January 2006	61,860
Additions	430
Foreign currency realignment	(6,377)
Disposals	(23,080)
	<hr/>
At 31 December 2006	32,833
	<hr/>
Depreciation	
At 1 January 2006	43,869
Provisions	4,815
Foreign currency realignment	(5,104)
Disposals	(11,348)
	<hr/>
At 31 December 2006	32,232
	<hr/>
Net book value	
At 31 December 2006	601
	<hr/>
At 31 December 2005	17,991
	<hr/>

COSTAIN BUILDING & CIVIL ENGINEERING LIMITED
NOTES TO THE ACCOUNTS continued
For the year ended 31 December 2006

8 Investments

	Subsidiary undertakings £
Cost	
At 1 January and 31 December 2006	31,151,697
Amounts written off	
At 1 January and 31 December 2006	16,342,117
Net book value	
At 1 January and 31 December 2006	14,809,580

9. Debtors

	2006 £	2005 £
Trade debtors	2,538,636	2,380,520
Amounts recoverable on long term contracts	-	762,000
Amounts recoverable on completed contracts	-	170,250
Amounts owing by group undertakings	54,891,203	151,698,911
Amounts owing by joint ventures	288,125	3,329,028
Other debtors	56,609	418,166
Prepayments and accrued income	11,477	2,898
	<u>57,786,050</u>	<u>158,761,773</u>

10 Cash at bank and in hand

The company's bankers have the right to set off the company's bank balance when in credit against borrowings by Richard Costain Limited. Arrangements with Costain Group's bankers require that all cash balances are transferred to a fellow subsidiary, Richard Costain Limited, on a daily basis, such arrangements are commonplace in large groups and facilitate effective cash management. The company's cash balance is replaced with an inter-company receivable from Richard Costain Limited, as such the directly held cash balance at the balance sheet date reduces to nil, with the balance of £380,629 (2005. £659,745) representing cash held in separate accounts, including within joint arrangements.

COSTAIN BUILDING & CIVIL ENGINEERING LIMITED
NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2006

11. Creditors: amounts falling due within one year

	2006 £	2005 £
Trade creditors	925,436	1,229,192
Payments received on account	233,054	192,421
Amounts owing to group undertakings	12,249,347	106,984,045
Amounts owed to joint ventures	538,344	66,483
Other creditors	265,870	322,196
Accruals	530,145	514,248
Social security including taxation	-	7,808
Corporation tax	-	61,494
	<hr/>	<hr/>
	14,742,196	109,377,887
Borrowings	1,558,820	686,610
	<hr/>	<hr/>
	16,301,016	110,064,497
	<hr/>	<hr/>

12. Creditors: amounts falling due after more than one year

	2006 £	2005 £
Amounts owing to group undertakings	15,401,473	5,000,000
	<hr/>	<hr/>

13. Share capital

	2006 and 2005	
	Authorised £	Issued and fully paid £
Ordinary shares of £1 each	52,000,000	48,461,810
	<hr/>	<hr/>

14. Reserves

	Profit and loss £
At 1 January 2006	10,633,053
Loss for the financial year	(18,620,492)
	<hr/>
At 31 December 2006	(7,987,439)
	<hr/>

COSTAIN BUILDING & CIVIL ENGINEERING LIMITED
NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2006

15 Reconciliation of movements in shareholders' funds

	2006 £	2005 £
(Loss)/profit for the financial year	(18,620,492)	119,974,693
Dividends paid	-	(75,000,000)
Opening shareholders' funds	59,094,863	14,120,170
	<hr/>	<hr/>
Closing shareholders' funds	40,474,371	59,094,863
	<hr/>	<hr/>

16 Contingent liabilities

The company has entered into cross guarantees together with the ultimate parent company and certain fellow group undertakings for overdraft facilities made available to the group. At 31 December 2006 these liabilities amounted to £1.0m (2005: £nil).

There are also contingent liabilities in respect of performance bonds and other undertakings entered into in the ordinary course of business.

17 Subsidiary undertakings and joint arrangements

Subsidiary undertakings	Activity	Percentage of equity held	Country of incorporation
Costain Abu Dhabi Co WLL	Process Contracting	49*	UAE
Costain Construction Ltd	Building	100	UK
Costain Management Design Ltd	Dormant	100	UK
Westminster Plant Co Ltd	Plant Hire	100	UK
Costain International Ltd	Civil Engineering	100	UK

Joint arrangements	Activity	Percentage of equity held	Country of operation
Costain - China Harbour – Per Aarsleff A/S	Civil Engineering	45%	Hong Kong

* Treated as a subsidiary undertaking due to Costain having dominant influence and control of the composition of the Board of Directors

18. Related parties transactions

The company is exempt under Financial Reporting Standard 8 (FRS 8) from the requirement to disclose related party transactions with other group companies on the basis that it is a wholly owned subsidiary of the ultimate parent company, Costain Group PLC.

19. Ultimate parent company

The largest and smallest group of undertakings for which group financial statements are drawn up is that of the ultimate parent company, Costain Group PLC, a company registered in England and Wales

Copies of the group financial statements of Costain Group PLC may be obtained from the registered office of the company, Costain House, Nicholsons Walk, Maidenhead, Berkshire SL6 1LN.