

**MCNICHOLAS
CONSTRUCTION SERVICES
LIMITED**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 MARCH 2003



Company no 1510892

MCNICHOLAS CONSTRUCTION SERVICES LIMITED

FINANCIAL STATEMENTS

For the year ended 31 MARCH 2003

Company registration number: 1510892

Registered office: 22 Melton Street
Euston Square
London
NW1 2BW

Directors: P T McNicholas
M May
L Blackman
S Carter
B S McNicholas
S P McNicholas
S McNicholas
M McKay

Secretary: T Dennington

Bankers: Barclays Bank plc
Business Banking Centre
PO Box 544
54 Lombard Street
London
EC3V 9EX

Auditors: Grant Thornton
Registered Auditors
Chartered Accountants
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

MCNICHOLAS CONSTRUCTION SERVICES LIMITED

FINANCIAL STATEMENTS

For the year ended 31 MARCH 2003

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MCNICHOLAS CONSTRUCTION SERVICES LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 March 2003.

Principal activity

The principal activity of the company is that of Civil Engineering Contractors.

Business review and future developments

The performance of the company and the results for the year ending 31 March 2003 were extremely disappointing.

Over the last six months the Board has implemented a Survival Plan for the group as a whole. This has resulted in: -

- Closure of a number of business units that were neither generating profit or cash.
- The rationalisation and downsizing of all head office and divisional functions throughout the UK.
- The renegotiation on favourable terms of several major contracts and the development of new markets.

The board is confident that the group as a whole has now stemmed the losses seen over the last two years and that the group has now returned to profit and is generating cash.

None of the above could have been possible without the support of our stakeholders, The Board would like to thank all of its stakeholders, and in particular our employees, for their support over the last six months without which we could not have made the progress reported above.

The directors do not recommend payment of a dividend (2002: £nil)

Directors

The directors who served throughout the year are set out below.

P T McNicholas
B S McNicholas
S Carter
S P McNicholas
S McNicholas
M McKay
L Blackman
M May

None of the directors have any interest in the share capital of the company. The interests of those directors who are also directors of the ultimate parent undertaking in the share capital of that company are disclosed in its financial statements.

MCNICHOLAS CONSTRUCTION SERVICES LIMITED

REPORT OF THE DIRECTORS

Directors (continued)

The interests of those directors who are not directors of the parent undertaking in its share capital are:

	2003 'A' ordinary share £	2003 'B' ordinary shares £	2002 'A' ordinary shares £	2002 'B' ordinary shares £
B S McNicholas	7,360	21,720	7,360	21,720
S P McNicholas	7,360	21,720	7,360	21,720
S McNicholas	1,882	32,565	1,882	32,565
L Blackman	7,360	21,720	7,360	21,720
M B Hayes	-	-	-	-
S Carter	-	-	-	-
M McKay (appointed 1 March 2003)	-	-	-	-

Employees

The company has continued its practice of keeping employees informed of matters affecting them as employees and the financial economic factors affecting the performance of the company.

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the company may continue.

It is the policy of the company that training, career development and promotion opportunities should be available to all employees.

MCNICHOLAS CONSTRUCTION SERVICES LIMITED

REPORT OF THE DIRECTORS

Directors' responsibilities for the financial statements

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 of the company for that period. In preparing those financial statements, the directors are required to:

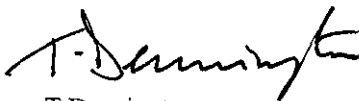
- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the 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 maintaining proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD



T Dennington
Secretary
16 October 2003

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
MCNICHOLAS CONSTRUCTION SERVICES LIMITED**

We have audited the financial statements of McNicholas Construction Services Limited for the year ended 31 March 2003 which comprise the principal accounting policies, the profit and loss account, the balance sheet and notes 1 to 20. 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 auditors' 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 directors' report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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 transactions with the company is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom 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.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF

MCNICHOLAS CONSTRUCTION SERVICES LIMITED

Going concern

In forming our opinion we have considered the adequacy of the disclosure made in the Principal Accounting Policies section of the financial statements concerning the uncertainty as to the group's ability to continue to trade within its current borrowing facilities and to comply with its banking covenants. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
LONDON
16 OCTOBER 2003

MCNICHOLAS CONSTRUCTION SERVICES LIMITED

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

With the exception of the introduction of Financial Reporting Standard 17, Retirement Benefits and Financial Reporting Standard 19, Deferred Tax, the principal accounting policies of the company have remained unchanged from the previous year and are set out below.

GOING CONCERN

The financial statements have been prepared on a going concern basis, the validity of which depends on the group being able to trade within its banking facilities.

The directors believe that the group will be able to trade within the current banking facilities. The directors are implementing a process of rationalisation and reorganisation within the group in order to seek efficiencies and improvements in its financial headroom. This is being conducted in full discussion with the bankers who have indicated their intention to continue to support the group.

The directors believe that it is appropriate for the financial statements to be prepared on a going concern basis. The financial statements do not include any adjustments that would arise from an inability to trade within the current borrowing facilities or a failure to meet repayments of bank loans as they fall due.

TURNOVER

Turnover is the total amount receivable by the company for services provided, excluding VAT.

In the case of long-term contracts, turnover reflects the contract activity during the year and represents the proportion of total contract value which costs incurred to date bear to total expected contract costs.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Depreciation is calculated to write off the cost less estimated residual value of all tangible fixed assets other than freehold land by equal annual instalments over their expected useful lives. The rates generally applicable are:

Plant and machinery	20% on cost
Commercial vehicles	20% on cost
Motor vehicles	25% on cost

LEASED ASSETS

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represent a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

STOCKS

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

MCNICHOLAS CONSTRUCTION SERVICES LIMITED

PRINCIPAL ACCOUNTING POLICIES

DEFERRED TAXATION

Deferred tax is provided for using the tax rates estimated to arise when the timing differences reverse and is accounted for to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred tax would be disclosed as a contingent liability.

Debit balances arising in respect of advance corporation tax on dividends payable or proposed are carried forward to the extent that they are expected to be recoverable.

CONTRIBUTIONS TO PENSION SCHEMES

Defined Contribution Scheme

The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

Defined Benefit Scheme

The pension costs charged against profits are based on actuarial methods and assumptions designed to spread the anticipated pension costs over the service lives of the employees in the scheme, so as to ensure that the regular pension cost represents a substantially level percentage of the current and expected future pensionable payroll. Variations from regular cost are spread over the remaining service lives of current employees in the scheme.

LONG TERM CONTRACTS

The attributable profit on long-term contracts is recognized once their outcome can be assessed with reasonable certainty. The profit recognized reflects the proportion of work completed to date on the project.

Costs associated with long-term contracts are included in stock to the extent that they cannot be matched with contract work accounted for as turnover. Long-term contract balances included in stock are stated at cost, after provision has been made for any foreseeable losses and the deduction of applicable payments on account.

Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

WARRANTY PROVISIONS

In accordance with the requirement of the New Road and Street Works Act 1991 the company has a warranty liability in respect of all reinstatement works covered by the Act. Accordingly, provisions have been made for the estimated costs of reinstatement and remedial work, for work completed up to the balance sheet date.

MCNICHOLAS CONSTRUCTION SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31 MARCH 2003

	Note	2003 £	2002 £
Turnover	1	165,651,292	208,691,364
Cost of sales		<u>(159,213,312)</u>	<u>(204,682,290)</u>
Gross profit		6,437,980	4,009,074
Administrative expenses		<u>(11,596,366)</u>	<u>(11,045,605)</u>
Operating loss	2	(5,158,356)	(7,036,531)
Provision against investments		-	(250,000)
Interest receivable		51,147	379
Interest payable and similar charges	3	<u>(2,113)</u>	<u>(59,508)</u>
Loss on ordinary activities before taxation		(5,109,322)	(7,345,660)
Tax on loss on ordinary activities	5	<u>-</u>	<u>1,318,968</u>
Loss for the financial year	13	(5,109,322)	(6,026,692)
Retained profit at 31 March 2002		4,250,095	10,276,787
Retained (loss)/profit at 31 March 2003		<u>(859,227)</u>	<u>4,250,095</u>

All transactions arose from continuing operations.

There were no recognised gains or losses other than the loss for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

MCNICHOLAS CONSTRUCTION SERVICES LIMITED

BALANCE SHEET AT 31 MARCH 2003

	Note	2003 £	2002 £
Fixed assets			
Tangible assets	6	31,468	722,858
Current assets			
Stocks	7	684,707	566,292
Debtors	8	42,101,147	40,388,982
Debtors: amounts owed by group undertakings		-	9,741,670
Cash at bank and in hand		-	2,970,963
		<u>42,785,854</u>	<u>53,667,907</u>
Creditors: amounts falling due within one year	9	(30,687,292)	(31,182,036)
Creditors: amounts owed to group undertakings		<u>(10,225,994)</u>	<u>(16,523,747)</u>
Net current assets		<u>1,872,568</u>	<u>5,962,124</u>
Total assets less current liabilities		<u>1,904,036</u>	<u>6,684,982</u>
Creditors: amounts falling due after more than one year	10	-	(78,488)
Provisions for liabilities and charges	11	(1,763,263)	(1,356,399)
		<u>140,773</u>	<u>5,250,095</u>
Capital and reserves			
Called up share capital	12	1,000,000	1,000,000
Profit and loss account		<u>(859,227)</u>	<u>4,250,095</u>
Equity shareholders' funds	14	<u>140,773</u>	<u>5,250,095</u>

The financial statements were approved by the Board of Directors on 16 October 2003

P T McNicholas - Director

M K May - Director

The accompanying accounting policies and notes form an integral part of these financial statements.

MCNICHOLAS CONSTRUCTION SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2003

1 TURNOVER

The turnover and profit before taxation are attributable to the one principal activity of the company.

2 OPERATING LOSS

The operating loss is stated after charging:

	2003 £	2002 £
Auditors' remuneration		
- audit services	35,000	35,000
- non-audit services	122,840	199,295
Hire of plant and machinery	16,928,507	16,135,192
Depreciation:		
Owned assets	-	80,446
Leased assets	-	300,461
Loss on sale of fixed assets	54,274	-

3 INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £	2002 £
On bank overdraft	2,113	97
Finance charges in respect of finance leases	-	59,411
	2,113	59,508

Interest charges on bank overdrafts are subject to a group treasury function.

4 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

	2003 £	2002 £
Wages and salaries	41,352,977	36,482,114
Social security costs	3,960,401	3,871,150
Other pension costs	688,987	493,207
	46,002,365	40,846,471

MCNICHOLAS CONSTRUCTION SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2003

DIRECTORS AND EMPLOYEES (CONTINUED)

The average number of employees of the company during the year was:

	2003 Number	2002 Number
Production	1,532	1,548
Administration	66	98
	<u>1,598</u>	<u>1,646</u>

Remuneration in respect of directors was as follows:

	2003 £	2002 £
Emoluments	597,492	179,933
Pension contributions	<u>52,699</u>	<u>13,120</u>
	<u>650,191</u>	<u>193,053</u>

During the year 5 directors (2002: 1 director) participated in a defined benefit pension scheme. The other directors were wholly remunerated by other group companies.

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax (credit)/charge is based on the profit for the year and represents:

	2003 £	2002 £
Corporation tax at 30% (2002: 30%)	-	(1,318,968)
Over provision in prior years	<u>-</u>	<u>-</u>
	<u>-</u>	<u>(1,318,968)</u>
Profit on ordinary activities at the standard rate of corporation tax in the United Kingdom of 30%	(1,532,797)	(2,203,698)
Expenses not deductible for tax purposes	208,399	198,341
(Excess)/shortfall of capital allowances over depreciation	21,985	(51,062)
Utilisation of group relief	102,078	670,261
Tax losses to carry forward	1,200,335	-
Other timing differences	<u>-</u>	<u>67,190</u>
	<u>-</u>	<u>(1,318,968)</u>

No payment was made for the use of tax losses from other group companies.

MCNICHOLAS CONSTRUCTION SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2003

6 TANGIBLE FIXED ASSETS

	Plant and machinery £	Motor vehicles £	Total £
Cost			
At 1 April 2002	1,381,600	93,366	1,474,966
Transfer	(1,318,600)	(63,366)	(1,381,966)
At 31 March 2003	<u>63,000</u>	<u>30,000</u>	<u>93,000</u>
Depreciation			
At 1 April 2002	690,058	62,050	752,108
Provided in the year	1,050	510	1,580
Transfer	(644,618)	(47,518)	(692,156)
At 31 March 2003	<u>46,490</u>	<u>15,042</u>	<u>61,532</u>
Net book amount at 31 March 2003	<u>16,510</u>	<u>14,958</u>	<u>31,468</u>
Net book amount at 31 March 2002	<u>691,542</u>	<u>31,316</u>	<u>722,858</u>

The net book value of tangible fixed assets included above held under finance leases or hire purchase contracts amounted to £873,000 (2002: £523,649). Total depreciation allocated to these assets during the year was £240,000 (2002: £300,462).

7 STOCKS

	2003 £	2002 £
Raw materials and consumables	<u>684,707</u>	<u>566,292</u>

8 DEBTORS

	2003 £	2002 £
Trade debtors	12,703,201	20,511,449
Amounts recoverable on contracts	29,049,249	18,280,437
Amounts owed by associate undertakings	112,191	33,858
Prepayments and accrued income	191,431	103,175
Other debtors	45,075	231,108
Corporation tax	-	1,228,955
	<u>42,101,147</u>	<u>40,388,982</u>

MCNICHOLAS CONSTRUCTION SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2003

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £	2002 £
Bank overdraft	4,857,798	-
trade creditors	5,549,820	17,617,966
Corporation tax	71,079	-
Other taxation and social security	1,890,779	6,697,135
Other creditors	2,360,306	364,418
Accruals and deferred income	15,858,322	6,342,865
Amounts due under finance leases	99,188	159,652
	<u>30,687,292</u>	<u>31,182,036</u>

10 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2003 £	2002 £
After one year and within two years	-	53,692
After two years and within five years	-	24,796
	<u>-</u>	<u>78,488</u>

11 PROVISIONS FOR LIABILITIES AND CHARGES

	2003 £
At 1 April 2002	1,356,399
Net movement in the year	406,864
At 31 March 2003	<u>1,763,263</u>

These relate to warranty provisions for reinstatement and remedial works. No analysis is provided between amounts used and provided during the year, as the directors consider this to be commercially sensitive.

12 SHARE CAPITAL

	2003 £	2002 £
Authorised		
5,000,000 ordinary shares of £1 each	<u>5,000,000</u>	<u>5,000,000</u>
Allotted, called up and fully paid		
1,000,000 ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>

MCNICHOLAS CONSTRUCTION SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2003

13 PROFIT AND LOSS

	£
At 1 April 2002	4,250,095
Loss for year	(5,109,322)
At 31 March 2003	<u>(859,227)</u>

14 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2003 £	2002 £
Loss for the financial year	(5,109,322)	(6,026,692)
Opening shareholders' funds	<u>5,250,095</u>	<u>11,276,787</u>
Closing shareholders' funds	<u>140,773</u>	<u>5,250,095</u>

15 CAPITAL COMMITMENTS

The company had no capital commitments at 31 March 2003 or 31 March 2002.

16 CONTINGENT LIABILITIES

The company had an unlimited cross guarantee in respect of group bank borrowings. At 31 March 2003 this amounted to £10,129,202 (2002: £13,595,828).

The company had a contingent liability in respect of bonds and guarantees issued of £8,146,469 (2002: £10,849,614).

17 PENSION COMMITMENTS

The company is a member of the defined benefit group pension scheme operated by McNicholas Construction (Holdings) Limited. Full details of the scheme are given in the notes to the financial statements of McNicholas Construction (Holdings) Limited.

Contributions to the defined contribution group pension scheme are charged to the profit and loss account as incurred.

The total pension cost for the company in the year ended 31 March 2003 was £688,987 (2002: £201,180).

MCNICHOLAS CONSTRUCTION SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 MARCH 2003

18 LEASING COMMITMENTS

Annual commitments under operating lease payments for plant and machinery amounting to £4,314,701 (2002: £5,922,799) are due within one year. The leases to which these amounts relate expire as follows:

	2003		2002	
	Land and buildings £	Other £	Land and buildings £	Other £
In one year or less	55,418	1,271,436	133,123	494,511
Between one and five years	219,737	2,768,110	296,737	4,998,428
	<u>275,155</u>	<u>4,039,546</u>	<u>429,860</u>	<u>5,492,939</u>

19 TRANSACTIONS WITH RELATED PARTIES

As a wholly owned subsidiary of McNicholas Construction (Holdings) Limited the company is exempt from the requirement of Financial Reporting Standard No 8 to disclose transactions with other members of the group headed by McNicholas Construction (Holdings) Limited.

During the year the Group supplied plant to the value of £nil (2002: £110,000) to Blythe Plastics Limited a company in which McNicholas Construction (Holdings) Limited holds a 100% (2002: 75%) share. At 31 March 2003, the total owed to Leyden Transport Limited by Blythe Plastics Limited was £nil (2002: £511,000). Additionally, the group brought goods from Blythe Plastics Limited to the value of £137,742 (2002: £2,609,000) and the amount due to Blythe Plastics from McNicholas Construction Services Limited at 31 March 2003 was £nil (2002: £20,000). McNicholas Construction (Holdings) Limited received interest of £166,083 (2002: £70,000) and at 31 March 2003 the amount due from Blythe Plastics Limited was £4,378,051 (2002: £2,419,000).

20 ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking of this company is McNicholas Construction (Holdings) Limited, incorporated in England and Wales. It is situated at Lismirrane Industrial Park, Elstree Road, Elstree, Hertfordshire and its financial statements may be obtained from Companies House.

The largest and smallest group of undertakings for which group accounts have been drawn up is that headed by McNicholas Construction (Holdings) Limited.