

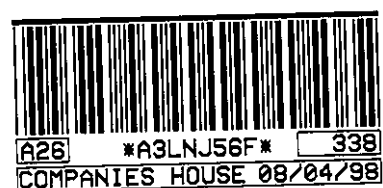
COSTAIN ALCAIDESA LIMITED

Registered Number: 2042076

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 December 1997



**KPMG Audit Plc
Chartered Accountants
Registered Auditor
GATWICK**

COSTAIN ALCAIDESA LIMITED

REPORT OF THE DIRECTORS

For the year ended 31 December 1997

BUSINESS REVIEW

The company continued to carry out its principal activity of investment holding.

During the year a further £1,448,925 was invested in Alcaidesa Holding SA whilst a further £1,688,000 was provided against the investment in that company.

The results for the year are set out in the Profit & Loss Account on page 4.

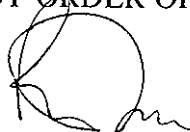
DIRECTORS AND SHARE INTERESTS

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

| | | At 1.1.97 | At 31.12.97 |
|----------------------------------|---|----------------------|------------------------|
| M F Burdes | a | 460 | 460 |
| J A Armitt (appointed 9.4.97) | | | |
| J R Campbell (appointed 29.1.97) | | | |
| A C Lovell (resigned 8.4.97) | | | |

a - Costain Group PLC ordinary shares of 10p each.

BY ORDER OF THE BOARD



B W RACE
SECRETARY

REGISTERED OFFICE

111 Westminster Bridge Road
London SE1 7UE

Date: **2 APR 1998**

COSTAIN ALCAIDESA LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 December 1997

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. The directors are required to ensure that those financial statements are based on suitable accounting policies consistently applied, are prepared on the going concern basis, unless it is inappropriate to presume that the company will continue in business, are supported by 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.

The directors are also responsible for ensuring that the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for safeguarding the assets of the company and for taking such steps as are reasonably open to them to prevent and detect fraud and other irregularities.

COSTAIN ALCAIDESA LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS

For the year ended 31 December 1997

We have audited the financial statements on pages 4 to 10.

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 of 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
GATWICK

2 April 1998
.....
Date

COSTAIN ALCAIDESA LIMITED**PROFIT AND LOSS ACCOUNT****For the year ended 31 December 1997**

| | Notes | 1997 £ | 1996 £ |
|---|-------|-------------|-------------|
| Cost of sales | | - | (1,215) |
| Gross loss | | - | (1,215) |
| Provision against investment in associated undertaking | | (1,688,000) | (3,763,000) |
| Interest receivable and similar income | 2 | 188,645 | 288,081 |
| Interest payable and similar charges | 3 | (76,602) | (144,033) |
| Loss on ordinary activities before taxation | | (1,575,957) | (3,620,167) |
| Taxation charge/(credit) | 5 | 13,587 | (54,353) |
| Loss on ordinary activities after taxation | 10 | (1,562,370) | (3,674,520) |

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

All operating losses are attributable to continuing operations.

THE NOTES ON PAGES 6 TO 10 FORM PART OF THESE FINANCIAL STATEMENTS

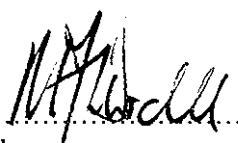
COSTAIN ALCAIDESA LIMITED

BALANCE SHEET

As at 31 December 1997

| | Notes | 1997 £ | 1996 £ |
|---|--------------|-------------------|-------------------|
| Fixed assets | | | |
| Investments | 6 | 1,547,620 | 1,786,695 |
| Current assets | | | |
| Debtors | 7 | 13,587 | 666,867 |
| Creditors: amounts falling due within one year | 8 | (2,517,526) | (1,847,511) |
| Net current liabilities | | (2,503,939) | (1,180,644) |
| Net (liabilities)/assets | | (956,319) | 606,051 |
| Capital and reserves | | | |
| Called up share capital | 9 | 32,500,000 | 32,500,000 |
| Profit and loss account | 10 | (33,456,319) | (31,893,949) |
| Shareholders' funds | 11 | (956,319) | 606,051 |

The financial statements were approved by the Board of Directors on **- 2 APR 1998** and were signed on its behalf by:

 Director
M F Burdes

THE NOTES ON PAGES 6 TO 10 FORM PART OF THESE FINANCIAL STATEMENTS

COSTAIN ALCAIDESA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 December 1997

1. Accounting policies

BASIS OF ACCOUNTING

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

FOREIGN CURRENCY TRANSACTIONS

Monetary assets and liabilities 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.

CASHFLOW STATEMENT

As the cashflow statement in the consolidated financial statements of the ultimate parent company, Costain Group PLC, complies with the conditions of Financial Reporting Standard No 1 (Revised) ("FRS 1 (Revised)"), the company is exempt under FRS 1 (Revised) from the requirements to prepare a separate cashflow statement.

| | 1997 | 1996 |
|--|-------------|-------------|
| | £ | £ |
| 2. Interest receivable and similar income | | |
| On amounts due from fellow subsidiary undertakings | 14,867 | 2,236 |
| Exchange gain | 173,778 | 285,845 |
| | <hr/> | <hr/> |
| | 188,645 | 288,081 |
| | <hr/> | <hr/> |

COSTAIN ALCAIDESA LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****31 December 1997**

| | 1997 | 1996 |
|--|---------------|-----------------|
| | £ | £ |
| 3. Interest payable and similar charges | | |
| On amounts due to fellow subsidiary undertakings | 76,602 | 144,033 |
| | <u>76,602</u> | <u>144,033</u> |
| 4. Staff costs and remuneration of directors | | |
| No emoluments were paid to the directors of the company during the year (1996 £nil). There were no staff employed during the year (1996 nil). | | |
| 5. Taxation charge/(credit) | | |
| | 1997 | 1996 |
| | £ | £ |
| On loss for the year: | | |
| Group relief | 13,587 | (54,353) |
| | <u>13,587</u> | <u>(54,353)</u> |

COSTAIN ALCAIDESA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 1997

| 6. Investments | Shares in associated undertaking £ |
|-----------------------|---|
| Cost | |
| At 1 January 1997 | 31,874,595 |
| Additions | 1,448,925 |
| | <hr/> |
| At 31 December 1997 | 33,323,520 |
| | <hr/> |
| Provisions | |
| At 1 January 1997 | 30,087,900 |
| Provided in year | 1,688,000 |
| | <hr/> |
| At 31 December 1997 | 31,775,900 |
| | <hr/> |
| Net book value | |
| At 31 December 1997 | 1,547,620 |
| | <hr/> <hr/> |
| At 31 December 1996 | 1,786,695 |
| | <hr/> <hr/> |

Investment in associated undertaking

The company owns 50% of the issued share capital of Alcaidesa Holding SA, a residential development company incorporated in Spain. The aggregate amount of the capital and reserves of the associated undertaking at the year end is £16.2m (1996 £18.8m). The associated undertaking incurred a loss during the year of £1.1m (1996 £3.6m).

COSTAIN ALCAIDESA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 1997

| | 1997 | 1996 | | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | £ | £ | | |
| 7. Debtors | | | | |
| Amount owed by Group undertakings | - | 666,867 | | |
| Group relief | 13,587 | - | | |
| | <u>13,587</u> | <u>666,867</u> | | |
| | <u><u>13,587</u></u> | <u><u>666,867</u></u> | | |
| 8. Creditors: amounts falling due within one year | | | | |
| Amounts owing to Group undertakings | 2,485,159 | 1,793,158 | | |
| Taxation | 32,367 | 54,353 | | |
| | <u>2,517,526</u> | <u>1,847,511</u> | | |
| | <u><u>2,517,526</u></u> | <u><u>1,847,511</u></u> | | |
| 9. Share capital | | | | |
| | 1997 | 1996 | | |
| | Authorised | Issued | Authorised | Issued |
| | £ | £ | £ | £ |
| Ordinary shares of £1 each, called up and fully paid | 35,000,000 | 32,500,000 | 35,000,000 | 32,500,000 |
| | <u><u>35,000,000</u></u> | <u><u>32,500,000</u></u> | <u><u>35,000,000</u></u> | <u><u>32,500,000</u></u> |
| 10. Profit and loss account | | | | £ |
| Deficit at 1 January 1997 | | | | (31,893,949) |
| Loss for the year | | | | (1,562,370) |
| | | | | <u>(33,456,319)</u> |
| Deficit at 31 December 1997 | | | | (33,456,319) |

COSTAIN ALCAIDESA LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 1997

| 11. Reconciliation of movement in shareholders' funds | 1997 | 1996 |
|--|-------------|-------------|
| | £ | £ |
| Loss for the financial year | (1,562,370) | (3,674,520) |
| New share capital subscribed | - | 3,000,000 |
| Net reduction to shareholders' funds | (1,562,370) | (674,520) |
| Opening shareholders' funds | 606,051 | 1,280,571 |
| Closing shareholders' funds | (956,319) | 606,051 |

12. Contingent liabilities

The company has entered into cross guarantees together with the ultimate parent company and certain fellow Group undertakings, for loans and overdraft facilities made available to the Group. These facilities are included in the Group financial statements and amount to £6.0m (1996 £28.9m) and US\$14.7m (1996 US\$70.0m).

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

The company's bankers have the right to set-off the company's bank balance when in credit against borrowings by Richard Costain Limited.

13. Ultimate parent company

The company's ultimate parent company is Costain Group PLC, a company registered in England and Wales. A copy of the consolidated financial statements of Costain Group PLC may be obtained from the registered office of Costain Group PLC, 111 Westminster Bridge Road, London SE1 7UE.

14. Related parties transactions

The company is exempt under Financial Reporting Standard No 8 (FRS 8) from the requirements to disclose related party transactions on the basis that it is a wholly owned subsidiary of the ultimate parent company, Costain Group PLC.