

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED

REGISTERED NUMBER 2440830

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2003



KPMG Audit Plc
Chartered Accountants
Registered Auditor
GATWICK

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
REPORT OF THE DIRECTORS
For the year ended 31 December 2003

BUSINESS REVIEW

The company is a holding company for Costain Group's overseas engineering and construction operations outside the United States.

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

DIRECTORS AND SHARE INTERESTS

Directors who held office during the year and their disclosable interests in shares, according to the register of directors' interests were as follows:

	At 01.01.03	At 31.12.03
S Doughty*		
C J McCole*		
C L Franks	a 393	393
	b 149,031	149,031

- a - Costain Group PLC ordinary shares of 10p each.
- b - Options granted on 11 October 2002 to acquire Costain Group PLC ordinary shares under the 2002 Long Term Incentive Plan.

- * - The interests of these directors in the shares of Costain Group PLC are disclosed in the accounts of that company.

BY ORDER OF THE BOARD


CLIVE L FRANKS
SECRETARY
16 March 2004

REGISTERED OFFICE

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

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF
FINANCIAL STATEMENTS
For the year ended 31 December 2003

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 the 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 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.

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS
For the year ended 31 December 2003

We have audited the financial statements on pages 4 to 11.

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

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

Basis of audit 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 2003 and of its profit 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

16 March 2004
.....
Date

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2003

	Notes	2003	2002
		£	£
Turnover		70,883	68,206
Cost of sales		(29,981)	(43,627)
		<hr/>	<hr/>
Gross profit		40,902	24,579
Administrative expenses		-	-
		<hr/>	<hr/>
Operating profit		40,902	24,579
Provision against investment in subsidiary		-	(940,423)
Provision for bad and doubtful debts		(454,423)	-
Interest receivable on amounts due from fellow subsidiary undertaking		260,152	273,629
Dividend received from fellow subsidiary undertaking		491,644	268,830
		<hr/>	<hr/>
Profit/(loss) on ordinary activities before taxation	2	338,275	(373,385)
Taxation	5	(200,649)	(134,950)
		<hr/>	<hr/>
Profit/(loss) for the financial year		137,626	(508,335)
		<hr/>	<hr/>

All operating profits are attributable to continuing operations.

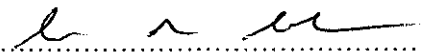
There were no recognised gains or losses other than the profit for the year.

THE NOTES ON PAGES 6 TO 11 FORM PART OF THESE FINANCIAL STATEMENTS

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
BALANCE SHEET
For the year ended 31 December 2003

	Notes	2003	2002
		£	£
Fixed assets			
Investments	6	326,182	326,182
		<hr/>	<hr/>
Current assets			
Debtors	7	7,987,985	8,392,523
		<hr/>	<hr/>
Creditors: amounts falling due within one year	9	(144,883)	(287,047)
		<hr/>	<hr/>
Net current assets		7,843,102	8,105,476
		<hr/>	<hr/>
Total assets less current liabilities		8,169,284	8,431,658
		<hr/>	<hr/>
Provision for liabilities and charges	10	(1,000,000)	(1,400,000)
		<hr/>	<hr/>
Net assets		7,169,284	7,031,658
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	11	4,448,043	4,448,043
Share premium account	12	1,331,358	1,331,358
Profit and loss account	12	1,389,883	1,252,257
		<hr/>	<hr/>
Equity shareholders' funds	13	7,169,284	7,031,658
		<hr/>	<hr/>

The financial statements were approved by the Board of Directors on 16 March 2004 and were signed on its behalf by:


.....Director
C J McCole

THE NOTES ON PAGES 6 TO 11 FORM PART OF THESE 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 ACCOUNTING

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

The financial statements present information about the company as an individual undertaking and not about its Group. The company is exempt from preparing group accounts (under section 228 of the Companies Act 1985) as it is included in the consolidated accounts of its ultimate parent company.

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 transaction.

TAXATION

Deferred taxation has been recognised as a liability or asset 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.

PENSIONS

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

The costs 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.

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 services provided.

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2003

2. Profit on ordinary activities before taxation

	2003	2002
	£	£
Profit on ordinary activities before taxation is after charging:		
Translation of foreign currency balances	21,721	43,627

The auditor's remuneration was borne by another group company.

3. Staff costs

The total number of staff employed by the company at year end was 14 (2002: 15), all of which were seconded full-time to the overseas contracts of fellow subsidiary undertakings. No costs for these staff were incurred by the company.

The company incurs pension costs in respect of employees, who participate in Costain Group's UK pensions scheme, on a defined contributions basis. The scheme is a defined benefits scheme and provides benefits to the employee based on final pensionable salary. Details of this scheme are included in the accounts of Costain Group PLC. The company does not participate in any surplus that may arise in the scheme.

The cost for the period of contributions to this scheme was £nil (2002: £nil). There are no outstanding or prepaid contributions at the balance sheet date.

4. Remuneration of directors

No emoluments were paid to the directors of the company during the year (2002: £ nil)

5. Taxation

	2003	2002
	£	£
On profit/(loss) for the year:		
United Kingdom corporation tax at 30%	(200,649)	(134,950)
Less relief for overseas taxation	73,747	40,325
	<hr/>	<hr/>
	(126,902)	(94,625)
Overseas taxation	(73,747)	(40,325)
	<hr/>	<hr/>
	(200,649)	(134,950)
	<hr/>	<hr/>

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2003

5. Taxation – continued

Tax reconciliation:

	2003	2002
	£	£
Profit/(loss) on ordinary activities before taxation	338,275	(373,385)
Tax at 30%	(101,483)	112,016
Underlying overseas taxation	40,970	41,225
Disallowed provision	(132,761)	(282,127)
Exchange differences	(6,561)	(6,064)
Sundry disallowed expenditure	(859)	-
Total current tax	(200,649)	(134,950)

6. Investments

	Shares in subsidiary undertakings £	Shares in joint ventures £	Loans to joint ventures £	Other investments £	Total £
Cost					
At 1 January 2003	2,081,185	2,720,026	15,390	193,020	5,009,621
Currency realignment	-	-	-	-	-
At 31 December 2003	2,081,185	2,720,026	15,390	193,020	5,009,621
Provisions					
At 1 January 2003	2,030,641	2,444,389	15,390	193,019	4,683,439
Currency requirement	-	-	-	-	-
Additions	-	-	-	-	-
At 31 December 2003	2,030,641	2,444,389	15,390	193,019	4,683,439
Net book value					
At 31 December 2003	50,544	275,637	-	1	326,182
At 31 December 2002	50,544	275,637	-	1	326,182

The directors believe that the market value of the investments is not less than the aggregate of the amounts at which the investments are shown in the accounts.

The subsidiary undertakings and joint ventures are shown in note 17.

7. Debtors

	2002 £	2001 £
Amounts owing by fellow subsidiary undertakings	7,637,985	8,389,622
Amounts owing by joint venture	350,000	-
	7,987,985	8,392,523

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2003

8. Cash at bank, monies on deposit 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.

9. Creditors: amounts falling due within one year

	2003 £	2002 £
Amounts owing to fellow subsidiary undertakings	11,460	174,016
Taxation	133,423	101,146
Accruals and deferred income	-	11,885
	<u>144,883</u>	<u>287,047</u>

10. Provision for liabilities and charges

	At beginning of year £	Utilised £	At end of year £
Provisions against losses of subsidiary companies	1,000,000	-	1,000,000
Provisions against losses of joint ventures	400,000	(400,000)	-
	<u>1,400,000</u>	<u>(400,000)</u>	<u>1,000,000</u>

11. Share capital

	2003 and 2002	
	Authorised	Issued and fully paid
	£	£
Ordinary shares of £1 each	10,000,000	4,448,043
	<u>10,000,000</u>	<u>4,448,043</u>

12. Reserves

	Share premium account £	Profit and loss account £
At 1 January 2003	1,331,358	1,252,257
Profit for financial year	-	137,626
	<u>1,331,358</u>	<u>1,389,883</u>
At 31 December 2003	1,331,358	1,389,883

13. Reconciliation of movement in shareholders' funds

	2003	2002
	£	£
Profit/(loss) for the financial year	137,626	(508,335)
Opening shareholders' funds	7,031,658	7,539,993
Closing shareholders' funds	<u>7,169,284</u>	<u>7,031,658</u>

14. 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 2003 these liabilities amounted to £nil (2002: £0.2m) and are included in the group accounts of the ultimate parent company.

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

15. Related parties transactions

The company is exempt under Financial Reporting Standard 8 from the requirements 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.

16. Ultimate parent undertaking

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

Copies of the group accounts of Costain Group PLC may be obtained from the registered office of the company, Costain House, Nicholson's Walk, Maidenhead, Berkshire SL6 1LN.

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2003

17. Investment in subsidiary undertakings and participating interests

Subsidiary undertakings	Nature of Business	Percentage Interest	Country of Incorporation
Costain (Africa) Ltd	Construction	100	Zimbabwe
Costain Construction (Botswana) Pty Ltd	Construction	100	Botswana
Costain De Venezuela CA	Dormant	100	Venezuela
Costain Holdings (Botswana) Pty Ltd	Construction	100	Botswana
Costain Holdings (Malaysia) Sdn Bhd	Holding Company	100	Malaysia
Costain Housing Zimbabwe (Pvt) Ltd	Construction	100	Zimbabwe
Costain Interiors Limited	Dormant	100	UK
Costain (Malaysia) Sdn Bhd	Construction	100+	Malaysia
Costain Mining Zimbabwe (Pvt) Ltd	Dormant	100	Zimbabwe
Costain Oil, Gas & Process (Malaysia) Sdn Bhd	Engineering	100+	Malaysia
Costain Oil, Gas & Process (Nigeria) Ltd	Process Contracting	75	Nigeria
Costain Polska Sp. z.o.o	Construction	100	Poland
Costain Properties Zimbabwe (Pvt) Ltd	Dormant	100	Zimbabwe
Costain Zimbabwe (Pvt) Ltd	Construction	85+	Zimbabwe
Westminster Land & Marine Pipeline Inc	Dormant	100	Canada
Yahya Costain LLC	Construction	49*	Oman
Joint ventures			
Budimex & Costain Sp. z.o.o	Construction	50	Poland
LNHC Ltd (formerly Hopewell Costain Ltd)	Dormant	50	Hong Kong
Jalal Costain WLL	Construction	49	Bahrain
Nesma Costain Process Co Ltd	Process Contracting	50	Saudi Arabia

All interests are ordinary shares.

*Treated as a subsidiary due to dominant influence.

+Shares held by subsidiary company