Churchward plc

Directors' report and financial statements

Registered number 2489314

Year ended 31 December 2005

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal activities and business review

The company is principally engaged in the retention of land and property for development purposes.

The directors anticipate that the company will continue in its present role within the Carillion Group during the next financial year.

Profits and dividends

The loss on ordinary activities before taxation was £118,066 *(2004: loss £107,623).*

The directors do not recommend the payment of a dividend for the year *(2004: £Nil).*

Directors and directors' interests

The directors who served during the year and up to the date of this report were:

J Baker
SP Eastwood
CF Girling
J McDonough
RW Robinson

No directors had any beneficial interest in the share or loan capital of any subsidiary of Carillion plc.

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, ordinary shares of 50p each in Carillion plc:

	At 1 January 2005 or at date of appointment if later		Share option movements in year			At 31 December 2005	
	Shares	Share Options	Granted	Exercised	Lapsed	Shares	Share Options
	Number	Number	Number	Number	Number	Number	Number
SP Eastwood	16,878	58,315	30,096	-	-	**5,443**	**88,411**
J Baker	-	6,523	-	4,702	-	**4,702**	**1,821**

No director was materially interested during the year in any contract which was significant in relation to the business of the company.

Auditor

In accordance with Section 385 of the Companies Act 1985 a resolution for the re-appointment of KPMG Audit Plc as auditor of the company will be proposed at the Annual General Meeting.

Approved by the Board on 8 March 2006 and signed on its behalf by:

RTapp

RF Tapp
Secretary

Birch Street
Wolverhampton
WV1 4HY

Statement of directors' responsibilities in respect of the directors' report and the financial statements

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 the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

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 judgments 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.

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.

KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

Independent auditors' report to the members of Churchward plc

We have audited the financial statements of Churchwood plc for the year ended 31 December 2005 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 2, 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.

Independent auditors' report to the members of Churchwood plc *(continued)*

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 2005 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

8 March 2006

Profit and loss account
for the year ended 31 December 2005

	Note	**2005** **£**	2004 £
Turnover	*1*	**-**	-
Administrative expenses		**(118,066)**	(107,984)
Operating loss on ordinary activities	*3*	**(118,066)**	(107,984)
Interest receivable	*4*	**-**	361
Loss on ordinary activities before taxation		**(118,066)**	(107,623)
Tax on loss on ordinary activities	*5*	**35,420**	33,462
Retained loss for the financial year	*11*	**(82,646)**	(74,161)

There is no difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis in either the current or preceding financial year.

There were no recognised gains and losses in either the current or preceding financial year other than the loss for those years. All amounts relate to continuing operations.

Balance sheet
at 31 December 2005

	Note	2005	2004
		£	£
Current assets			
Stocks	6	**4,170,394**	3,995,513
Debtors	7	**2,589,288**	3,597,324
		6,759,682	7,592,837
Creditors: Amounts falling due within one year	8	**(22,756,758)**	(23,507,267)
Net liabilities		**(15,997,076)**	(15,914,430)
Capital and reserves			
Called up share capital	9	**100,638**	100,638
Profit and loss account	10	**(16,097,714)**	(16,015,068)
Shareholders' deficit	11	**(15,997,076)**	(15,914,430)
Analysis of shareholders' deficit			
Equity shareholders' deficit		**(16,087,076)**	(16,004,430)
Non-equity shareholders' funds		**90,000**	90,000
	11	**(15,997,076)**	(15,914,430)

These financial statements were approved by the Board of directors on 8 March 2006 and were signed on its behalf by:

SP Eastwood
Director

Notes

(forming part of the financial statements)

1 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

The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable UK Accounting Standards.

Basis of preparation

The financial statements have been prepared on a going concern basis. The going concern basis assumes that the company will continue to trade, since Carillion plc has indicated that it will provide or procure such funds as are necessary to enable the company to continue its development activities for a period of at least twelve months and enable the company to continue to pay its debts on this basis. Therefore, the directors consider it appropriate to prepare the financial statements on a going concern basis.

Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes appropriate overheads.

Taxation

The credit for taxation is based on the result for each year and takes into account deferred taxation, calculated in accordance with the requirements of FRS19 "Deferred taxation". Deferred tax assets or liabilities, which arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation, are calculated on a non-discounted full provision basis. Assets are calculated on the same basis but are recognised only to the extent that it is probable that they will be recovered.

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 Carillion plc, the company's ultimate parent undertaking, includes the company's cash flows in its own published consolidated cash flow statement.

Turnover

Turnover represents the sale of completed projects and is all derived from the UK.

2 Directors' emoluments

The directors, being the only employees of the company, have neither received nor waived any emoluments during the year *(2004: £Nil)*.

3 Operating loss on ordinary activities

	2005	2004
	£	£
Operating loss on ordinary activities is stated		
after charging		
Auditors' remuneration – audit work	**2,000**	2,000

Notes *(continued)*

4 Interest receivable and similar income

	2005	2004
	£	£
Bank interest	-	361

5 Tax on loss on ordinary activities

(a) The tax credit is made up as follows:

	2005	2004
	£	£
UK taxation		
Group relief	**(35,420)**	(33,462)
Total taxation on loss on ordinary activities	**(35,420)**	(33,462)

(b) Reconciliation of current taxation credit

The UK standard rate of corporation tax for the year is 30% *(2004: 30%)*. The actual tax rate differs to the standard rate for the reasons set out below:

	2005	2004
	£	£
Loss on ordinary activities before tax	**(118,066)**	(107,623)
Tax on loss on ordinary activities at UK standard rate of corporation tax of 30% *(2004: 30%)*	**(35,420)**	(32,287)
Permanent differences	-	(1,175)
Current tax credit for the year	**(35,420)**	(33,462)

(c) Factors that may affect future tax charges

The company has tax losses of £2,290,630 *(2004: £2,290,630)* carried forward as agreed with the Inland Revenue. However, no deferred tax asset has been recognised on these losses. As a result, the future tax charge paid by the company may be reduced. The company has a deferred tax asset of £699,000 (*2004: £699,000*) see Note 7, resulting from other timing differences. There has been no movement in the asset as the loss made in the year has been group relieved.

6 Stocks

	2005	2004
	£	£
Development work in progress	**4,170,394**	3,995,513

Notes *(continued)*

7 Debtors

	2005	2004
	£	£
Trade debtors	-	50
Other tax and social security	17,339	28,555
Amounts owed by group undertakings	1,810,547	2,810,547
Group tax relief	35,420	33,462
Prepayments and accrued income	21,017	22,514
Other debtors	5,965	3,196
Deferred tax asset	699,000	699,000
	2,589,288	3,597,324
Deferred tax asset comprises:		
Other timing differences	699,000	699,000

8 Creditors: Amounts falling due within one year

	2005	2004
	£	£
Trade creditors	2,446	1
Amounts owed to group undertakings	22,424,370	23,177,472
Accruals and deferred income	2,148	2,000
Other creditors	46,810	46,810
Subordinated loan	280,984	280,984
	22,756,758	23,507,267

The terms of the subordinated loan are such that it can only be utilised either to:

- capitalise such amount of subordinated loan as is required to issue and allot as fully paid such further "A" ordinary shares as are necessary to retain the shareholders' relevant percentage following the allotment of any new shares; or
- pay up any premium on the "A" ordinary shares held by the shareholder on the earliest of the termination of the shareholders' agreement; a winding up of the company; or the date when the board resolves that no further shareholders are invited to subscribe, such premium being the balance of the subordinated loan at that time.

Notes *(continued)*

9 Share capital

	2005	2004
	£	£
Authorised:		
250,000 "A" ordinary shares of 10p each	**25,000**	25,000
180,000 "B" 1% non-cumulative preference shares of £1 each	**180,000**	180,000
	205,000	205,000
Allotted:		
106,384 "A" ordinary shares of 10p each	**10,638**	10,638
90,000 "B" 1% non-cumulative preference shares of £1 each	**90,000**	90,000
	100,638	100,638
Called up and partly paid:		
102,660 "A" ordinary shares (2.5p paid)	**2,566**	2,566
90,000 "B" 1% non-cumulative preference shares of £1 each (25p paid)	**22,500**	22,500
	25,066	25,066
Called up and fully paid:		
3,724 "A" ordinary shares of 10p each	**372**	372

The company's principal shareholder is Carillion Construction Limited (holding 97.5% of "A" ordinary shares), which is incorporated in Great Britain.

The terms of the allotment of "A" ordinary shares is governed by a shareholders' agreement which requires applicants for the "A" ordinary shares to apply for a percentage of shares in nominal value (the relevant percentage) and to state the amount in cash they are prepared to subscribe for such relevant percentage.

On acceptance by the board, the relevant percentage of "A" ordinary shares is allotted and issued to the applicant against receipt of the par value of such shares in cash and the balance of the amount to be subscribed in cash as an interest free subordinated loan.

The "B" 1% non-cumulative preference shares of £1 each have the right to a fixed non-cumulative preferential dividend payable on 30 June and 31 December at the rate of 1% per annum in respect of the six month period ending on those dates. The company has not declared a dividend during the year.

The "B" 1% non-cumulative preference shares do not carry any voting rights. Proceeds available on the winding up of the company are to be utilised to repay the nominal value of the "B" shares together with any arrears deficiency or accruals of the preferential dividends on the "B" shares up to the date of liquidation. Thereafter the assets of the company belong to the holders of the equity share capital.

Notes *(continued)*

10 Reconciliation of movement in reserves

	2005 £	2004 £
At start of year	**(16,015,068)**	(15,940,907)
Retained loss for the year	**(82,646)**	(74,161)
At end of year	**(16,097,714)**	(16,015,068)

11 Reconciliation of movements in shareholders' deficit

	2005 £	2004 £
Retained loss for the financial year	**(82,646)**	(74,161)
Shareholders' deficit at beginning of year	**(15,914,430)**	(15,840,269)
Shareholders' deficit at end of year	**(15,997,076)**	(15,914,430)

12 Related party disclosures

As a greater than 90% subsidiary of Carillion 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 Carillion plc group. Note 13 gives details of how to obtain a copy of the published financial statements of Carillion plc.

13 Controlling and parent companies

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

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