Schal International Management Limited

Directors' report and financial statements

For the year ended 31 December 1999
Registered number 2646690

Directors' report and financial statements

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1999.

Principal activity

The company is principally engaged in construction and project management.

Business review

Turnover for the year amounted to £30,134,000 *(1998: £36,878,000)* and profit on ordinary activities before taxation was £175,000 *(1998: £1,583,000 loss)*.

On 29 July 1999, the ownership of the company was transferred to Carillion plc.

Dividend

The directors do not propose the payment of a dividend for the year *(1998: £Nil)*.

Directors and directors' interests

The directors serving during the year were:

M Bairstow
BS Engstrom
G Pearson

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 ultimate holding company, had the following interests in, and options to subscribe for, ordinary shares of 50p each in Carillion plc, and Tarmac plc up to the date of demerger:

Number of shares	At 31 December 1999		At 1 January 1999 (or later date of appointment)		Share option movements in period		
	Shares	**Share options**	Shares	Share options	granted	exercised	lapsed
BS Engstrom							
Carillion plc	**41,478**	**137,940**	n/a	n/a	137,940	n/a	n/a
Tarmac plc	**n/a**	**n/a**	Nil	180,000	n/a	180,000	n/a
G Pearson							
Carillion plc	**7,921**	**26,788**	n/a	n/a	26,788	n/a	n/a
Tarmac plc	**n/a**	**n/a**	Nil	37,267	n/a	26,066	11,201
M Bairstow							
Carillion plc	**13,431**	**58,426**	n/a	n/a	58,426	n/a	n/a
Tarmac plc	**n/a**	**n/a**	Nil	179,166	n/a	174,147	5,019

At 31 December 1999 no director had any beneficial interest in the share or loan capital of any subsidiary of Carillion plc.

Directors' report *(continued)*

Employees

It is company policy to communicate with and involve employees on matters affecting their interests at work, and to inform them of the performance of the business. Each business adopts such employee consultation as is appropriate in individual circumstances, including consultative committees, training and development, and communication programmes. This information is complemented by the Carillion plc group newspaper Spectrum.

It is also company policy to treat all employees and potential employees equally and to give full consideration to suitable applications for employment from disabled persons where they have the necessary abilities and skills for the position, and wherever possible to retrain employees who become disabled, so that they can continue their employment.

European Economic and Monetary Union

The Group recognises the importance of the Euro, particularly for its businesses operating in France and Ireland which introduced the Euro on 1 January 1999. The introduction of the Euro has had little impact on the Group's internal systems and procedures. The related financial costs are not material to the Group.

Year 2000

The Group undertook a comprehensive internal programme to ensure that all computer dependant systems continued to operate with the Year 2000 date change. Initial indications are that no major systems problems arose and that the Group's operations were unaffected as a result. Although the risk of problems now arising is low, vigilance is maintained and processes and procedures are in place to detect and rectify quickly any issues which may arise. The Group estimates that the total cost of modifying hardware and systems was approximately £3.6 million of which just over £1 million was incurred in 1999.

Demerger from Tarmac

On 29 July 1999 Tarmac Construction Services was demergered from Tarmac plc. This resulted in the listing of Carillion plc on the London Stock Exchange on 30 July 1999.

Creditor payment policy

It is the company's policy to obtain best possible payment terms with its suppliers as part of periodic negotiations. As such there is no uniform payment policy. The company makes every effort to pay suppliers according to the agreed terms and to not knowingly exceed negotiated payment terms.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period 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 applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a 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 to 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.

Directors' report *(continued)*

Auditors

A resolution will be proposed to re-appoint KPMG Audit Plc as auditors of the company at the forthcoming annual general meeting.

Approved by the Board and signed on its behalf by:

J Perrott
Secretary

Birch Street
Wolverhampton
WV1 4HY

14 March 2000

KPMG

KPMG Audit Plc

2 Cornwall Street
Birmingham
B3 2DL

Report of the auditors to the members of Schal International Management Limited

We have audited the financial statements on pages 5 to 12.

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. 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 1999 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

Profit and loss account

for the year ended 31 December 1999

	Note	1999 £000	1998 £000
Turnover	2	**30,134**	36,878
Cost of sales		**(26,563)**	(31,822)
Gross profit		**3,571**	5,056
Administrative expenses		**(3,434)**	(5,169)
Operating profit/(loss)		**137**	(113)
Fundamental restructuring		-	(1,288)
Profit/(loss) on ordinary activities before interest		**137**	(1,401)
Interest receivable from group undertakings		**38**	126
Interest payable to group undertakings		-	(308)
Profit/(loss) on ordinary activities before taxation	3	**175**	(1,583)
Tax on profit/(loss) on ordinary activities	6	**(50)**	383
Retained profit/(loss) for the financial year	13	**125**	(1,200)

All amounts are derived from continuing operations.

The company has no recognised gains or losses in either the current or preceding year other than the results for those years.

Balance sheet
at 31 December 1999

	Note	1999 £'000	£'000	1998 £'000	£'000
Fixed assets					
Tangible assets	*7*		**151**		258
Current assets					
Stocks	*8*	**3**		280	
Debtors	*9*	**8,206**		15,307	
Cash at bank and in hand		**6**		9	
		8,215		15,596	
Creditors: amounts falling due within one year	*10*	**(8,953)**		(16,566)	
Net current liabilities			**(738)**		(970)
Net liabilities			**(587)**		(712)
Capital and reserves					
Called up share capital	*12*		**100**		100
Profit and loss account	*13*		**(687)**		(812)
Equity shareholders' funds			**(587)**		(712)

These financial statements were approved by the Board of directors on 14 March 2000 and signed on its behalf by:

G Pearson
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 in accordance with applicable Accounting Standards under the historical cost convention.

Notwithstanding the deficit in net assets, the shareholders have confirmed their willingness to continue to provide support to the company for a period of at least 12 months in order to enable the company to trade and pay its debts as they fall due. On this basis the directors consider it appropriate to prepare the financial statements on a going concern basis.

Related party transactions

The company has taken advantage of the exemption in paragraph 3(c) of Financial Reporting Standard 8 (Related Party Disclosures) and has not disclosed details of transactions with entities that are part of the Carillion plc Group or with investees of that group qualifying as related parties.

Cash flow statement

In accordance with Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare a cashflow statement on the grounds that Carillion PLC, the company's ultimate parent undertaking includes the company's cashflows in its own published consolidated cashflow statement.

Long term contracts

Amounts recoverable on contracts, which are included in debtors, are stated at cost plus attributable profit less any foreseeable losses. The profit on each individual contract is the lower of profit earned to date and that forecast at completion. Payments received on account of contracts are deducted from amounts recoverable on contracts. Such amounts which have been received and exceed amounts recoverable are included in creditors.

Stocks

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

Depreciation

Depreciation is provided by the company to write off the cost less estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives of between 3 and 5 years.

Deferred taxation

Deferred taxation, calculated using the liability method is included only where the effects of timing differences between the results as stated in the financial statements and as computed for taxation purposes are likely to crystallise in the foreseeable future.

Leased assets

All leases are accounted for as operating leases. Rentals are charged to the profit and loss account in equal annual instalments over the life of the lease.

Notes *(continued)*

1 Principal accounting policies *(continued)*

Pensions

Regular pension costs are established in accordance with the recommendations of independent actuaries and are charged to the profit and loss account based on the expected pension costs over the employees' service lives with the group.

2 Turnover

Turnover represents the invoiced value of services provided by the company during the year, excluding value added tax. The analysis of sales by geographical market is as follows:

	1999	1998
	£'000	£'000
United Kingdom	**30,134**	36,865
Europe	-	13
	30,134	36,878

3 Profit/(loss) on ordinary activities before taxation

Profit/(loss) on ordinary activities before taxation is stated after charging the following:

	1999	1998
	£'000	£'000
Depreciation of tangible fixed assets	**150**	160
Auditors' remuneration:		
Audit	**15**	18
Operating leases:		
Hire of plant and machinery	**87**	296
Hire of cars	**156**	-
Hire of other assets	**74**	-

Notes *(continued)*

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the financial year was as follows:

	1999 Number	1998 Number
Administration	**24**	30
Project management	**275**	420
	299	450

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
Wages and salaries	**10,692**	15,286
Social security costs	**1,087**	1,323
Other pension costs	**989**	1,541
	12,768	18,150

5 Directors remuneration

	1999 £'000	1998 £'000
Directors' emoluments	**199**	159
	Number	Number
Number of directors who are:		
Members of defined benefit pension schemes	**3**	3

6 Taxation on profit/(loss) on ordinary activities

	1999 £'000	1998 £'000
Taxation based on the profit/(loss) for the year:		
UK corporation tax at 30.25% *(1998: 31%)*	**-**	211
Group relief	**(21)**	(782)
Transfer to deferred tax	**71**	97
Prior year adjustment	**-**	91
	50	(383)

The movement on deferred tax is shown in note 11.

Notes *(continued)*

7 Tangible fixed assets

	Plant, machinery and vehicles £'000
Cost	
At beginning of year	707
Additions	100
Group transfers out	(121)
At end of year	686
Depreciation	
At beginning of year	449
Charge in year	150
Group transfers out	(64)
At end of year	535
Net book value	
At 31 December 1999	151
At 31 December 1998	258

8 Stocks and work in progress

	1999 £'000	1998 £'000
Work in progress	**3**	280

9 Debtors

	1999 £'000	1998 £'000
Amounts falling due within one year:		
Trade debtors	**3,052**	5,042
Amounts recoverable on contracts	**1,859**	3,803
Amounts owed by group undertakings	**3,078**	5,381
Group relief receivable	**14**	766
Other debtors	**30**	154
Prepayments and accrued income	**101**	18
	8,134	15,164
Amounts falling due after more than one year:		
Deferred taxation (note 11)	**72**	143
	8,206	15,307

Notes *(continued)*

10 Creditors: amounts falling due within one year

	1999	1998
	£'000	£'000
Payments received on account - long term contracts	**3,470**	2,328
Payments received on account - other	**-**	102
Trade creditors	**717**	592
Amounts owed to group undertakings	**1,204**	8,418
Corporation tax payable	**-**	246
Other tax and social security	**1,033**	1,042
Other creditors	**188**	382
Accruals	**2,341**	3,456
	8,953	16,566

11 Deferred taxation

The asset recognised in respect of deferred taxation are set out below:

	1999	1998
	£'000	£'000
Accelerated capital allowances	**72**	143

There is unrecognised deferred taxation of £93,000 *(1998: £38,000)*.

The movement on the deferred tax asset, which is disclosed within other debtors, is as follows:

	Deferred taxation £000
At beginning of year	143
Transfer to profit and loss account	(71)
At end of year	**72**

12 Share capital

	1999	1998
	£000	£000
Authorised:		
148,500 "A" ordinary shares of £1 each	**148**	148
1,500 "B" ordinary shares of £1 each	**2**	2
Allotted, called up and fully paid:		
99,000 "A" ordinary shares of £1 each	**99**	99
1,000 "B" ordinary shares of £1 each	**1**	1

"A" ordinary and "B" ordinary shares rank equally in respect of voting rights.

Notes *(continued)*

13 Reconciliation of movements in shareholders' funds

	Share capital	**Profit and loss account**	**1999 Total**	1998 Total
	£000	**£000**	**£000**	£'000
At beginning of year	100	(812)	(712)	488
Retained profit/(loss) for the year	-	125	125	(1,200)
At end of year	100	(687)	(587)	(712)

14 Pension contributions

The pension schemes to which the company contributes are of the defined benefit type and are for the benefit of all relevant employees of Carillion plc and its UK subsidiary undertakings and associates and joint ventures ("the group"). The assets of the schemes are held in trustee administered funds separate from those of the group. Details of the latest actuarial valuation of the two principal schemes are given in the Carillion plc consolidated financial statements. The contributions to the schemes made by the company represent the regular cost of providing the benefits without any recognition of fund surpluses or deficits which are dealt with by Carillion plc.

15 Commitments

Amounts payable during the year following the balance sheet date in respect of non-cancellable operating leases are as follows:

	1999 Land and buildings	**Other assets**	1998 Land and buildings	Other assets
	£'000	**£'000**	£'000	£'000
On operating leases which expire:				
Within one year	**56**	**219**	58	22
In second to fifth years	**-**	**136**	-	31

16 Controlling and parent companies

The company's controlling company is Carillion plc, its parent company, which is incorporated in England and Wales.

Copies of the group financial statements of Carillion plc are available from 24 Birch Street, Wolverhampton WV1 4HY.