Schal International Management Limited

Directors' report and financial statements

Registered number 2646690

For the year ended 31 December 2004

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

Principal activity and business review

The company is principally engaged in construction management and project management.

The directors anticipate that the company will continue in its present role within the Carillion Group in 2005.

Profits and dividends

The profit on ordinary activities before taxation was £726,000 *(2003: £1,486,000).*

The directors propose the payment of a dividend of £690,000 for the year *(2003: £1,166,000).*

Directors and directors' interests

The directors who served during the year were:

ME Dunn	(resigned 30 June 2004)
GH Turner	(resigned 1 January 2005)
PF Reeder	
T Chapman	
RS Ross	(appointed 1 January 2005)
TD Kenny	(appointed 1 January 2005)

At 31 December 2004 no director 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, had the following interests in, and options to subscribe for, ordinary shares of 50p each in Carillion plc:

Number of shares

	At 31 December 2004		At 1 January 2004 or date of appointment if later		Share option movements in the year		
	Shares Number	**Share options Number**	Shares Number	Share options Number	Granted Number	Exercised Number	Lapsed Number
T Chapman	-	**1,821**	-	1,821	-	-	-
PF Reeder	-	**5,471**	-	5,471	-	-	-
GH Turner	-	**6,523**	5,989	30,479	-	-	23,956

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

Political and charitable contributions

The company made no political or UK charitable contributions in the year. In 2003, donations to political or UK charities amounted to £nil.

Auditors

In accordance with Section 384 of the Companies Act 1985 a resolution to re-appoint KPMG Audit Plc as auditors of the company will be proposed at the Annual General Meeting.

Approved by the Board on 9 March 2005 and signed on its behalf by:

TD Kenny
Director

Birch Street
Wolverhampton
WV1 4HY

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.

KPMG

KPMG Audit Plc

2 Cornwall Street
Birmingham
B3 2DL

Independent auditors' report to the members of Schal International Management Limited

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 2004 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

9 March 2005

Profit and loss account

for the year ended 31 December 2004

	Note	2004 £000	2003 £000
Turnover	1	**10,043**	13,615
Cost of sales		**(6,946)**	(10,100)
Gross profit		**3,097**	3,515
Administrative expenses		**(2,411)**	(2,071)
Operating profit		**686**	1,444
Interest receivable from group undertakings		**40**	42
Profit on ordinary activities before taxation	2	**726**	1,486
Tax on profit on ordinary activities	5	**(210)**	(454)
Profit on ordinary activities after taxation		**516**	1,032
Dividends		**(690)**	(1,166)
Retained loss for the financial year	11	**(174)**	(134)

All amounts relate to continuing operations.

There were no recognised gains and losses in either the current or preceding financial year other than the profit or loss for those years.

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.

Balance sheet
at 31 December 2004

	Note	2004 £000	£000	2003 £000	£000
Fixed assets					
Tangible assets	6		-		-
Current assets					
Debtors	7	7,969		8,785	
Cash at bank and in hand		1		1	
		7,970		8,786	
Creditors: amounts falling due within one year	9	(7,808)		(8,450)	
Net current assets			162		336
Net assets			162		336
Capital and reserves					
Called up share capital	10		100		100
Profit and loss account	11		62		236
Equity shareholders' funds			162		336

These financial statements were approved by the Board of directors on 9 March 2005 and signed on its behalf by:

TD Kenny
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 convention in accordance with applicable UK Accounting Standards.

Cash flow statement

In accordance with Financial Reporting Standard 1 'Cash flow statements' (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.

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 an individual contract is recognised when the outcome of the contract can be foreseen with reasonable certainty and is the lower of profit earned to date and that forecast at completion. The result for each year includes settlement of claims on contracts completed in prior years. Payments received on account on contracts are disclosed separately from amounts recoverable on contracts in debtors or long term contract balances in stock. Where such amounts have been received and exceed amounts recoverable, the net amounts are included in creditors.

Tangible fixed assets

Depreciation is based on historic cost less estimated residual values and the estimated useful economic lives of the assets concerned, which for plant, machinery and vehicles is between 3 and 5 years.

Taxation

The charge for taxation is based on the result for each year and takes into account deferred taxation, calculated in accordance with the requirements of Financial Reporting Standard 19 'Deferred Tax'. 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.

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.

Pensions

The company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the company.

Turnover

Turnover is stated exclusive of value added tax and represents the value of work executed during the year.

Notes *(continued)*

2 Profit on ordinary activities before taxation

	2004 £000	2003 £000
Profit on ordinary activities before taxation is stated		
after charging		
Depreciation of tangible fixed assets	-	21
Auditors' remuneration:		
Audit services	8	8
Operating leases:		
Hire of cars	305	432

3 Staff numbers and costs

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

	2004 Number	2003 Number
Administration	10	11
Project management	73	101
	83	112

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	3,635	4,746
Social security costs	386	499
Other pension costs	495	589
	4,516	5,834

4 Directors' remuneration

	2004 £000	2003 £000
Directors' emoluments	140	-

Only the emoluments of T Chapman, who was appointed as director on 31 December 2003, are borne by the company. The other directors of the company have neither received nor waived any remuneration in the year *(2003: £Nil)*.

	Number	Number
Number of directors who are:		
Members of defined benefit pension schemes	3	4

During the year £Nil *(2003: £Nil)* was paid into the defined benefit pension schemes.

Notes *(continued)*

5 Taxation on profit on ordinary activities

(a) Analysis of taxation charge in year

The taxation charge is based on the profit for the year as follows:

	2004 £000	2003 £000
UK corporation tax		
Current tax on profit for the year	**187**	428
Total current taxation	**187**	428
Deferred taxation		
Other timing differences	**23**	23
Adjustment in respect of previous years	**-**	3
Total deferred taxation	**23**	26
Tax charge in year	**210**	454

(b) Reconciliation of current taxation charge

The UK standard rate of corporation tax for the year is 30% *(2003: 30%)*. The actual tax rate differs to the standard rate for the reasons set out below:

	2004 £000	2003 £000
Profit on ordinary activities before tax	**726**	1,486
Tax on profit on ordinary activities at UK standard rate of corporation tax of 30% *(2003: 30%)*	**218**	446
Income not taxable	**(12)**	-
Permanently disallowable expenses	**4**	4
Other timing differences not recognised	**-**	2
Accelerated capital allowances not equalised	**(23)**	(24)
Current tax charge for the year	**187**	428

Notes *(continued)*

6 Tangible fixed assets

	Plant, machinery and vehicles £000
Cost	
At beginning of year	718
At end of year	718
Depreciation	
At beginning of year	718
At end of year	718
Net book value	
At 31 December 2004	**-**
At 31 December 2003	-

7 Debtors

	2004 £000	2003 £000
Amounts falling due within one year:		
Trade debtors	**1,015**	2,493
Amounts recoverable on contracts	**514**	445
Amounts owed by group undertakings	**6,150**	5,696
Other debtors	**69**	3
Prepayments and accrued income	**153**	58
Deferred tax asset	**67**	90
Group Tax Relief	**1**	-
	7,969	8,785

The deferred tax asset comprises:		
Accelerated capital allowances	67	90

8 Deferred tax

	2004 £000
Deferred tax asset at 1 January 2004	**90**
Charged to profit and loss account during the year	**(23)**
Deferred tax asset at 31 December 2004	**67**

The elements of deferred taxation are as follows:

	2004 £000	2003 £000
Difference between accumulated depreciation and capital allowances	67	90

Notes *(continued)*

9 *Creditors: amounts falling due within one year*

	2004 £000	2003 £000
Payments received on account - long term contracts	734	2,636
Trade creditors	76	166
Amounts owed to group undertakings	4,836	2,987
Corporation tax payable	187	428
Other tax and social security	137	220
Other creditors	-	3
Accruals	1,838	2,010
	7,808	8,450

10 Share capital

	2004 £000	2003 £000
Authorised:		
148,500 "A" ordinary shares of £1 each	148	148
1,500 "B" ordinary shares of £1 each	2	2
	150	150
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
	100	100

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

11 Reconciliation of movements in shareholders' funds

	Share capital £000	Profit and loss account £000	2004 Total £000	2003 Total £000
At beginning of year	100	236	336	470
Retained loss for the year	-	(174)	(174)	(134)
At end of year	100	62	162	336

Notes *(continued)*

12 Pension contributions

The company participates in both the Carillion Staff Pension Scheme and the Public Sector Scheme, which are both funded defined benefit schemes. Details of the latest actuarial valuations, which were performed by a qualified actuary, of the principal scheme is given in the Group's consolidated financial statements. Note 14 gives details of how to obtain a copy of the financial statements of Carillion plc.

The contributions to the defined benefit 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. The pension cost for the year was £495,068 *(2003: £588,587)*. There were no prepayments or outstanding contributions at 31 December 2004 or 2003.

As the schemes are run for the Carillion Group as a whole the company is unable to identify its share of the assets and liabilities of the schemes, on a consistent and reasonable basis. Hence, as permitted by Financial Reporting Standard 17: Retirement Benefits, the schemes, will be accounted for by the company as if they were defined contribution schemes when the accounting standard is fully adopted.

At 31 December 2004 on an Financial Reporting Standard 17 basis, the Staff Scheme had a deficit net of deferred tax of £40.3 million *(2003: £49.8 million)*, and the Public Sector Scheme a deficit net of deferred tax of £8.8 million *(2003: £9.1 million)*.

13 Commitments

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

	2004	2003
	£000	£000
On operating leases which expire:		
Within one year	**2**	9
In the second to fifth years inclusive	**29**	23

14 Related party transactions

As a wholly owned subsidiary of Carillion plc, the company has taken advantage of the exemption under Financial Reporting Standard 8 'Related Party Disclosures' not to provide information on related party transactions with other undertakings within the Carillion group. Note 14 gives details of how to obtain a copy of the published financial statements of Carillion plc.

15 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.