

## **Schal International Management Limited**

### **Directors' report and financial statements**

For the year ended 31 December 1998

Registered number 2646690



## **Directors' report and financial statements**

### **Contents**

Directors' report	1
Report of the auditors to the members of Schal International Management Limited	4
Profit and loss account	5
Balance sheet	6
Notes	7

## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

### Principal activity

The company is principally engaged in construction and project management.

### Business review

Turnover for the year amounted to £36,878,000 (1997: £37,019,000) and loss on ordinary activities before taxation was £1,583,000 (1997: profit £157,000). A fundamental restructuring exercise took place during the year to re-align the company's capacity to underlying market demand.

On 1 January 1999, the trade, assets and liabilities of the Government Services Division of the company was transferred to Tarmac Services Limited.

The directors expect the company to continue its present role in the group during 1999.

The company's ultimate holding company, Tarmac plc, has announced that it intends to separate its two business streams; Construction Services, of which Schal International Management Limited is a part and Heavy Building Materials. The Directors believe that with a strong order book, Construction Services will continue to improve its performance as a separate business.

### Dividend

The directors do not propose the payment of a dividend for the year (1997: £Nil).

### Directors and directors' interests

The directors serving during the year were:

M Bairstow

BS Engstrom (appointed 26 May 1998)

G Pearson (appointed 28 September 1998)

DT Simons (resigned 6 March 1998)

B Pellard (resigned 26 May 1998)

The directors who held office at the end of the financial year, other than those whose interests are disclosed in the financial statements of the immediate holding company, had the following interests in, and options to subscribe for, ordinary shares of 50p each in Tarmac plc:

Number of shares	At 31 December 1998		At 1 January 1998 (or later date of appointment)		Share option movements in period		
	Shares	Share options	Shares	Share options	granted	exercised	lapsed
M Bairstow	-	179,166	-	139,166	40,000	-	-

At 31 December 1998 no director had any beneficial interest in the share or loan capital of any subsidiary of Tarmac 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 Tarmac plc group newspaper Tarmac World.

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.

### **Year 2000**

Tarmac recognises the importance of the Year 2000 problem and has established a Group-wide programme to ensure that the related risks are mitigated.

The programme, which is monitored regularly at Board level, covers five main areas: business systems and associated hardware, embedded chips in buildings and production facilities, key suppliers, joint ventures and client solutions.

In each area an analysis of the risks has been performed, from which corrective action plans have been developed. These plans are designed to address all key issues well in advance of 31 December 1999, without disruption to the underlying business processes.

The company is one of many which is included within the Tarmac Construction Services Business Stream. The total cost of the programme to the business stream as a whole, along with the amount spent in 1998, is included in the financial statements of Tarmac Construction Limited, the company's controlling entity. The company shares its business system with Tarmac Construction Limited and for this reason it is not possible to directly apportion costs associated with the Year 2000 to this company.

### **Euro**

A Steering Committee, under the chairmanship of Tarmac plc's Finance Director, is responsible for co-ordinating the EMU programme. The Steering Committee is supported by three sub-committees which are fully responsible for implementing the agreed policy.

Key aspects of Tarmac plc policy towards the Euro are:

- As only a small proportion of Tarmac plc's turnover is generated from undertakings in countries joining the Euro in the first wave, the Euro will not be adopted as the base currency for the Tarmac Group;
- It is Tarmac's policy for its businesses in countries joining EMU from 1 January 1999 to continue to keep records in their local currencies and re-express these in Euros as required;
- It is not policy to require any supplier to invoice any Tarmac UK business in Euros; and
- Accounting systems will only be amended to handle dual currency transactions with the Euro when it becomes business critical to do so.

### **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.

## **Directors' report** *(continued)*

### **Statement of directors' responsibilities**

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:

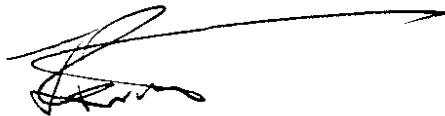
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare 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 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.

### **Auditors**

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming annual general meeting.

Approved by the Board and signed on its behalf by:



**J Perrott**  
*Secretary*

Construction House  
Birch Street  
Wolverhampton  
WV1 4HY

16 March 1999



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***

As described on page 3, 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, on 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 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to read 'KPMG Audit Plc', written in a cursive style.

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

16 March 1999

## **Profit and loss account**

*for the year ended 31 December 1998*

	<i>Note</i>	<b>1998</b> <b>£000</b>	1997 £000
<b>Turnover</b>	2	<b>36,878</b>	37,019
Cost of sales		<b>(31,822)</b>	(30,059)
		<hr/>	<hr/>
<b>Gross profit</b>		<b>5,056</b>	6,960
Administrative expenses		<b>(5,169)</b>	(6,638)
		<hr/>	<hr/>
<b>Operating (loss)/profit</b>		<b>(113)</b>	322
Fundamental restructuring	3	<b>(1,288)</b>	-
		<hr/>	<hr/>
<b>(Loss)/profit on ordinary activities before interest</b>		<b>(1,401)</b>	322
Interest receivable from group undertakings		<b>126</b>	-
Interest payable to group undertakings		<b>(308)</b>	(165)
		<hr/>	<hr/>
<b>(Loss)/profit on ordinary activities before taxation</b>	4	<b>(1,583)</b>	157
Tax on (loss)/profit on ordinary activities	7	<b>383</b>	(28)
		<hr/>	<hr/>
<b>Retained (loss)/profit for the financial year</b>	14	<b>(1,200)</b>	129
		<hr/> <hr/>	<hr/> <hr/>

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 1998

	<i>Note</i>	<b>1998</b> <b>£'000</b>	<b>1997</b> <b>£'000</b>	<b>£'000</b>
<b>Fixed assets</b>				
Tangible assets	8		258	194
<b>Current assets</b>				
Stocks	9	280	559	
Debtors	10	15,307	12,299	
Cash at bank and in hand		9	3	
		<hr/>	<hr/>	
		15,596	12,861	
<b>Creditors: amounts falling due within one year</b>	11	(16,566)	(12,567)	
		<hr/>	<hr/>	
<b>Net current (liabilities)/assets</b>			(970)	294
			<hr/>	<hr/>
<b>Net (liabilities)/assets</b>			(712)	488
			<hr/>	<hr/>
<b>Capital and reserves</b>				
Called up share capital	13		100	100
Profit and loss account	14		(812)	388
			<hr/>	<hr/>
<b>Equity shareholders' funds</b>			(712)	488
			<hr/>	<hr/>

These financial statements were approved by the board of directors on 16 March 1999 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 Number 8 "Related Party Disclosures" and has not disclosed details of transactions with entities that are part of the Tarmac PLC Group or with investees of that group qualifying as related parties.

#### ***Cash flow statement***

In accordance with Financial Reporting Standard Number 1 "Cash Flow Statements" the company is exempt from the requirement to prepare a cashflow statement on the grounds that Tarmac 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 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. Current actuarial surpluses or deficits are spread over the remaining service lives.

### **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:

	1998 £'000	1997 £'000
United Kingdom	36,865	35,854
Europe	13	1
Asia	-	1,161
Other	-	3
	<hr/> 36,878 <hr/>	<hr/> 37,019 <hr/>

### **3 Fundamental restructuring**

Provision was made during the year for the estimated costs of fundamentally restructuring the group's activities in the project management sector and overseas in line with current market demand.

### **4 (Loss)/profit on ordinary activities before taxation**

(Loss)/profit on ordinary activities before taxation is stated after charging the following:

	1998 £'000	1997 £'000
Depreciation of tangible fixed assets	160	92
Auditors' remuneration:		
Audit	18	37
Operating leases:		
Hire of plant and machinery	296	217
Hire of other assets	-	31
	<hr/> 296 <hr/>	<hr/> 280 <hr/>

## Notes (continued)

### 5 Staff numbers and costs

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

	1998 Number	1997 Number
Administration	30	32
Project management	420	488
	<hr/> 450	<hr/> 520
	<hr/> <hr/>	<hr/> <hr/>

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
Wages and salaries	15,286	14,442
Social security costs	1,323	1,227
Other pension costs	1,541	1,420
	<hr/> 18,150	<hr/> 17,089
	<hr/> <hr/>	<hr/> <hr/>

### 6 Directors remuneration

	1998 £'000	1997 £'000
Directors' emoluments	159	119
	<hr/>	<hr/>
	Number	Number
Number of directors who are:		
Members of defined benefit pension schemes	3	3
	<hr/>	<hr/>

### 7 Taxation on (loss)/profit on ordinary activities

	1998 £'000	1997 £'000
Taxation based on the (loss)/profit for the year:		
UK corporation tax at 31% (1997: 31.5%)	211	8
Group relief	(782)	-
Transfer (from)/to deferred tax	97	20
Prior year adjustment	91	-
	<hr/> (383)	<hr/> 28
	<hr/> <hr/>	<hr/> <hr/>

The movement on deferred tax is shown in note 12.

## Notes (continued)

### 8 Tangible fixed assets

	Plant, machinery and vehicles £'000
<b>Cost</b>	
At beginning of year	483
Additions	224
	<hr/>
At end of year	707
	<hr/> <hr/>
<b>Depreciation</b>	
At beginning of year	289
Charge in year	160
	<hr/>
At end of year	449
	<hr/> <hr/>
<b>Net book value</b>	
At 31 December 1998	<b>258</b>
	<hr/> <hr/>
At 31 December 1997	194
	<hr/> <hr/>

### 9 Stocks and work in progress

	1998 £'000	1997 £'000
Work in progress	280	559
	<hr/> <hr/>	<hr/> <hr/>

### 10 Debtors

	1998 £'000	1997 £'000
<b>Amounts falling due within one year:</b>		
Trade debtors	5,042	5,476
Amounts recoverable on contracts	3,803	3,595
Amounts owed by group undertakings	5,381	2,187
Amounts owed by associated undertakings	-	48
Group relief receivable	766	363
Other debtors	154	350
Prepayments and accrued income	18	23
	<hr/>	<hr/>
	15,164	12,042
<b>Amounts falling due after more than one year:</b>		
Other debtors	143	257
	<hr/>	<hr/>
	15,307	12,299
	<hr/> <hr/>	<hr/> <hr/>

## Notes (continued)

### 11 Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Payments received on account - long term contracts	2,328	2,573
Payments received on account - other	102	250
Trade creditors	592	902
Amounts owed to group undertakings	8,418	5,763
Corporation tax payable	246	6
Group relief payable	-	160
Other tax and social security	1,042	1,086
Other creditors	382	99
Accruals	3,456	1,728
	<hr/> 16,566 <hr/>	<hr/> 12,567 <hr/>

### 12 Deferred taxation

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

	1998 £'000	1997 £'000
Accelerated capital allowances	143	88
Other timing differences	-	152
	<hr/> 143 <hr/>	<hr/> 240 <hr/>

There is unrecognised deferred taxation of £38,000 (1997: £Nil).

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

	Deferred taxation £000
At beginning of year	240
Transfer to profit and loss account	(97)
	<hr/>
<b>At end of year</b>	<b>143</b> <hr/>

## Notes (continued)

### 13 Share capital

	1998 £000	1997 £000
<b>Authorised:</b>		
148,500 "A" ordinary shares of £1 each	148	148
1,500 "B" ordinary shares of £1 each	2	2
	<hr/>	<hr/>
<b>Allotted, called up and fully paid:</b>		
99,000 "A" ordinary shares of £1 each	99	99
1,000 "B" ordinary shares of £1 each	1	1
	<hr/>	<hr/>

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

### 14 Reconciliation of movements in shareholders' funds

	Share capital £000	Profit and loss account £000	1998 Total £000	1997 Total £'000
At beginning of year	100	388	488	129
Retained (loss)/profit for the year	-	(1,200)	(1,200)	359
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	100	(812)	(712)	488
	<hr/>	<hr/>	<hr/>	<hr/>

### 15 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 Tarmac plc and its UK subsidiary and associated undertakings ("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 principal schemes are given in the group's 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 Tarmac plc.

### 16 Commitments

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

	1998 Land and buildings £'000	Other assets £'000	1997 Land and buildings £'000	Other assets £'000
On operating leases which expire:				
Within one year	57,500	21,543	34,500	-
In second to fifth years	-	31,421	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

### 17 Controlling and parent companies

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

Copies of the group financial statements of Tarmac plc are available from Construction House, Birch Street, Wolverhampton WV1 4HY.