Schal International Management Limited

Directors' report and financial statements

Registered number 2646690

For the year ended 31 December 2002

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

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 2003.

Profits and dividends

The profit on ordinary activities before taxation was £673,000 *(2001: £451,000).*

The directors do not propose the payment of a dividend for the year *(2001: £Nil).*

Directors and directors' interests

The directors who served during the year were:

PF Reeder
ME Dunn
MJ Smout

At 31 December 2002 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 2002		At 1 January 2002		Share option movements in the year		
	Shares Number	**Share options Number**	Shares Number	Share options Number	Granted Number	Exercised Number	Lapsed Number
PF Reeder	-	**5,471**	-	3,650	1,821	-	-
ME Dunn	-	**12,515**	-	12,515	-	-	-
MJ Smout	**48,372**	**397,433**	48,372	397,433	-	-	-

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 contributions during the year. Donations to UK charities amounted to £888.

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 12 March 2003 and signed on its behalf by:

PF Reeder
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 2002 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

12 March 2003

Profit and loss account

for the year ended 31 December 2002

	Note	2002 £000	2001 £000
Turnover	*1*	**20,178**	24,346
Cost of sales		**(16,430)**	(21,175)
Gross profit		**3,748**	3,171
Administrative expenses		**(3,119)**	(2,707)
Operating profit		**629**	464
Interest receivable from group undertakings		**44**	-
Interest payable to group undertakings		**-**	(13)
Profit on ordinary activities before taxation	*2*	**673**	451
Tax on profit on ordinary activities	*5*	**(66)**	(168)
Retained profit for the financial year	*11*	**607**	283

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 2002

	Note	2002 £000	£000	2001 £000	£000
Fixed assets					
Tangible assets	6		21		70
Current assets					
Stocks	7	-		58	
Debtors	8	5,675		9,920	
Cash at bank and in hand		1		4	
		5,676		9,982	
Creditors: amounts falling due within one year	9	(5,227)		(10,189)	
Net current assets/(liabilities)			449		(207)
Net assets/(liabilities)			470		(137)
Capital and reserves					
Called up share capital	10		100		100
Profit and loss account	11		370		(237)
Equity shareholders' funds			470		(137)

These financial statements were approved by the Board of directors on 12 March 2003 and signed on its behalf by:

PF Reeder
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 (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 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 complete in prior years. Payments received on account of contracts are deducted 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.

Stocks

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

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 FRS 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. This policy reflects a change from previous years, where deferred tax assets or liabilities were only recognised on a partial 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.

Notes *(continued)*

1 Principal accounting policies *(continued)*

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 represents the invoiced value of services provided by the company during the year, excluding value added tax and is all derived from UK operations.

2 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging the following:

	2002	2001
	£000	£000
Depreciation of tangible fixed assets	**44**	168
Auditors' remuneration:		
Audit services	**11**	18
Operating leases:		
Hire of plant and machinery	**-**	53
Hire of cars	**479**	513

The above audit fee represents a recharged amount from Carillion Plc.

3 Staff numbers and costs

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

	2002	2001
	Number	Number
Administration	**14**	21
Project management	**119**	141
	133	162

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	**5,410**	6,218
Social security costs	**521**	630
Other pension costs	**620**	697
	6,551	7,545

Notes *(continued)*

4 Directors remuneration

	2002	2001
	£000	£000
Directors' emoluments	**-**	93
	Number	Number
Number of directors who are:		
Members of defined benefit pension schemes	**3**	3

During the year £nil *(2001: £14,000)* was paid into the defined benefit pension schemes.

5 Taxation on profit on ordinary activities

(a) Analysis of taxation charge in year

	2002	2001
	£000	£000
UK taxation:		
Corporation tax	**66**	168
Total current taxation on profit on ordinary activities	**66**	168

(b) Reconciliation of current taxation charge

The UK standard rate of corporation tax for the year is 30% *(2001: 30%)*. The actual tax rate differs to the standard rate for the reasons set out below:

	2002	2001
	£000	£000
Profit on ordinary activities before tax	**673**	451
Tax on profit on ordinary activities at UK standard rate of corporation tax of 30% *(2001: 30%)*	**202**	135
Prior year group relief	**-**	(11)
Permanently disallowable expenses	**7**	17
Deferred tax	**(116)**	64
Other timing differences not recognised	**(27)**	(37)
Current tax charge for the year	**66**	168

Notes *(continued)*

6 Tangible fixed assets

	Plant, machinery and vehicles £000
Cost	
At beginning of year	723
Disposals	(5)
At end of year	718
Depreciation	
At beginning of year	653
Charge in year	44
At end of year	697
Net book value	
At 31 December 2002	**21**
At 31 December 2001	70

7 Stocks and work in progress

	2002 £000	2001 £000
Work in progress	**-**	58

8 Debtors

	2002 £000	2001 £000
Amounts falling due within one year:		
Trade debtors	**1,839**	6,223
Amounts recoverable on contracts	**355**	794
Amounts owed by group undertakings	**3,211**	2,880
Other debtors	**114**	7
Prepayments and accrued income	**40**	16
Deferred tax asset	**116**	-
	5,675	9,920

The deferred tax asset comprises:		
Accelerated capital allowances	**116**	-

Notes *(continued)*

9 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Payments received on account - long term contracts	**2,705**	4,526
Trade creditors	**39**	2,593
Amounts owed to group undertakings	**1,132**	519
Corporation tax payable	**182**	115
Group relief payable	**-**	65
Other tax and social security	**444**	602
Other creditors	**8**	300
Accruals	**717**	1,469
	5,227	10,189

10 Share capital

	2002 £000	2001 £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	2002 Total £000	2001 Total £000
At beginning of year	**100**	**(237)**	**(137)**	(420)
Retained profit for the year	**-**	**607**	**607**	283
At end of year	**100**	**370**	**470**	(137)

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 schemes is given in the group's consolidated financial statements. Note 15 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 £620,000 *(2001: £697,000)*. There were no prepayments or outstanding contributions at 31 December 2002 or 2001.

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 FRS 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 2002 on an FRS 17 basis, the Staff Scheme had a surplus of £14.9 million, and the Public Sector Scheme a surplus of £5.6m.

13 Commitments

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

	2002	2001
	£000	£000
On operating leases which expire:		
Within one year	**27**	8
In second to fifth years	**112**	30

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 not to provide information on related party transactions with other undertakings within the Carillion group. Note 15 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.