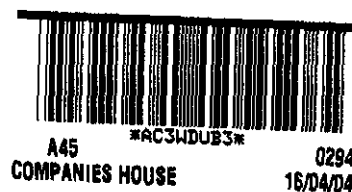


Schal International Management Limited

**Directors' report and financial
statements**

Registered number 2646690

For the year ended 31 December 2003



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

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 2004.

Profits and dividends

The profit on ordinary activities before taxation was £1,486,429 (2002: £673,000).

The directors propose the payment of a dividend of £1,166,000 for the year (2002: £Nil).

Directors and directors' interests

The directors who served during the year were:

T Chapman (appointed 15 December 2003)
 ME Dunn
 PF Reeder
 MJ Smout (resigned 18 July 2003)
 GH Turner (appointed 18 July 2003)

At 31 December 2003 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 2003		At 1 January 2003 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	-	-	-
ME Dunn	1,917	12,419	-	12,515	1,821	1,917	-
PF Reeder	-	5,471	-	5,471	-	-	-
GH Turner	5,989	30,479	5,989	30,479	-	-	-

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 2002, 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 10 March 2004 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 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 2003 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

10 March 2004

Profit and loss account

for the year ended 31 December 2003

	Note	2003 £000	2002 £000
Turnover	1	13,615	20,178
Cost of sales		(10,100)	(16,430)
Gross profit		3,515	3,748
Administrative expenses		(2,071)	(3,119)
Operating profit		1,444	629
Interest receivable from group undertakings		42	44
Profit on ordinary activities before taxation	2	1,486	673
Tax on profit on ordinary activities	5	(454)	(66)
Profit on ordinary activities after taxation		1,032	607
Dividends		(1,166)	-
Retained (loss)/profit for the financial year	10	(134)	607

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 2003

	Note	2003 £000	2002 £000	2002 £000
Fixed assets				
Tangible assets	6	-		21
Current assets				
Debtors	7	8,785	5,675	
Cash at bank and in hand		1	1	
		<u>8,786</u>	<u>5,676</u>	
Creditors: amounts falling due within one year	8	<u>(8,450)</u>	<u>(5,227)</u>	
Net current assets			<u>336</u>	<u>449</u>
Net assets			<u>336</u>	<u>470</u>
Capital and reserves				
Called up share capital	9	100		100
Profit and loss account	10	236		370
Equity shareholders' funds			<u>336</u>	<u>470</u>

These financial statements were approved by the Board of directors on 10 March 2004 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 completed in prior years. Payments received on account on 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.

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.

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.

Notes (continued)

2 Profit on ordinary activities before taxation

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

	2003 £000	2002 £000
Depreciation of tangible fixed assets	21	44
Auditors' remuneration:		
Audit services	8	11
Operating leases:		
Hire of cars	432	479
	<u>461</u>	<u>534</u>

3 Staff numbers and costs

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

	2003 Number	2002 Number
Administration	11	14
Project management	101	119
	<u>112</u>	<u>133</u>

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	4,746	5,410
Social security costs	499	521
Other pension costs	589	620
	<u>5,834</u>	<u>6,551</u>

4 Directors' remuneration

	2003 £000	2002 £000
Directors' emoluments	-	-
	<u>-</u>	<u>-</u>
	Number	Number
Number of directors who are:		
Members of defined benefit pension schemes	4	3
	<u>4</u>	<u>3</u>

During the year £Nil (2002: £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:

	2003 £000	2002 £000
<i>UK corporation tax</i>		
Current tax on profit for the year	428	182
Total current taxation	428	182
<i>Deferred taxation</i>		
Other timing differences	23	(116)
Adjustment in respect of previous years	3	-
Total deferred taxation	26	(116)
Tax charge in year	454	66

(b) Reconciliation of current taxation charge

The UK standard rate of corporation tax for the year is 30% (2002: 30%). The actual tax rate differs to the standard rate for the reasons set out below:

	2003 £000	2002 £000
Profit on ordinary activities before tax	1,486	673
Tax on profit on ordinary activities at UK standard rate of corporation tax of 30% (2002: 30%)	446	202
Permanently disallowable expenses	4	6
Other timing differences not recognised	2	1
Accelerated capital allowances not equalised	(24)	(27)
Current tax charge for the year	428	182

Notes (continued)

6 Tangible fixed assets

	Plant, machinery and vehicles £000
Cost	
At beginning of year	718
Disposals	-
	<hr/>
At end of year	718
	<hr/>
Depreciation	
At beginning of year	697
Charge in year	21
	<hr/>
At end of year	718
	<hr/>
Net book value	
At 31 December 2003	-
	<hr/>
At 31 December 2002	21
	<hr/>

7 Debtors

	2003 £000	2002 £000
Amounts falling due within one year:		
Trade debtors	2,493	1,839
Amounts recoverable on contracts	445	355
Amounts owed by group undertakings	5,696	3,211
Other debtors	3	114
Prepayments and accrued income	58	40
Deferred tax asset	90	116
	<hr/>	<hr/>
	8,785	5,675
	<hr/>	<hr/>
The deferred tax asset comprises:		
Accelerated capital allowances	90	116
	<hr/>	<hr/>

Notes (continued)

8 Creditors: amounts falling due within one year

	2003 £000	2002 £000
Payments received on account - long term contracts	2,636	2,705
Trade creditors	166	39
Amounts owed to group undertakings	2,987	1,132
Corporation tax payable	428	182
Other tax and social security	220	444
Other creditors	3	8
Accruals	2,010	717
	<u>8,450</u>	<u>5,227</u>

9 Share capital

	2003 £000	2002 £000
<i>Authorised:</i>		
148,500 "A" ordinary shares of £1 each	148	148
1,500 "B" ordinary shares of £1 each	2	2
	<u>150</u>	<u>150</u>
<i>Allotted, called up and fully paid:</i>		
99,000 "A" ordinary shares of £1 each	99	99
1,000 "B" ordinary shares of £1 each	1	1
	<u>100</u>	<u>100</u>

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

10 Reconciliation of movements in shareholders' funds

	Share capital £000	Profit and loss account £000	2003 Total £000	2002 Total £000
At beginning of year	100	370	470	(137)
Retained (loss)/profit for the year	-	(134)	(134)	607
At end of year	<u>100</u>	<u>236</u>	<u>336</u>	<u>470</u>

Notes (continued)

11 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 £589,000 (2002: £620,000). There were no prepayments or outstanding contributions at 31 December 2003 or 2002.

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 2003 on an FRS 17 basis, the Staff Scheme had a deficit net of deferred tax of £49.8 million (2002: £35.6 million), and the Public Sector Scheme a deficit net of deferred tax of £9.1 million (2002: £5.1 million).

12 Commitments

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

	2003 £000	2002 £000
On operating leases which expire:		
Within one year	9	27
In the second to fifth years inclusive	23	112
	<hr/>	<hr/>

13 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 14 gives details of how to obtain a copy of the published financial statements of Carillion plc.

14 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.