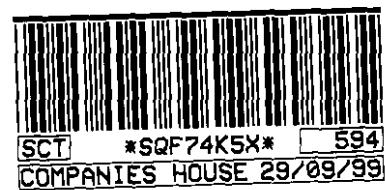


Lehrer McGovern Bovis International Limited

Directors' report and financial statements

31 December 1998

Registered number 2951287



Directors' report and financial statements

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Directors' report

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

Principal activities

The company's principal activity is that of project managers on construction and engineering projects.

Business review

The company is engaged in providing management services to the "Ben Gurion 2000" project in Israel. The project was originally scheduled for completion in June 1999 but will now continue until late 2002. The directors view the future with optimism and look forward to the further expansion of the company's activities.

Results and dividends

The results for the period set out in the attached profit and loss account. The profit for the period was £84,677. (1997: £51,779).

The directors do not recommend the payment of a dividend. (1997 : £ nil)

Directors and directors' interests

Set out below are the directors who held office at the year end together with their beneficial interests in the deferred stock of The Peninsular and Oriental Steam Navigation Company at the beginning and end of the year, as recorded in the register of directors' share interests:

	Deferred stockholding at 31 December 1998 No.	Deferred stockholding at 1 January 1998 No.	Deferred stockholding under option at 31 December 1998 No.	Deferred stockholding under option at 1 January 1998 No.
P Aluisi (resigned 5 February 1998)	-	-	-	-
J Demol	607	595	10,900	12,384
D Lake	707	1,422	14,209	12,164
M Melson	-	-	15,825	19,986
R Reames	563	289	60,107	54,907
M Bodner	-	-	13,350	13,522
R Klenk	-	-	11,600	6,700
J Kubilus	-	-	6,400	22,193

The movement in the deferred stockholding under option reflects the number granted/(lapsed) during the year.

None of the directors had any interest in the shares of any other group undertaking.

R Reames resigned on 9 June 1999.

By order of the board

C Rowe
Company secretary

Bovis House
Northolt Road
Harrow
Middlesex
HA2 0EE

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 of the company 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 a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and 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

PO Box 696
8 Salisbury Square
London
EC4Y 8BB

Report of the auditors to the members of Lehrer McGovern Bovis International Limited

We have audited the financial statements on pages 4 to 12.

Respective responsibilities of directors and auditors

As described on page 2 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 profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink that reads 'KPMG Audit Plc'.

21/9/99.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Profit and loss account

for the year ended 31 December 1998

	Note	1998 £	1997 £
Turnover	2	3,951,060	3,519,721
Cost of sales		(3,503,474)	(3,283,165)
Gross profit		447,586	236,556
Administration expenses		(409,356)	(218,448)
Operating profit/(loss)	3 to 5	38,230	18,108
Interest receivable and similar income	6	59,485	77,190
Interest payable and similar charges	7	(5,255)	(84,718)
Profit on ordinary activities before taxation		92,460	10,580
Tax on profit on ordinary activities	8	(7,783)	41,199
Profit for the financial period		84,677	51,779
Dividends payable		-	-
Retained profit for the financial year		84,677	51,779

The notes set out on pages 7 to 12 form part of these financial statements.

Statement of total recognised gains and losses

for the year ended 31 December 1998

	1998	1997
	£	£
Profit for the financial year	84,677	51,779
Currency translation differences on foreign currency net investments	(21,816)	(1,900)
	<hr/>	<hr/>
Total recognised gains and losses relating to the year	62,861	49,879
	<hr/> <hr/>	<hr/> <hr/>

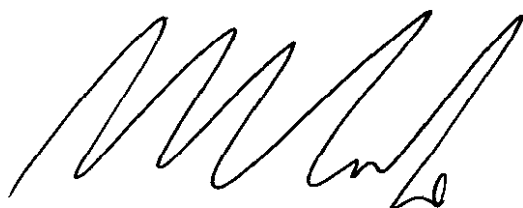
Balance sheet

at 31 December 1998

	Note	1998		1997	
		£	£	£	£
Fixed assets					
Tangible assets	9		277,652		222,266
Current assets					
Debtors: amounts falling due within one year	10	261,896		398,900	
Debtors: amounts falling due after more than one year	11	18,878		63,544	
Cash at bank and in hand		797,682		891,711	
		<u>1,078,456</u>		<u>1,354,155</u>	
Creditors: amounts falling due within one year	12	<u>(1,292,753)</u>		<u>(1,575,927)</u>	
Net current assets/(liabilities)			(214,297)		(221,772)
Net assets/(liabilities)			<u>63,355</u>		<u>494</u>
Capital and reserves					
Called up share capital	13		100		100
Profit and loss account	14		63,255		394
			<u>63,355</u>		<u>494</u>
Equity shareholders' funds			<u>63,355</u>		<u>494</u>

These financial statements were approved by the board of directors 21/9 1999 and were signed on its behalf by:

D Lake
 Director



The notes on pages 7 to 12 form part of these accounts.

Notes

(forming part of the financial statements)

1 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 preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking and the ultimate parent undertaking, which is incorporated in Great Britain, prepares a consolidated cash flow statement.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the year end exchange rates. Exchange differences arising from the retranslation of the opening net investment in a foreign branch at the closing rate are recorded as a movement on reserves. Profits and losses of branches which have currencies of operation other than sterling are translated into sterling at the average rates for the period and any exchange differences are taken to the profit and loss account.

Pension costs

Contributions in respect of defined benefit pension schemes are calculated as a percentage, agreed on actuarial advice, of the pensionable salaries of employees. The cost of providing pensions is charged to the profit and loss account on a systematic basis over the period benefiting from the service of employees.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Turnover

Turnover represents the amounts (excluding value added tax) derived from management fees receivable and reimbursement of direct costs.

Notes (continued)

2 Segmental information

In the opinion of the directors the company participates in only one class of business, and all turnover is generated in Israel.

3 Profit on ordinary activities before taxation

Profit is stated after charging:

	1998 £	1997 £
Auditors remuneration (In Israel))		
Audit fee	5,803	5,468
Other services	2,012	24,919
Depreciation of tangible fixed assets	64,849	57,038
	<u> </u>	<u> </u>

Auditor's fees in the UK are borne by another Group Undertaking.

4 Remuneration of directors

The directors received no remuneration from the company for their services during the period ended 31 December 1998.

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was 7 (1997: 7). In addition, the company has been charged by other fellow subsidiaries for the cost of their staff seconded to the project.

	1998 £	1997 £
Wages and salaries	1,264,841	1,204,550
Social security costs	3,697	3,206
	<u> </u>	<u> </u>
	1,268,538	1,207,756
	<u> </u>	<u> </u>

6 Interest receivable and similar income

	1998 £	1997 £
Interest receivable from banks	59,485	77,190
	<u> </u>	<u> </u>
	59,485	77,190
	<u> </u>	<u> </u>

Notes (continued)

7 Interest payable and similar charges

	1998 £	1997 £
Interest payable to banks and other parties	5,255	84,718
	<u>5,255</u>	<u>84,718</u>

8 Tax ordinary activities

	1998 £	1997 £
Israeli corporation tax (credit)/charge in year	35,074	31,676
Prior year adjustment	-	(72,875)
	<u>35,074</u>	<u>(41,199)</u>
UK Corporation tax (credit) / charge in the year	(27,291)	
	<u>7,783</u>	<u>(41,199)</u>

9 Tangible fixed assets

	Office furniture £	Motor vehicles £	Total £
Cost			
Brought forward at 1 January 1998	236,226	123,642	359,868
Foreign exchange	(37,551)	(19,654)	(57,205)
Additions	155,566	-	155,566
	<u>354,241</u>	<u>103,988</u>	<u>458,229</u>
Carried forward at 31 December 1998			
	<u>354,241</u>	<u>103,988</u>	<u>458,229</u>
Depreciation			
Brought forward at 1 January 1998	84,255	53,347	137,602
Foreign exchange	(13,394)	(8,480)	(21,874)
Charge	49,251	15,598	64,849
	<u>120,112</u>	<u>60,465</u>	<u>180,577</u>
Carried forward at 31 December 1998			
	<u>120,112</u>	<u>60,465</u>	<u>180,577</u>
Net book value at 31 December 1998	234,129	43,523	277,652
	<u>234,129</u>	<u>43,523</u>	<u>277,652</u>
Net book value at 31 December 1997	151,971	70,295	222,266
	<u>151,971</u>	<u>70,295</u>	<u>222,266</u>

Notes *(continued)*

10 Debtors: amounts falling due within one year

	1998 £	1997 £
Trade debtors	157,300	138,336
Corporation tax	27,291	182,702
Prepayments and accrued income	40,258	33,786
Other debtors	37,047	44,076
	<hr/>	<hr/>
	261,896	398,900
	<hr/> <hr/>	<hr/> <hr/>

11 Debtors: amounts falling due after more than one year

	1998 £	1997 £
Prepaid insurance	6,611	31,455
Legal fees amortised over 5 years	12,267	32,089
	<hr/>	<hr/>
	18,878	63,544
	<hr/> <hr/>	<hr/> <hr/>

12 Creditors: amounts falling due within one year

	1998 £	1997 £
Trade creditors	262,004	167,044
Amounts owed to parent company	240,463	249,347
Amounts owed to fellow subsidiary undertakings	598,776	1,032,097
Corporation tax	9,916	-
Other taxes	160,365	88,431
Accruals and deferred income	21,229	39,008
	<hr/>	<hr/>
	1,292,753	1,575,927
	<hr/> <hr/>	<hr/> <hr/>

None of the amounts owed to parent company or fellow subsidiary undertakings are interest bearing or have fixed repayment schedules.

Notes (continued)

13 Called up share capital

	1998	1997
	£	£
<i>Authorised, allotted, called up and fully paid:</i>		
Ordinary shares of £1 each	100	100
	<u> </u>	<u> </u>

14 Reserves

	Profit and loss account	
	1998	1997
	£	£
At beginning of period	394	(49,485)
Retained profit for period	84,677	51,779
Foreign exchange	(21,816)	(1,900)
	<u> </u>	<u> </u>
At 31 December	63,255	394
	<u> </u>	<u> </u>

15 Reconciliation of movement in shareholders' funds

	1998	1997
	£	£
Opening shareholders' funds	494	(49,385)
Foreign exchange	(21,816)	(1,900)
Retained profit for the period	84,677	51,779
	<u> </u>	<u> </u>
Closing shareholders' funds	63,355	494
	<u> </u>	<u> </u>

16 FRS8: related party disclosures

As a greater than 90% subsidiary of the Peninsular and Oriental Steam Navigation Company, the company has taken advantage of the exemption under Financial Reporting Standard No.8 (Related Party Disclosure) not to provide information on related party transactions with undertakings within The Peninsular and Oriental Steam Navigation Group.

Note 17 gives details of how to obtain a copy of the published financial statements of the Peninsular and Oriental Steam Navigation Company.

Notes *(continued)*

17 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company's ultimate parent undertaking is The Peninsular and Oriental Steam Navigation Company incorporated in England and Wales, which heads the only group in which the results of the company are consolidated.

Copies of the financial statements of the immediate and ultimate parent undertaking may be obtained from The Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3HZ.