

TAYLOR WOODROW CONSTRUCTION LIMITED

Report and Financial Statements

31 December 2005



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TAYLOR WOODROW CONSTRUCTION LIMITED

REPORT AND FINANCIAL STATEMENTS 2005

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TAYLOR WOODROW CONSTRUCTION LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITY, REVIEW OF BUSINESS AND FUTURE PROSPECTS

The principal activity of Taylor Woodrow Construction Limited and its subsidiaries ("the Group") continues to be construction and facilities management in the UK and overseas.

Our objective is to be recognised as a leading provider of business solutions, delivering a range of innovative, high quality services related to creating, enhancing and maintaining capital assets. The services provided to our customers include engineering and technology consultancy, capital project delivery, facilities management, corporate asset management, project financing and Private Finance Initiative (PFI) and programme management.

Our business philosophy is designed around the provision of a quality service to our customers that will meet their business objectives. This philosophy gave rise to the company and several employees being recognised in the industry by winning a number of prestigious awards in 2005 including the Contract Journal's Building Contractor of the Year 2005.

Safety is of the highest priority for the company and we continue to seek ways to improve the safety of our operations. Our commitment to excellence in safety was recognised by our winning gold and silver awards at the RoSPA Occupational Health & Safety Annual Awards in 2005.

We continue to develop broader and more integrated relationships with suppliers and consultants and are beginning to see competitive advantages as a result of our investment into Supply Chain development.

Measurement is key to continuous improvement but foremost amongst a range of metrics used throughout our activities is the continued use of the European Foundation's Quality Measurement as the overall test of our business improvement. This allows us to measure our progress against blue chip companies across a wide range of industries throughout Europe.

We enter 2006 with a healthy order book of £792m. In addition the £400m St Helens PFI Hospital scheme reached financial close in the second quarter of 2006.

In general we believe the market will continue to grow across most sectors of our business, although the growth in the public sector may slow a little in 2007. This could nevertheless be partially offset, as expenditure on the Olympic facilities begin, as well as by an upturn in a few areas of the private sector. There has been considerable "Olympic" activity in the market place following London's successful bid for the 2012 games. We are following developments in a number of areas associated with the Games so as to be positioned and able to take advantage of opportunities as they arise.

UK Construction

We continue to grow our operations in the external market, developing strong relationships with a number of blue chip customers including BAA, Tesco, RAC, Crosby Homes, Crest Nicholson, Cala Homes, Tube Lines, Siemens, London Underground, Educational Trusts and NHS Estates. Repeat order business represents 70% of our order book.

The company has a key role to play within the Taylor Woodrow Group. We continue to work very closely with Taylor Woodrow Developments to deliver mixed – use and complex residential schemes throughout the UK.

In particular, construction of K2, the prestigious Richard Rogers designed office development adjacent to Tower Bridge, London was completed in the year for Taylor Woodrow Developments.

Our strong relationship with Tesco continues with a number of store completions and new stores started in the year.

A particular highlight for the company in 2005 was the completion of the construction of the new grandstand at The Oval for Surrey County Cricket Club in time for the England versus Australia Ashes test match.

Another notable achievement in 2005 was the successful completion of the National Assembly for Wales building on Cardiff Bay.

TAYLOR WOODROW CONSTRUCTION LIMITED

DIRECTORS' REPORT (CONTINUED)

UK Construction (continued)

Our infrastructure activity continues to flourish with a number of new projects secured in 2005 that will supplement our ongoing activity on the Kings Cross Station redevelopment and the completion of the Wembley Park Station redevelopment. We are delighted to have been appointed as Programme Manager on the Crossrail project for London Underground as well as leading their feasibility study on "Step Free access" to all stations across the underground network.

In addition, in infrastructure we continued our longstanding relationship with BAA and secured further new work at both Gatwick and Heathrow Airports. During the year we were also successful in winning the contract to construct five Liquefied Natural Gas tanks for CB&I in South Hook, near Milford Haven, a major civil engineering contract due for completion in 2008.

The Nuclear Sector continues to be a good source of growth potential with work being undertaken for BNFL Magnox Electric, British Energy and UKAEA.

In the Education sector our focus on the 'City Academy' programme has paid dividends with the commencement of two new academies in 2005 as well as completion of the West London Academy in Ealing which opened for the start of the 2005/06 school year.

Our commercial and residential expertise has given rise to regular repeat orders for Crosby Homes, Crest Nicholson and Cala Homes.

Following the successful appointment as preferred bidder on the St Helens PFI Hospital project, construction commenced in 2005 on the advanced works for the scheme and financial close was achieved in the second quarter of 2006.

We continue to pursue PFI opportunities in the new hospital sector and have also commenced bidding activity for the Government's 'Building Schools for the Future' programme.

In the Health Sector the company is a principal, supply chain partner within the NHS Estates Procure 21 programme as a framework partner to carry out significant improvements and redevelopment for NHS Trust.

Facilities Management ("FM")

Our FM business continues to expand, achieving further turnover growth in 2005 and we enter 2006 with a FM order book of £369m representing 47% of the total business order book.

During 2005 our FM division continued to focus its business on working with multi-location blue chip customers. The business has a number of significant long term commissions for blue chip customers including Texaco, RAC plc, LA Fitness, ICI Dulux, Syngenta and Symbol Technologies.

In the year we were awarded a number of new facilities management contracts including commissions for Matalan plc, the Highways Agency and Pizza Express.

Following the successful delivery of FM services for Shell and Texaco, in 2005 we expanded further in this sector with the award of the service station FM for Total in the UK.

Expansion across Europe is an important part of our FM growth strategy, and our current operation in the Benelux countries continues to grow.

We have targeted a number of opportunities in the Local Authority "Decent Homes" programme and in the year successfully received our first award when appointed to Sandwell Metropolitan Council's contractors framework to upgrade their housing portfolio over the next five years.

International Contracting

We had a strong performance in Ghana in 2005, building on our 50 year history and relationships in the country. Contracts in the region include a number of projects for the Department of Urban Roads, a large mining contract for Anglo Ashanti at Iduapriem and further works for the Church of Jesus Christ and the Latter Day Saints.

Our activities in Ghana include a number of small and exclusive residential developments. In 2005 we completed our fourth successful development and commenced the construction of two new schemes.

TAYLOR WOODROW CONSTRUCTION LIMITED

DIRECTORS' REPORT (CONTINUED)

Engineering & Technology

Our Engineering & Technology Division's activities continue to deliver expertise to our customers as well as demonstrating our long term commitment to research and development in the construction industry, where Taylor Woodrow Construction is a market leader.

Widespread support is being provided to all the Taylor Woodrow Group's residential and commercial development businesses as well as to the construction company. Key areas of activity are sustainability, environmental impact, advice on materials and methods of construction as well as knowledge management.

Of particular note is our expertise in Cathodic Protection for buildings and in 2005 we successfully completed the installation of an extensive cathodic protection system to the Grosvenor House Hotel in London.

Our technology centre at Leighton Buzzard is the focal point of excellence for all our engineering and research & development activities. The facilities include the largest cladding test facility in the UK that is widely used for product testing by a range of customers and consultants.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the profit and loss account on page 8 with a profit after tax in the year of £468,000 (2004: restated profit after tax of £17,451,000). No interim dividend was paid during the year by the directors (2004: £8,000,000). The directors recommend that no final dividend is paid in respect of the year ended 31 December 2005 (2004: £nil). Prior year figures have been restated following adoption of FRS20 "Share Based Payments". The directors have taken full provision against four non-performing contracts in the United Kingdom during the year.

DIRECTORS AND THEIR INTERESTS

Messrs A.O. Bickerstaff, T. Peach, C.A. Rowell, G. Slack and D.E. Weston were directors for the whole of the financial year. Messrs A. Wyllie and D.J.A. MacDaid resigned as directors on 25 April 2005 and 30 June 2005 respectively.

Mr A.O. Bickerstaff resigned as a director on 9 March 2006. Mr B.J. Morahan was appointed a director on 1 April 2006.

No directors held any interest in the company's shares.

The directors' interests in shares of the ultimate parent company, Taylor Woodrow plc, at 31 December 2005 were as follows:

Taylor Woodrow plc				
Ordinary shares of 25p each				
	2005		2004	
A.O. Bickerstaff	20,377	a)	19,509	b)
T. Peach	1,852	c)	1,082	d)
C.A. Rowell	4,117		759	
G. Slack	4,579		2,333	
D.E. Weston	5,391	e)	2,917	b)

- a) Includes 2,118 shares held by Halifax Corporate Trustee Ltd under the Taylor Woodrow Share Purchase Plan.
- b) Includes 1,250 shares held by Halifax Corporate Trustee Ltd under the Taylor Woodrow Share Purchase Plan.
- c) Includes 852 shares held by Halifax Corporate Trustee Ltd under the Taylor Woodrow Share Purchase Plan.
- d) Includes 82 shares held by Halifax Corporate Trustee Ltd under the Taylor Woodrow Share Purchase Plan.
- e) Includes 2,120 shares held by Halifax Corporate Trustee Ltd under the Taylor Woodrow Share Purchase Plan.

TAYLOR WOODROW CONSTRUCTION LIMITED

DIRECTORS' REPORT (CONTINUED)

DIRECTORS AND THEIR INTERESTS (CONTINUED)

In addition, the directors held options to acquire the following shares:

	Taylor Woodrow plc			
	Ordinary shares of 25p each			
	<u>At 1</u> <u>January 2005</u>	<u>Granted</u> <u>during 2005</u>	<u>Exercised</u> <u>during 2005</u>	<u>At 31</u> <u>December 2005</u>
A.O. Bickerstaff	158,577	20,678	68,268	110,987
T. Peach	148,098	46,694	65,555	129,237
C.A. Rowell	86,304	19,120	15,000	90,424
G. Slack	144,176	24,356	68,095	100,437
D.E. Weston	140,942	22,136	70,595	92,483

At 31 December 2005, each director had a notional interest in 4,952,480 25p ordinary shares of Taylor Woodrow plc, being unappropriated ordinary shares held by the trustee of the Taylor Woodrow Group ESOP Trust in connection with the Taylor Woodrow Executive Share Option Plan and the Executive Bonus Plan; by the trustee of the Taylor Woodrow 2004 Benefit Trust, by the trustee of the Wilson Connolly Employee Share Trust in connection with the Wilson Connolly Incentive Share Plan and the trustee of the Wilson Connolly QUEST in connection with the Wilson Connolly Savings-Related Share Option Scheme.

During the financial year third party indemnity provisions were in force for the benefit of all the directors of the company. Such provisions had been made by the ultimate parent company, Taylor Woodrow plc.

DIRECTORS' INTERESTS IN CONTRACTS

No director has an interest in any contract or arrangement of a material nature with the company, its subsidiaries, its fellow subsidiaries or its ultimate parent company during the year under review.

CHARITABLE DONATIONS

During the year Group companies donated £2,750 (2004: £1,810) to various charities in the UK.

RESEARCH AND DEVELOPMENT

The Group has an active programme of research and development in the fields of construction and facilities management.

DISABLED PERSONS

The company's policy is to give fair consideration to the employment of disabled persons having regard for their particular aptitude and ability. If an existing employee becomes disabled, every effort is made to ensure continuity of employment and that appropriate training is given.

EMPLOYEE INVOLVEMENT

The company maintains a long-established practice of providing employees with information concerning the activities of the Taylor Woodrow Group of companies through the medium of formal employee consultation and by regularly publishing information and other material on matters affecting the performance of the company. During the year opportunities have been given for employees to participate in certain share option schemes operated by Taylor Woodrow plc.

TAYLOR WOODROW CONSTRUCTION LIMITED

DIRECTORS' REPORT (CONTINUED)

EQUAL OPPORTUNITIES

The company is an equal opportunities employer and is therefore committed to the training and personal development of its employees, regardless of age, ethnic background, gender or disability. The progression of all employees within the Group is determined solely on the basis of personal merit, effective performance and business requirements.

POLICY ON PAYMENT OF SUPPLIERS

It is Group policy in respect of suppliers for Group subsidiaries to settle the terms of payment when agreeing the basis of each transaction or series of linked transactions, to make suppliers aware of the terms of payment and in the absence of dispute and upon receipt of a valid request, for payments to be made as expeditiously as possible within such terms.

Trade creditor days for the company for the year ended 31 December 2005 were 57 days (2004 – 53 days), based on the ratio of trade creditors (excluding sub contract retentions and claims of £12,833,899 (2004: £13,109,629)) at the end of the year to the amounts invoiced during the year by trade creditors.

AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



M.A. Lonnon
Secretary
2 August 2006

TAYLOR WOODROW CONSTRUCTION LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 the group as at the end of the financial year and of the profit or loss of the group 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
TAYLOR WOODROW CONSTRUCTION LIMITED**

We have audited the group and individual company financial statements (the "financial statements") of Taylor Woodrow Construction Limited for the year ended 31 December 2005 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated statement of historical cost profits and losses, the consolidated and individual company balance sheets and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework 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 other transactions is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the individual company's affairs as at 31 December 2005 and of the group's loss for the year then ended; and
- ☐ the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
United Kingdom

2 August 2006

TAYLOR WOODROW CONSTRUCTION LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 £000	2004 as restated (note 2) £000
TURNOVER:			
Group and share of joint ventures			
– continuing operations		573,749	545,222
– discontinued operations		(94)	13
Less: share of joint ventures		(4,813)	(1,834)
Group turnover	1,3	568,842	543,401
Cost of sales	3	(545,610)	(510,396)
Gross profit	3	23,232	33,005
Administrative expenses	3	(31,134)	(27,518)
OPERATING (LOSS)/PROFIT			
Continuing operations		(7,902)	5,453
Discontinued operations		-	34
Group operating (loss)/profit	3,4	(7,902)	5,487
Share of operating profit in joint ventures		71	-
		(7,831)	5,487
Income from other fixed asset investments		174	127
Profit on disposal of joint ventures and trade investments		874	8,135
Profit on disposal of investments and fixed assets		146	269
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		(6,637)	14,018
Interest receivable - Group		6,722	6,366
- External		988	1,131
Interest payable	5	(1,319)	(1,155)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1,3	(246)	20,360
Tax credit/(charge) on (loss)/profit on ordinary activities	7	714	(2,909)
PROFIT FOR THE FINANCIAL YEAR	23	468	17,451
Equity dividends paid of nil pence per share (2004 12.5 pence per share)		-	(8,000)
PROFIT RETAINED	22	468	9,451

TAYLOR WOODROW CONSTRUCTION LIMITED

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 £000	2004 as restated (note 2) £000
Profit for the financial year	468	17,451
Currency translation differences on foreign currency net investments	(59)	(27)
Total recognised gains and losses relating to the year	409	17,424
Prior year share purchase adjustments (see note 2)	(297)	
Total gains and losses recognised since last annual report	112	

CONSOLIDATED STATEMENT OF HISTORICAL COST PROFITS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 £000	2004 as restated (note 2) £000
Reported (loss)/profit and historical cost (loss)/profit on ordinary activities before taxation	(246)	20,360
Realisation of property revaluation gains of previous years	172	-
Historical cost (loss)/profit on ordinary activities before taxation	(74)	20,360
Historical cost profit for the year retained after taxation and dividends	640	9,451

TAYLOR WOODROW CONSTRUCTION LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2005

	Notes	2005 £000	2004 as restated (note 2) £000
FIXED ASSETS			
Tangible assets	8	19,463	19,817
Investments			
Joint ventures			
Share of gross assets	12	197	18,053
Share of gross liabilities	12	(197)	(18,053)
		-	-
Other fixed asset investments	13	3,373	3,422
		<u>22,836</u>	<u>23,239</u>
CURRENT ASSETS			
Stocks	14	6,348	3,217
Debtors	15	237,721	224,507
Cash at bank and in hand		16,825	19,057
		<u>260,894</u>	<u>246,781</u>
CREDITORS: amounts falling due within one year	17	(159,222)	(146,495)
NET CURRENT ASSETS		<u>101,672</u>	<u>100,286</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		124,508	123,525
CREDITORS: amounts falling due after more than one year	18	(784)	(338)
NET ASSETS		<u><u>123,724</u></u>	<u><u>123,187</u></u>
CAPITAL AND RESERVES			
Called up share capital	20	64,000	64,000
Revaluation reserve	21	86	110
Profit and loss account	22	59,638	59,077
EQUITY SHAREHOLDERS' FUNDS	23	<u><u>123,724</u></u>	<u><u>123,187</u></u>

These financial statements were approved by the Board of Directors on 2 August 2006

Signed on behalf of the Board of Directors

T. Peach
Director



D.E. Weston
Director



TAYLOR WOODROW CONSTRUCTION LIMITED

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2005

	Notes	2005 £000	2004 as restated (note 2) £000
FIXED ASSETS			
Tangible assets	8	8,669	9,545
Investments			
Group undertakings	10	10,120	10,120
Joint ventures	12	-	-
Other fixed asset investments	13	3,373	3,422
		<u>22,162</u>	<u>23,087</u>
CURRENT ASSETS			
Stocks	14	250	338
Debtors	15	238,248	224,429
Cash at bank and in hand		15,535	18,691
		<u>254,033</u>	<u>243,458</u>
CREDITORS: amounts falling due within one year	17	(141,906)	(132,657)
NET CURRENT ASSETS		<u>112,127</u>	<u>110,801</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		134,289	133,888
CREDITORS: amounts falling due after more than one year	18	(10,169)	(9,858)
NET ASSETS		<u>124,120</u>	<u>124,030</u>
CAPITAL AND RESERVES			
Called up share capital	20	64,000	64,000
Revaluation reserve	21	471	643
Profit and loss account	22	59,649	59,387
EQUITY SHAREHOLDERS' FUNDS		<u>124,120</u>	<u>124,030</u>

These financial statements were approved by the Board of Directors on 2 August 2006

Signed on behalf of the Board of Directors

T. Peach
Director



D.E. Weston
Director



TAYLOR WOODROW CONSTRUCTION LIMITED

NOTES TO THE ACCOUNTS

1. ACCOUNTING DEFINITIONS AND POLICIES

The following accounting definitions and policies have been applied consistently in the current and prior year except as stated in Note 2.

Basis of the accounts

The accounts are prepared in accordance with applicable United Kingdom law and accounting standards under the historical cost convention modified to include the revaluation of certain properties.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiary undertakings and include the Group's share of the results and post-acquisition reserves of its joint ventures drawn up to 31 December each year. Goodwill on acquisition of subsidiary undertakings before 1998 has been written off against retained profit in prior years.

The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for using the acquisition method.

Turnover

Turnover comprises the value of contracting work executed during the year and the invoiced value of other sales.

Loss on ordinary activities for the year

The loss for the year includes the result of the year's operations together with residual profits in respect of work done in prior years. Profit on contracts is stated after provision for known losses and contingencies. No credit is taken for claims until the cash is received.

Realised profits or losses on the disposal of tangible assets are included in ordinary profit; such profits are calculated by reference to the carrying value of the asset.

Research and development costs are written off as incurred.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost includes all direct costs and production overheads where appropriate.

Fixed assets

Fixed asset properties, other than short leasehold properties, are valued every three years. Fixed asset short leasehold properties are included at cost. Short leasehold properties are defined as those properties with an unexpired lease term of less than 50 years.

Surpluses on valuations of freehold and long leasehold fixed asset properties are credited to the revaluation reserve, and any deficits below original cost are written off to the profit and loss account. Depreciation is provided, where material, on fixed asset freehold and long leasehold properties on the cost or valuation less estimated residual value so as to write them off over their useful economic lives. Fixed asset short leasehold properties are depreciated over the remaining lives of the leases.

Depreciation on plant is calculated on a straight line basis to write off the cost over the estimated useful lives which range from 1 to 7 years. Provision is made for any impairment.

Tender costs

Tender costs are charged directly to the profit and loss account as they arise. By exception, in accordance with UITF 34, tender costs incurred on Private Finance Initiative contracts after preferred bidder status has been achieved are held as an asset on the balance sheet.

TAYLOR WOODROW CONSTRUCTION LIMITED

NOTES TO THE ACCOUNTS

1. ACCOUNTING DEFINITIONS AND POLICIES (CONTINUED)

Investments

Except as stated below, fixed asset investments are shown at cost less provision for impairment.

Joint ventures

A joint venture is defined as an undertaking other than a subsidiary or associated undertaking in which the Group has a significant influence, and which is jointly controlled by the joint venturers.

The Group's share of the post-acquisition results of joint ventures is shown in the consolidated profit and loss account.

Investments in joint ventures are included in the consolidated balance sheet at cost plus the appropriate share of post acquisition results and reserves as disclosed in the latest balance sheets, and in the parent company's balance sheet at cost less the Group's share of any post-acquisition losses and provisions for any further permanent diminution in value.

Group undertakings

Investments in group undertakings are included in the parent company's balance sheet at cost less provision for any further impairment in value.

Current asset investments

Current asset investments are stated at the lower of cost and net realisable value.

Overseas currencies

Exchange differences arising in the ordinary course of trading are reflected in the profit and loss account. Exchange differences have been included in Interest payable in 2005 (previously included in Cost of Sales). The prior year comparatives have been reclassified to aid comparability.

Profit and loss accounts of overseas subsidiaries, joint ventures and overseas branches are translated into sterling at average rates. Assets and liabilities are translated at exchange rates ruling at the balance sheet date.

Exchange differences on post-acquisition profits in overseas currencies are taken to the retained profit and loss account.

Unrealised exchange differences on share capital, revaluation reserve, pre-acquisition retained profit and loss account and inter-company long term loans are taken to revaluation reserve without provision for taxation.

Pensions

The United Kingdom companies are members of the Taylor Woodrow Group Pension and Life Assurance Fund (TWGP&LAF), which is operated through separate trustee administered funds; it includes the Bryant Group Pension Scheme (BGPS) which was merged with it on 24 June 2002. It also includes the Wilson Connolly Holdings Pension Scheme (WCHPS), the Wainhomes Ltd Pension Scheme (WHLPS), and the Prestoplan Pension Scheme (PPS), which merged with it on 27 August 2004.

This scheme is of the defined benefit type and the company charges to the profit and loss account its proportion of the Group costs which are assessed in accordance with the advice of a professionally qualified actuary. The company is unable to identify its share of the underlying assets and liabilities of the scheme.

The most recent formal actuarial valuation of the TWGP&LAF was carried out at 1 June 2004, and updated to 1 September 2004 to take account of subsequent mergers. This disclosed that the market value of the scheme's assets at that date was £563,300,000 and that the value of the assets was sufficient to cover 90% of the benefits that had accrued to members after allowing for expected future increases in earnings. The actuaries to the scheme calculated the long term funding rate to be 16.0% of pensionable earnings.

Further particulars of the schemes are contained in the accounts of Taylor Woodrow plc. These disclose that, on the basis prescribed by FRS17, which does not have any impact on the basis of funding, the deficit of the UK scheme at 31 December 2005 was £216,900,000.

For overseas companies, any contributions are charged to profit and loss so that the expected costs of providing pensions are recognised during the period of team members' service.

TAYLOR WOODROW CONSTRUCTION LIMITED

NOTES TO THE ACCOUNTS

1. ACCOUNTING DEFINITIONS AND POLICIES (CONTINUED)

Operating Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis.

Post retirement benefits other than pensions

The Group's future contribution to the cost of health insurance for retired long service UK employees has been accrued in the accounts of Taylor Woodrow Developments Limited, who now pay the premiums in respect of this insurance on behalf of the Group. The balance of the accrual, charged to the profit and loss account of Group companies in prior years, was transferred to Taylor Woodrow Developments Limited from Taylor Woodrow plc on 31 October 2002. Details of UK post-retirement health insurance is contained in the accounts of Taylor Woodrow Developments Limited and Taylor Woodrow plc.

Taxation

Current tax, including United Kingdom corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

The potential liability to taxation on the surpluses on valuations of properties is not provided for in these accounts.

Share-based payments

The company has applied the requirements of FRS20 "Share-based payments". The company issues equity settled share - based payments to certain employees. Equity settled share based - payments are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest.

2. RESTATEMENT OF COMPARATIVES

Following the early adoption of FRS20 "Share based payments", options granted to certain employees, to acquire shares in Taylor Woodrow plc, that have been granted by the company are measured at fair value at the date of the grant. The fair value is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest. In accordance with the transitional provisions, FRS20 has been applied to all grants of equity instruments after 7 November that were unvested as of 1 January 2005.

The adoption of FRS20 led to a decrease of £297,000 in retained profits for the year to 31 December 2004 and had no impact on net assets at 31 December 2004. The effect of the prior year adjustment on the current year has been a decrease of £1,133,000 in retained profit.

The adoption of FRS20 has resulted in an increase of administrative expenses in the prior year of £137,000. Under FRS20 the related credits are held in equity until settlement. Accordingly the net assets at 31 December 2004 have increased by £500,000 following reclassification of a related amount previously held within creditors.

TAYLOR WOODROW CONSTRUCTION LIMITED

NOTES TO THE ACCOUNTS

3. SEGMENTAL ANALYSIS

	2005 £000	2004 £000
TURNOVER		
By Activity		
Construction	568,842	543,401
By Market		
Australasia	-	3
Asia Pacific	213	590
Africa	42,887	37,088
Europe and Rest of the World	7,552	9,648
Total overseas	50,652	47,329
United Kingdom	518,190	496,072
	568,842	543,401
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		
By Activity		
Construction	(246)	20,360

ANALYSIS OF CONTINUING AND DISCONTINUED OPERATIONS

	2005 Continuing £000	2005 Dis- continued £000	2005 Total £000	2004 as restated (note 2) Continuing £000	2004 Dis- continued £000	2004 as restated (note 2) Total £000
Turnover	568,936	(94)	568,842	543,388	13	543,401
Cost of sales	(545,789)	179	(545,610)	(510,490)	94	(510,396)
Gross profit	23,147	85	23,232	32,898	107	33,005
Administrative Expenses	(31,049)	(85)	(31,134)	(27,445)	(73)	(27,518)
Operating (loss)/profit	(7,902)	-	(7,902)	5,453	34	5,487

4. GROUP OPERATING (LOSS)/PROFIT

	2005 £000	2004 £000
Group operating (loss)/profit is after charging:		
Depreciation of plant	3,635	3,486
Depreciation of short leasehold properties	111	107
Research and development	358	68
Plant hire	9,948	9,178
Rentals under operating leases:		
- Hire of plant and machinery	2,263	2,252
- Other operating leases	1,167	786
Auditors' remuneration for audit services – Group	108	120
Auditors' remuneration for audit services – Company	90	95
Auditors' remuneration for non-audit services - Company		
- Overseas tax services	-	1
- Overseas corporate advice	9	24
- Other	8	1

TAYLOR WOODROW CONSTRUCTION LIMITED

NOTES TO THE ACCOUNTS

5. INTEREST PAYABLE

	2005 £000	2004 £000
Bank loans and overdrafts	1,244	985
Foreign currency exchange	75	170
	<u>1,319</u>	<u>1,155</u>

The Group's share of joint venture net interest payable is £nil (2004 - £nil).

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The costs of directors, employed by another Group company, have been charged in respect of services rendered in their capacity as directors of the company as follows:

	2005 £000	2004 £000
Directors' emoluments		
Aggregate emoluments	<u>994</u>	<u>1,299</u>
Highest paid director	<u>241</u>	<u>397</u>
Accrued pension of the highest paid director at the year end	<u>62</u>	<u>76</u>

	No	No
Number of directors who exercised share options in the year	<u>7</u>	<u>6</u>

The highest paid director exercised share options during the year, and the preceding year.

	No	No
Number of directors who accrued retirement benefits under a defined benefit pension scheme	<u>6</u>	<u>6</u>

The following average numbers of employees, employed by another Group company, have rendered services to the group:

	Group 2005 No	2004 No	Company 2005 No	2004 No
Average number of persons employed (including directors)				
United Kingdom	1,497	1,592	1,497	1,592
Overseas	<u>2,529</u>	<u>1,882</u>	<u>5</u>	<u>13</u>
	<u>4,026</u>	<u>3,474</u>	<u>1,502</u>	<u>1,605</u>

The costs of employees, employed by another Group company, charged to the group are as follows:

	Group 2005 £000	2004 £000	Company 2005 £000	2004 £000
Staff costs during the year (including directors)				
Wages and salaries	64,070	62,413	58,710	57,700
Social security costs	6,150	6,223	5,884	6,040
Pension costs	<u>6,273</u>	<u>7,302</u>	<u>6,044</u>	<u>7,099</u>
	<u>76,493</u>	<u>75,938</u>	<u>70,638</u>	<u>70,839</u>

All employees charged to the Group are involved in the one principal activity of the Group, being construction and facilities management.

TAYLOR WOODROW CONSTRUCTION LIMITED

NOTES TO THE ACCOUNTS

7. TAX (CREDIT)/CHARGE ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	2005 £000	2004 £000
Current Taxation		
United Kingdom corporation tax:		
Current tax on income for the year at 30% (2004 - 30%)	385	2,642
Relief for overseas tax	(981)	(1,267)
Over provision in respect of prior years	(1,253)	(959)
Overseas tax suffered:		
Overseas tax charge for the year	974	1,965
Under provision in respect of prior years	47	8
Total current taxation	(828)	2,389
Deferred taxation		
Origination and reversal of timing differences	(92)	843
Under/(over) provision in respect of prior years	206	(323)
Tax on (loss)/profit on ordinary activities	(714)	2,909
The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% (2004- 30%). The actual tax charge of the current and the previous year differs from the standard rate for the reasons set out in the following reconciliation:		2004 as restated (note 2)
	2005 £000	£000
(Loss)/profit on ordinary activities before tax	(246)	20,360
Tax (credit)/charge on (loss)/profit on ordinary activities before tax at standard rate	(74)	6,108
Factors affecting charge for the year:		
Over provision in respect of prior years	(1,199)	(951)
Permanent disallowables	419	315
Non taxable income	(730)	(204)
Overseas income receivable	1,404	1,267
Double tax relief for overseas tax	(981)	(1,267)
Higher rates of tax on overseas earnings	10	222
Overseas withholding tax suffered	300	477
Utilisation of brought forward capital losses	-	(2,464)
Depreciation for the period in excess of capital allowances	46	15
Short term timing differences	(63)	(1,130)
Tax trading losses brought forward	40	1
Current tax (credit)/charge for the year	(828)	2,389

TAYLOR WOODROW CONSTRUCTION LIMITED

NOTES TO THE ACCOUNTS

8. TANGIBLE FIXED ASSETS

	Freehold £000	Properties Long Leasehold £000	Short Leasehold £000	Plant £000	Total £000
GROUP					
Cost or valuation					
At 1 January 2005	7,455	10	3,019	42,124	52,608
Changes in exchange rates	-	-	-	11	11
Additions	-	-	47	3,712	3,759
Disposals	(279)	-	(100)	(1,158)	(1,537)
At 31 December 2005	<u>7,176</u>	<u>10</u>	<u>2,966</u>	<u>44,689</u>	<u>54,841</u>
Representing					
Properties valued -cost	9,278	8	-	-	9,286
-net (deficit)/surplus	<u>(2,102)</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>(2,100)</u>
Valuation	7,176	10	-	-	7,186
Others not valued-cost	-	-	2,966	44,689	47,655
	<u>7,176</u>	<u>10</u>	<u>2,966</u>	<u>44,689</u>	<u>54,841</u>
Depreciation					
At 1 January 2005	-	-	726	32,065	32,791
Changes in exchange rates	-	-	-	11	11
Disposals	-	-	(13)	(1,157)	(1,170)
Charge for year	-	-	111	3,635	3,746
At 31 December 2005	<u>-</u>	<u>-</u>	<u>824</u>	<u>34,554</u>	<u>35,378</u>
Net book value					
31 December 2005	<u>7,176</u>	<u>10</u>	<u>2,142</u>	<u>10,135</u>	<u>19,463</u>
31 December 2004	<u>7,455</u>	<u>10</u>	<u>2,293</u>	<u>10,059</u>	<u>19,817</u>

TAYLOR WOODROW CONSTRUCTION LIMITED

NOTES TO THE ACCOUNTS

8. TANGIBLE FIXED ASSETS – (CONTINUED)

	Freehold £000	Properties Long Leasehold £000	Plant £000	Total £000
COMPANY				
Cost or valuation				
At 1 January 2005	7,455	10	6,000	13,465
Additions	-	-	227	227
Disposals	(279)	-	(938)	(1,217)
At 31 December 2005	<u>7,176</u>	<u>10</u>	<u>5,289</u>	<u>12,475</u>
Representing				
Properties valued -cost	9,278	8	-	9,286
-net (deficit)/surplus	(2,102)	2	-	(2,100)
Valuation	7,176	10	-	7,186
Others not valued-cost	-	-	5,289	5,289
	<u>7,176</u>	<u>10</u>	<u>5,289</u>	<u>12,475</u>
Depreciation				
At 1 January 2005	-	-	3,920	3,920
Disposals	-	-	(938)	(938)
Charge for year	-	-	824	824
At 31 December 2005	<u>-</u>	<u>-</u>	<u>3,806</u>	<u>3,806</u>
Net book value				
31 December 2005	<u>7,176</u>	<u>10</u>	<u>1,483</u>	<u>8,669</u>
31 December 2004	<u>7,455</u>	<u>10</u>	<u>2,080</u>	<u>9,545</u>

9. VALUATION OF PROPERTIES

The fixed asset properties of the company were valued at £7,465,000 as at 31 December 2003 by Knight Frank LLP, external Chartered Surveyors, on an existing use value basis in accordance with the Appraisal and Valuation Standards (5th Edition) of the Royal Institution of Chartered Surveyors.

The directors have reviewed the carrying value of the assets at the current year end and have not identified any material changes to circumstances or to any valuation assumptions which would materially affect the values.

TAYLOR WOODROW CONSTRUCTION LIMITED

NOTES TO THE ACCOUNTS

10. INVESTMENTS IN GROUP UNDERTAKINGS

COMPANY	Shares unlisted £000
Cost	
At 1 January 2005	23,119
Disposals	(148)
	<hr/>
At 31 December 2005	22,971
	<hr/>
Amounts provided	
At 1 January 2005	12,999
Applied in the year	(148)
	<hr/>
At 31 December 2005	12,851
	<hr/>
Net book value	
At 31 December 2005	10,120
	<hr/>
At 31 December 2004	10,120
	<hr/>

11. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Principal subsidiaries	Country of incorporation and principal operations	Proportion of ordinary shares held %
Taysec Construction Limited	Ghana	100

The principal activity of all subsidiaries is construction.

TAYLOR WOODROW CONSTRUCTION LIMITED

NOTES TO THE ACCOUNTS

12. INVESTMENTS IN JOINT VENTURES

	Group Shares unlisted £000	Company Shares unlisted £000
Cost and share of reserves		
At 1 January 2005	31	-
	<u>31</u>	<u>-</u>
At 31 December 2005	31	-
	<u>31</u>	<u>-</u>
Amounts provided		
At 1 January 2005	31	-
	<u>31</u>	<u>-</u>
At 31 December 2005	31	-
	<u>31</u>	<u>-</u>
Net book value		
At 31 December 2005	-	-
	<u>-</u>	<u>-</u>
At 31 December 2004	-	-
	<u>-</u>	<u>-</u>

The Group holds interests in the following principal joint venture:

	Country of incorporation and principal operations	Percentage of ordinary share capital	Percentage of preference share capital	Nature of Business
Taylor Woodrow-Towell Co LLC*	Oman	50.00%	N/A	Construction

* Interest held by a subsidiary undertaking.

The company disposed of its interest in Grand Union Vision Limited on 16 August 2005. The profit on this disposal can be seen on the face of the consolidated profit and loss account.

The undertaking listed above is accounted for as a joint venture on the basis that Taylor Woodrow Construction has joint management control.

TAYLOR WOODROW CONSTRUCTION LIMITED

NOTES TO THE ACCOUNTS

12. INVESTMENTS IN JOINT VENTURES (CONTINUED)

Additional disclosures for joint ventures

	£000	2005 £000	£000	2004 £000
Share of assets				
Share of fixed assets	-		-	
Share of current assets	197		18,053	
		-		18,053
Share of liabilities				
Liabilities due within one year	(197)		(18,053)	
Liabilities due after more than one year	-		-	
		-		(18,053)
Share of net assets		-		-

13. OTHER FIXED ASSET INVESTMENTS

	Group			Company		
	Shares unlisted £000	Loans £000	Total £000	Shares unlisted £000	Loans £000	Total £000
Cost						
At 1 January 2005	324	3,765	4,089	324	3,765	4,089
Additions	12	-	12	12	-	12
Disposals	-	(61)	(61)	-	(61)	(61)
At 31 December 2005	336	3,704	4,040	336	3,704	4,040
Amounts provided						
At 1 January 2005	-	667	667	-	667	667
At 31 December 2005	-	667	667	-	667	667
Net book value						
At 31 December 2005	336	3,037	3,373	336	3,037	3,373
At 31 December 2004	324	3,098	3,422	324	3,098	3,422

Included in the above the following loans have been made:

United Healthcare (Bromley) Group Limited	£1,866,904 (2004 - £1,928,060)
United Healthcare (South Buckinghamshire Group) Limited	£1,170,120 (2004 - £1,170,120)

TAYLOR WOODROW CONSTRUCTION LIMITED

NOTES TO THE ACCOUNTS

14. STOCKS

	2005 £000	Group 2004 £000	2005 £000	Company 2004 £000
Raw materials and consumables	812	642	-	-
Finished goods and goods for resale	-	88	-	88
Land, development costs and construction thereon	5,536	2,487	250	250
	<u>6,348</u>	<u>3,217</u>	<u>250</u>	<u>338</u>

15. DEBTORS

	2005 £000	Group 2004 £000	2005 £000	Company 2004 £000
Receivable within one year				
Trade debtors	41	52	41	52
Amounts recoverable on contracts	45,619	48,905	37,742	43,942
Amounts owed by group undertakings	155,079	153,378	166,200	160,030
Taxation on profits	2,074	806	1,895	741
Deferred taxation (note 16)	3,671	3,785	4,397	4,504
Other debtors	30,211	16,354	27,059	14,042
Prepayments and accrued income	914	972	914	863
Receivable after one year				
Prepayments and accrued income	112	255	-	255
	<u>237,721</u>	<u>224,507</u>	<u>238,248</u>	<u>224,429</u>

16. DEFERRED TAXATION

	Group £000	Company £000
Balance at 1 January 2005	3,785	4,504
Current year movement	(114)	(107)
Balance at 31 December 2005	<u>3,671</u>	<u>4,397</u>

The amount of deferred tax asset recognised in the financial statements comprises:

	2005 £000	Group 2004 £000	2005 £000	Company 2004 £000
Depreciation in excess of capital allowances	245	439	986	1,183
Short term timing differences	3,426	3,346	3,411	3,321
	<u>3,671</u>	<u>3,785</u>	<u>4,397</u>	<u>4,504</u>

TAYLOR WOODROW CONSTRUCTION LIMITED

NOTES TO THE ACCOUNTS

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £000	Group 2004 as restated (note 2) £000	2005 £000	Company 2004 as restated (note 2) £000
Bank loans and overdrafts (note 19)	4,634	3,513	-	-
Payments received on account	24,493	24,202	22,057	20,793
Trade creditors	92,313	83,566	92,264	83,508
Amounts owed to group undertakings	642	1,293	1,538	3,068
Amounts owed to joint ventures	366	951	345	413
Other taxation and social security	182	137	110	79
Other creditors	9,296	6,407	1,453	1,590
Accruals and deferred income	27,296	26,426	24,139	23,206
	<u>159,222</u>	<u>146,495</u>	<u>141,906</u>	<u>132,657</u>

18. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2005 £000	Group 2004 £000	2005 £000	Company 2004 £000
Bank loans and overdrafts (note 19)	735	289	-	-
Amounts owed to group undertakings	49	49	10,169	9,858
	<u>784</u>	<u>338</u>	<u>10,169</u>	<u>9,858</u>

19. BANK LOANS AND OVERDRAFTS

	Group 2005 £000	Group 2004 £000
Secured at rates from 11.25% to 21.5% (2004 – 11.25% to 25.49%)	<u>5,369</u>	<u>3,802</u>
Repayable: -		
Up to one year	4,634	3,513
Between two and five years	735	289
	<u>5,369</u>	<u>3,802</u>

The security for the secured bank loans and overdrafts is assets of Group undertakings.

20. CALLED UP SHARE CAPITAL

	2005 £000	2004 £000
Authorised:		
100,000,000 (2004: 100,000,000) ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
Called up, allotted and fully paid:		
64,000,000 (2004: 64,000,000) ordinary shares of £1 each	<u>64,000</u>	<u>64,000</u>

TAYLOR WOODROW CONSTRUCTION LIMITED

NOTES TO THE ACCOUNTS

21. REVALUATION RESERVE

	Group £000	Company £000
At 1 January 2005	110	643
Exchange differences	148	-
Transfer of realised revaluation reserve	(172)	(172)
At 31 December 2005	<u>86</u>	<u>471</u>

22. PROFIT AND LOSS ACCOUNT

	Group £000	Company £000
At 1 January 2005 as previously reported	58,577	58,887
Prior year adjustment (note 2)	500	500
At 1 January 2005 restated	<u>59,077</u>	<u>59,387</u>
Exchange differences	(207)	-
Transfer of realised revaluation reserve	172	172
Share-based payment credit	1,133	1,133
Amount charged by parent company on exercise of share options	(1,005)	(1,005)
Profit/(loss) for the year retained	<u>468</u>	<u>(38)</u>
At 31 December 2005	<u>59,638</u>	<u>59,649</u>
Comprising:		
The Company	(38)	
Group undertakings	435	
Joint ventures	71	
	<u>468</u>	

As permitted by Section 230 of the Companies Act 1985 the company has not presented its own profit and loss account.

The retained loss of the company for the financial year was £38,000 (2004 –restated profit of £9,168,000).

TAYLOR WOODROW CONSTRUCTION LIMITED

NOTES TO THE ACCOUNTS

23. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Group 2005 £000	Group 2004 as restated (note 2) £000
Profit for the financial year	468	17,451
Dividends	-	(8,000)
	<u>468</u>	<u>9,451</u>
Other recognised gains and losses relating to the year (net)	(59)	(27)
Amount charged by parent company on exercise of share options	(1,005)	-
Share-based payment credit	<u>1,133</u>	<u>637</u>
Net increase in equity shareholders' funds	<u>537</u>	<u>10,061</u>
Opening equity shareholders' funds	122,687	113,126
Prior year adjustment (note 2)	<u>500</u>	<u>-</u>
Opening equity shareholders' funds as restated	123,187	113,126
Closing equity shareholders' funds	<u>123,724</u>	<u>123,187</u>

24. FINANCIAL COMMITMENTS

	Group			
	Land and buildings 2005 £000	Other 2005 £000	Land and buildings 2004 £000	Other 2004 £000
Non cancellable operating lease commitments				
Leases which expire:				
Within one year	18	338	52	117
Within two to five years	267	1,845	97	2,279
After five years	596	-	640	-
	<u>881</u>	<u>2,183</u>	<u>789</u>	<u>2,396</u>
	Company			
	Land and buildings 2005 £000	Other 2005 £000	Land and buildings 2004 £000	Other 2004 £000
Non cancellable operating lease commitments				
Leases which expire:				
Within one year	18	338	52	117
Within two to five years	267	1,845	97	2,279
After five years	596	-	640	-
	<u>881</u>	<u>2,183</u>	<u>789</u>	<u>2,396</u>

NOTES TO THE ACCOUNTS

25. CONTINGENT LIABILITIES

The Group and the parent company have entered into performance bonds and agreements in the normal course of business.

The parent company has given guarantees in respect of Group undertakings and joint ventures of £nil (2004 - £3,739,000).

26. SHARE BASED PAYMENTS

Equity settled share-based payment arrangements in existence during the year are as follows:

Executive share-based reward

The Performance Share Plan

Conditional awards of shares are made to senior employees entitling them to receive shares of Taylor Woodrow plc at no direct cost. Vesting occurs on the third anniversary of the award, provided that the performance criterion is fulfilled. There is a limit for awards under the current Plan Rules of 200% of basic salary per annum.

The plan contains two elements:

Basic awards – which under current policy are restricted to a current maximum of 75% of basic salary; and

Enhanced awards – which under current policy are restricted to a current maximum of 50% of basic salary.

Enhanced awards, introduced in 2005, are made on a discretionary basis to certain individuals.

The vesting criteria for these awards are as follows:

Basic Awards

Taylor Woodrow plc Group Earnings per share (EPS) outperforms the UK Index of Retail Prices (RPI) by 3% per annum compound over three years – 50% of awards vest.

Taylor Woodrow plc Group EPS outperforms the RPI by 6% per annum compound over three years – 100% of awards vest.

A sliding scale will operate on a pro-rata basis for the growth between 3% and 6%.

Enhanced Awards

Median Total Shareholder Return (TSR) performance relative to the sector peer group – nil vesting.

Better than median TSR performance relative to the sector peer group – 40% of the enhanced awards vest.

Upper quartile TSR performance relative to the sector peer group – 100% of the enhanced awards vest.

There will be no re-testing of the performance condition.

Deferred Bonus Plan Matching Award

Certain senior employees have the opportunity of participating in the deferred bonus plan by investing all of their pre-tax bonus in the purchase of shares in Taylor Woodrow plc. If these shares remain undrawn for a period of three years participants will be awarded the same number of shares in Taylor Woodrow plc at no cost, provided that Taylor Woodrow plc Group EPS shall have grown by at least 3% compound in real terms during the three prior financial years.

TAYLOR WOODROW CONSTRUCTION LIMITED

NOTES TO THE ACCOUNTS

26. SHARE BASED PAYMENTS (CONTINUED)

All employees share based reward

Sharesave Plan

All United Kingdom employees with at least three months service can save up to £250 per month and receive three or five year options to acquire Taylor Woodrow plc shares priced at a discount of up to 20% of the market value at the date of the grant.

Share Purchase Plan

All United Kingdom employees with at least three months service are permitted to invest up to £1,500 per annum of their pre-tax earned income in the purchase of partnership shares of Taylor Woodrow plc. Such shares, if held for a period of three years, attract an award of free matching shares. Currently participants receive one free matching share for each partnership share purchased.

The rules for all of the share-based payment arrangements referred to above provide for the early vesting or exercise of share entitlements in the event of a participant's death or cessation of employment because of a change of control, sale of business, disability, redundancy or retirement.

	2005		2004	
	Options & conditional share awards	Weighted average exercise price (in £)	Options & conditional share awards	Weighted average exercise price (in £)
Outstanding at beginning of period	6,971,345	1.66	7,504,545	1.72
Granted during the period	1,131,391	1.15	1,372,404	1.09
Lapsed during the period	(669,857)	(1.67)	(414,240)	(1.55)
Exercised during the period	(1,818,123)	(1.57)	(1,491,364)	(1.45)
Outstanding at the end of the period	<u>5,614,756</u>	1.59	<u>6,971,345</u>	1.67
Exercisable at the end of the period	<u>338,112</u>	1.55	<u>768,473</u>	1.29

The weighted average share price at the date of exercise for share options exercised during the period was £3.17 (2004: £2.61).

The options outstanding at 31 December 2005 had a range of exercise prices from £nil to £2.61 (2004: £nil to £2.465) and a weighted average remaining contractual life of 4.9 years (2004: 6.3 years).

For share options with non-market conditions granted during the current and preceding year the fair value of those options at grant date were determined using the Binomial model. The inputs into that model were as follows.

	2005	2004
Weighted average share price	£3.11	£2.15
Weighted average exercise price	£0.68	£0.68
Expected volatility	32.4%-32.9%	32.4%-33.6%
Expected life	3/5 years	3/5 years
Risk free rate	4.33%-4.36%	4.76%-4.82%
Expected dividend yield	3.6%-3.8%	3.4%-3.5%

The weighted average fair value of share options granted during the year is £2.29 (2004: £1.95).

TAYLOR WOODROW CONSTRUCTION LIMITED

NOTES TO THE ACCOUNTS

26. SHARE BASED PAYMENTS (CONTINUED)

For share options with market conditions granted during the current year, the fair value of these options were determined using the Monte Carlo simulation model. The inputs into that model were as follows.

	2005	2004
Weighted average share price	£3.19	-
Weighted average exercise price	£nil	-
Expected volatility	26%-30%	-
Expected life	3 years	-
Risk free rate	4.2%	-
Expected dividend yield	3.6%	-

The weighted average fair value of share options granted during the year is £1.75 (2004: £nil).

Expected volatility was determined by calculating the historical volatility of the Group's share price over the expected term. The expected life used in the model is based on historic exercise patterns.

The Company recognised total expenses of £1,133,000 (2004 £637,000) related to equity-settled share based payment transactions.

27. RELATED PARTY DISCLOSURE

The company has taken advantage of the exemption contained in FRS8 (Related Party Transactions) which allows it not to disclose transactions with Group entities or investees of the Group qualifying as related parties.

28. PARENT COMPANY

The company's immediate and ultimate parent and controlling company is Taylor Woodrow plc, which is incorporated in Great Britain.

The largest Group of undertakings for which Group accounts are drawn up and of which the company is a member is the Taylor Woodrow plc Group. No other Group accounts are prepared. Copies of the Group accounts referred to above can be obtained from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.