May Gurney (Construction) Limited

Directors' report and financial statements

31 March 1998
Registered number 873179

Directors' report and financial statements

Contents

Directors and officers

Directors

AJ Korn - Chairman
DWE Sterry
MG Duffield
ICA Green
WP Matthews
DE Neale
DR Pask

Secretary

DB Elsey

Registered office

Holland Court
The Close
Norwich

Auditors

KPMG
Chartered Accountants
Norwich

Bankers

Barclays Bank PLC
Bank Plain
Norwich

Directors' report

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

Principal activity

The principal activity of the company during the year was that of civil engineering contractors.

Business review

	1998 £000	1997 £000
Turnover	73,946.3	59,523.4
Profit before taxation	728.4	194.8

Dividend

The directors recommend that a final dividend of £300,000 be paid *(1997:£70,000)*.

Employee involvement

A number of senior executives are shareholders of the company. Within the bounds of commercial confidentiality, management disseminates information to all levels of staff about matters that affect the progress of the company and are of interest and concern to them as employees.

Disabled persons

The company encourages, where possible, the employment of disabled people and retention of those who become disabled during their employment with the company, by such means as may be appropriate to the circumstances of each situation.

Employment policy

The company is an Equal Opportunity Employer and its policy is to ensure that all employees and job applicants will be given equal opportunity, irrespective of their sex, race, ethnic origin, disability, age, marital status, sexual orientation, or religious affiliation in all respects of employment and training and that no such person is placed at a disadvantage by requirements or conditions which cannot be shown to be justified.

Year 2000

A Year 2000 programme has been put into place to ensure a co-ordinated and systematic approach to dealing with Year 2000 compliance across the group of which the company is a member (see note 13). The primary focus of this programme is to ensure compliance to a standard based on the British Standards Institute's Definition of Year 2000 Conformity Requirements. The programme includes a review of business and accounting systems, personal computers, local area networks and embedded systems (such as telephone systems). This review is currently at the stage of implementing solutions for critical systems. In addition the group has sought confirmation of compliance from key suppliers, customers and other trading partners.

As at the year end £50,000 had been committed for the installation of a new file server and network software at head office. A further £20,000 has been incurred since the year end updating the hardware and software environment at head office.

As at the year end £80,000 had been incurred replacing the accounting system, hardware and software at Ayton Asphalte, a wholly owned subsidiary of the group with a further £20,000 anticipated.

These projects will add benefits over and above Year 2000 compliance.

Directors' report *(continued)*

Directors

Mr WP Matthews was appointed a director on 6 April 1998.

All other directors listed on page 1 were in office throughout the year.

The interests of Mr AJ Korn in the shares of the ultimate holding company are disclosed in the financial statements of that company.

The interests of Mr DE Neale and Mr DW Sterry in the shares of the ultimate holding company are disclosed in the financial statements of May Gurney Holdings Limited.

The interests of the remaining directors in the ordinary shares of the ultimate holding company at the year end are:

	1998	1997
MG Duffield	**6,045**	6,045
ICA Green	**12,592**	12,592
DR Pask	**2,015**	2,015

By order of the board

DB Elsey
Secretary

31st July 1998

Holland Court
The Close
Norwich

By written resolution passed on 18 January 1991 in accordance with Section 381A of the Companies Act 1985 the company dispensed with the holding of annual general meetings, laying of financial statements before the members and annual appointment of auditors.

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 year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

Holland Court
The Close
Norwich
NR1 4DY

Auditors' report to the members of May Gurney (Construction) Limited

We have audited the financial statements on pages 6 to 15.

Respective responsibilities of directors and auditors

As described on page 4 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 March 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

Chartered Accountants
Registered Auditors

4.8.98

Profit and loss account
for the year ended 31 March 1998

	Note	**1998** **£000**	1997 £000
Turnover	*2*	**73,946.3**	59,523.4
Cost of sales		**(72,340.4)**	(58,489.3)
Gross profit		**1,605.9**	1,034.1
Net operating costs	*3*	**(1,035.3)**	(929.0)
Operating profit		**570.6**	105.1
Interest receivable	*2*	**157.8**	89.7
Profit on ordinary activity before taxation	*2*	**728.4**	194.8
Tax on profit on ordinary activity	*7*	**(250.9)**	(55.9)
Profit for the financial year		**477.5**	138.9
Final dividend proposed - equity		**(300.0)**	(70.0)
Retained profit for the year	*20*	**177.5**	68.9

All recognised gains and losses are included in the profit and loss accounts above. The results above relate to continuing activities.

The notes on pages 8 to 15 form part of this account.

Balance sheet
at 31 March 1998

	Note	1998		1997	
		£000	£000	£000	£000
Fixed assets					
Investments	*8*		**10.1**		10.1
Current assets					
Stocks and work in progress	*9*	**4,743.5**		2,978.4	
Debtors	*10*	**18,498.5**		17,763.7	
Cash at bank and in hand		**163.5**		-	
		23,405.5		20,742.1	
Creditors: amounts falling due within one year	*11*	**(15,854.3)**		(13,368.4)	
Net current assets			**7,551.2**		7,373.7
Net assets			**7,561.3**		7,383.8
Capital and reserves					
Called up share capital	*15*		**1,500.0**		1,500.0
Profit and loss account	*20*		**6,061.3**		5,883.8
Equity shareholders' funds	*21*		**7,561.3**		7,383.8

These financial statements were approved by the board of directors on 31 July 1998 and were signed on its behalf by:

DWE Sterry
Director

The notes on pages 8 to 15 form part of this balance sheet.

Notes
(forming part of the financial statements)

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards.

Turnover

Turnover represents the contract value of work done in the year on civil engineering contracts and variations on valuations of contracts completed in prior years excluding value added tax.

Stocks and work in progress

Stocks and work in progress on short term contracts are valued at the lower of cost and net realisable value. Cost consists of direct costs, determined on a first in, first out basis unless actual cost is identifiable, and appropriate overheads.

Long term contract work in progress is valued at cost plus attributable profit less foreseeable losses. Attributable profit is included when the outcome of a contract can be assessed with reasonable certainty. The value of contract work in progress is accounted for within turnover and in accordance with Statement of Standard Accounting Practice 9 (Revised). The excess of book value over amounts received is included in debtors as "amounts recoverable on contracts". Payments received in excess of book value on an individual contract basis are included in creditors.

Fixed asset investments

Investments are accounted for in accordance with Financial Reporting Standard 9 "Associates and Joint Ventures". Joint arrangements that are not entities are accounted for by proportionally consolidating the company's share of the non-entity's attributable assets, liabilities and cash flows. Investments in associates and joint ventures are shown at cost less amounts written off.

Taxation

The group provides deferred taxation at the rates at which liabilities are expected to crystallise to take account of timing differences between the treatment of certain items for accounts purposes and their treatment for taxation purposes.

Provision is not made for deferred tax assets unless there is a reasonable certainty of their recovery in the next accounting period.

Research and development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

Foreign exchange

Exchange differences on the conversion of foreign currencies are dealt with in the profit and loss account.

Pension contributions

Pension contributions are charged to the profit and loss account in accordance with the annual charge made by May Gurney Group Limited, based on the recommendation of the scheme's actuary.

Operating leases

Rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Notes *(continued)*

2 Turnover and profit before taxation

Turnover and profit on ordinary activity before taxation are derived wholly from the principal activity within the United Kingdom.

Profit on ordinary activity before taxation is stated after charging/(crediting):

	1998 £000	1997 £000
Directors' emoluments (note 5)	**250.3**	205.8
Auditors' remuneration	**15.0**	16.3
Other fees paid to auditors	**8.2**	2.6
Amounts payable under operating leases		
- land and buildings	**19.1**	15.9
- plant and machinery	**273.1**	181.6
Plant hire charges	**5,640.9**	5,566.0
Interest receivable from group companies	**(157.8)**	(89.7)

3 Net operating costs

	1998 £000	1997 £000
Dividend receivable from joint venture	**(200.0)**	-
Administrative expenses	**1,235.3**	929.0
	1,035.3	929.0

4 Staff numbers and costs

The average number of persons (including directors) employed by the group during the year, categorised by function, was as follows:

	Number of employees 1998	1997
Management	**7**	6
Contracts, sales staff and all operatives	**366**	235
Administration	**13**	11
	386	252

The aggregate payroll costs of these employees were as follows:

	1998 £000	1997 £000
Wages and salaries	**7185.8**	4,383.4
Social security costs	**649.1**	371.9
Other pension costs (note 6)	**226.2**	194.9
	8,061.1	4,950.2

Notes *(continued)*

5 Directors' emoluments

	1998 £000	1997 £000
As executives - salary and benefits	**250.3**	205.8

Emoluments and benefits, excluding pension contributions, of the highest paid director were £80,577 *(1997:£62,980)*. He is a member of the May Gurney Group Limited Pension Scheme, a defined benefit scheme, under which his accrued pension entitlement at the year end was £4,705 per annum.

Retirement benefits are accruing to 4 directors *(1997:4)* under the May Gurney Group Limited Pension Scheme, a defined benefit scheme.

6 Pension obligations

The group makes contributions in respect of employees who are members of the May Gurney Group Limited Pension Scheme, which is open to the salaried employees and supervisory foremen. The scheme funds are administered by trustees and are independent of the group's finances. The scheme provides defined benefits based upon final pensionable pay. Contribution levels are determined by a qualified actuary on the basis of periodic valuations using the projected unit costing method. The most recent valuation was at 1 April 1996. Full details of this valuation are contained in the financial statements of May Gurney Group Limited.

Pension contributions charged to the profit and loss account for the year ended 31 March 1998 amounted to £226,201 *(1997:£194,852)*.

7 Taxation

The taxation charge/(credit) on the profit for the year on ordinary activities is made up of:

	1998 £000	1997 £000
Current year		
Corporation tax at 31% *(1997:33%)*	**5.0**	346.4
Deferred taxation (note 14)	**245.8**	(290.5)
	250.8	55.9
Prior year		
Corporation tax	**(3.2)**	(37.3)
Deferred taxation (note 14)	**3.3**	37.3
	250.9	55.9

Notes *(continued)*

8 Investments

	Joint ventures £000	Other unlisted investments £000	Total £000
Cost			
At beginning and end of year	10.0	0.1	10.1

Joint ventures

The company owns 50% of the issued ordinary share capital of May Gurney Fitzpatrick Limited amounting to £10,000 *(1997:£10,000)*. This investment has been classified as a joint venture and is included at cost less amounts written off in accordance with the company's accounting policy (note 1).

Joint arrangements that are not entities

During the year the company entered into an unincorporated joint arrangement with Christiani & Nielsen Limited. In accordance with the company's accounting policy (note 1) the company's 50% share of the non-entity's attributable assets, liabilities and cash flows have been included in the accounts by proportional consolidation. The joint arrangement's principal place of business is:

May Gurney / Christiani & Nielsen joint venture
Trowse
Norwich
Norfolk
NR14 8SZ

9 Stocks and work in progress

	1998 £000	1997 £000
Materials and consumables	-	7.2
Work in progress	4,743.5	2,971.2
	4,743.5	2,978.4

Work in progress is analysed as follows:

	1998 £000	1997 £000
Short term contracts	10,711.5	6,749.3
Less: Payments on account	(5,968.0)	(3,778.1)
	4,743.5	2,971.2

Notes *(continued)*

10 Debtors

	1998 £000	1997 £000
Amounts recoverable on contracts	**6,077.5**	1,710.7
Trade debtors	**2,586.6**	8,247.0
Amounts owed by group undertakings (note 12)	**9,415.9**	7,301.8
Amounts owed by joint ventures	**-**	63.9
Prepayments and accrued income	**29.4**	103.9
Deferred tax asset (note 14)	**62.8**	311.9
Other debtors	**326.3**	24.5
	18,498.5	17,763.7

11 Creditors: amounts falling due within one year

	1998 £000	1997 £000
Payments in excess of work in progress valuations	**98.4**	220.5
Trade creditors	**14,326.6**	10,540.6
Amounts owed to group undertakings (note 12)	**62.6**	73.0
Amounts owed to joint ventures	**255.4**	1,282.8
Corporation tax	**5.0**	346.4
PAYE and social security	**350.0**	325.5
Other creditors	**296.3**	408.7
Accruals and deferred income	**160.0**	100.9
Proposed dividend	**300.0**	70.0
	15,854.3	13,368.4

12 Group undertakings

	1998 £000	1997 £000
Amounts owed by group undertakings -		
ultimate holding company	9.7	-
parent company	-	18.7
fellow subsidiaries	9,406.2	7,283.1
	9,415.9	7,301.8
Amounts owed to group undertakings -		
parent company	(45.0)	-
fellow subsidiaries	(17.6)	(73.0)
	(62.6)	(73.0)
Total	9,353.3	7,228.8

Notes *(continued)*

13 Ultimate holding company

The ultimate holding company is May Gurney Group Limited which is incorporated in England. The parent company is May Gurney Holdings Limited.

14 Deferred taxation

	1998 £000	1997 £000
Deferred taxation asset		
At 1 April 1997	311.9	58.7
Profit and loss account (charge)/credit (note 7)	(249.1)	253.2
At 31 March 1998	62.8	311.9

As the deferred taxation asset is expected to crystallise within one year it is included in debtors (note 10).

Deferral of taxation at 31% *(1997:33%)*, calculated using the liability method, is in respect of the following:

	1998 £000	1997 £000
Long term work in progress provisions	62.8	302.5
Sundry timing differences	-	9.4
	62.8	311.9

15 Share capital

	1998 £000	1997 £000
Authorised, issued and fully paid		
Ordinary shares of £1 each - equity	1,500.0	1,500.0

16 Capital commitments

Tangible fixed assets

Future capital expenditure authorised by the directors but not provided for in these financial statements is as follows:

	1998 £000	1997 £000
Contracts placed	-	-

Notes *(continued)*

17 Contingent liabilities

(i) The company has given an unlimited guarantee, secured by fixed and floating charges over the company's assets in respect of the borrowings from Barclays Bank PLC, of all group companies.

At 31 March 1998, the net indebtedness of all other group companies for borrowings repayable on demand amounted to £Nil *(1997:£Nil)* and medium term loan borrowings amounting to £1,265,625 *(1997:£1,453,125)*.

(ii) Indemnities outstanding at 31 March 1998 in respect of performance bonds were £3,316,512 *(1997:£1,770,775)*.

The company has given joint and several guarantees securing indemnities given by other group companies in respect of performance bonds. At 31 March 1998, indemnities outstanding for other group companies amounted to £615,503 *(1997:£340,754)*.

(iii) Indemnities outstanding at 31 March 1998 in respect of HM Customs and Excise bonds issued by Barclays Bank PLC in the normal course of business were £Nil *(1997:£Nil)*.

The company has given a joint and several guarantee securing indemnities given by other group companies in respect of HM Customs and Excise bonds issued by Barclays Bank PLC in the normal course of business. At 31 March 1998, the indemnities outstanding for other group companies amounted to £160,000 *(1997:£160,000)*.

18 Cash flow statement

Under Financial Reporting Standard 1 (revised 1996), the company is exempt from the requirements to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

19 Related party transactions

In accordance with the exemption available under paragraph 3(c) of FRS8, transactions with other members of the May Gurney group are not disclosed.

20 Profit and loss account

	1998	1997
	£000	£000
At beginning of year	**5,883.8**	5,814.9
Retained profit for the year	**177.5**	68.9
At end of year	**6,061.3**	5,883.8

Notes *(continued)*

21 Reconciliation of movements in equity shareholders' funds

	1998 £000	1997 £000
Profit for the financial year	**477.5**	138.9
Dividend	**(300.0)**	(70.0)
Net increase in equity shareholders' funds	**177.5**	68.9
Opening equity shareholders' funds	**7,383.8**	7,314.9
Closing equity shareholders' funds	**7,561.3**	7,383.8

22 Operating lease commitments

The company is committed to the following annual charges under operating leases expiring as follows:

	1998 £000	1997 £000
Land and buildings		
Within 1 year	**-**	10.5
Within 2-5 years	**26.2**	-
	26.2	10.5
Other		
Within 1 year	**14.7**	-
Within 2-5 years	**315.1**	218.2
	329.8	218.2