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COSTAIN INTERNATIONAL LIMITED

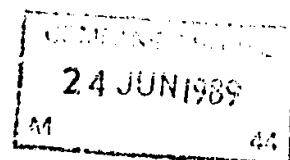
STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 1988

Peat Marwick McLintock
Chartered Accountants,
GUILDFORD

24/6/89
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COSTAIN INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS

For the year ended 31 December 1988

BUSINESS REVIEW

The company continued to carry out its principal activities of building, civil engineering, construction, geotechnical and maintenance of petrochemical process plants.

In addition to the United Kingdom the company is active in Asia, the Middle East, Africa and the Far East.

£

Profit for the year	1,194,703
Less taxation	<u>596,270</u>
	598,433
Extraordinary item	<u>23,937</u>
Amount available for ordinary shareholders	622,370
Less interim dividend	<u>399,000</u>
	223,370
Distributable reserves brought forward	<u>8,825,578</u>
Distributable reserves carried forward	<u>9,048,948</u>

DIRECTORS AND SHARE INTERESTS

		At <u>1.1.88</u>	At <u>31.12.88</u>
J.E. Langford - Chairman			
L.F.C. Tarrant - Managing Director	a	41,158	39,158
	e	41,304	44,008
J.E. Metzner	a	9,248	9,848
	a#	NIL	175,000
K.C. Harrison	a	27,726	25,839
R.C. Ingoldby	a	15,074	15,956
M.S. Padmore	a	9,034	10,037
	e	NIL	2,547
P.F. Woods	a	1,870	2,543
J.R. Young	a	3,694	4,225
	e	NIL	2,547
G.C. Trayling	a	3,578	3,578
D.S. Greenwood	a	722	765
	e	NIL	2,547
J.W.H. Lawson	a	1,728	2,330
	e	NIL	1,273

a - Costain Group PLC shares of 25p each

a# - Non-beneficial

e - Options to acquire Costain Group PLC shares of 25p each.

BY ORDER OF THE BOARD

G. LANGHAM
SECRETARY

REGISTERED OFFICE

111 Westminster Bridge Road
London SE1 7UE

Date: 20 MAR 1989

REPORT OF THE AUDITORS TO THE MEMBERS OF
COSTAIN INTERNATIONAL LIMITED

We have audited the accounts on pages 3 to 13 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of the company's affairs at 31 December 1988 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

The accounts do not include a statement of the source and application of the funds of the company as required by Statement of Standard Accounting Practice 10.

Peat Marwick McLintock,

...*Peat Marwick McLintock*...
Chartered Accountants,
GUILDFORD

Dated this *20 March 1989*.

COSTAIN INTERNATIONAL LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 1988

		1988 £	1987 £
<u>Turnover</u>	2	<u>28,506,357</u>	<u>32,012,167</u>
<u>Profit on ordinary activities before taxation</u>	3	1,194,703	3,291,843
Taxation	7	<u>596,270</u>	<u>338,628</u>
<u>Profit before extraordinary item</u>		598,433	2,953,215
Extraordinary item	8	<u>23,937</u>	<u>114,617</u>
Amount available for ordinary shareholders		622,370	3,067,832
Interim Dividend		<u>399,000</u>	<u>2,000,000</u>
<u>Amount retained for the year</u>	18	<u>223,370</u>	<u>1,067,832</u>

THE NOTES ON PAGES 5 TO 13 FORM PART OF THESE ACCOUNTS

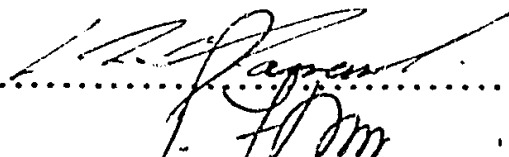
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COSTAIN INTERNATIONAL LIMITED

BALANCE SHEET

As at 31 December 1988

		1988 £	1987 £
<u>Fixed assets</u>			
Tangible assets	9	1,534,338	1,326,724
Investments	10	273,674	249,737
		<u>1,808,012</u>	<u>1,576,461</u>
<u>Current assets</u>			
Stocks and long term contracts	11	3,617,300	3,459,714
Debtors	12	14,299,228	9,310,208
Cash at bankers, monies on deposit and in hand	13	13,830,300	22,891,807
		<u>31,746,828</u>	<u>35,661,729</u>
<u>Current liabilities</u>			
<u>Creditors: amounts falling due within one year</u>			
Borrowings	14	6,882,822	1,804,838
Other creditors	15	16,002,969	25,193,674
		<u>22,885,791</u>	<u>26,998,512</u>
<u>Net current assets</u>		<u>8,861,036</u>	<u>8,663,217</u>
<u>Total assets less current liabilities</u>		<u>10,669,048</u>	<u>10,239,678</u>
<u>Deferred tax (asset)</u>	16	180,000	385,000
		<u>10,849,048</u>	<u>10,625,678</u>
<u>Capital and reserves</u>			
Called up share capital	17	1,800,100	1,800,100
Profit and loss account	18	9,048,948	8,825,578
		<u>10,849,048</u>	<u>10,625,678</u>
<u>Shareholders' funds</u>		<u>10,849,048</u>	<u>10,625,678</u>

.....Director

Director

20 MAR 1989
 Dated this.....

THE NOTES ON PAGES 5 TO 13 FORM PART OF THESE ACCOUNTS

COSTAIN INTERNATIONAL LIMITED

NOTES ON THE ACCOUNTS

31 December 1988

1. Accounting policies

ACCOUNTING CONVENTION

The accounts are prepared under the historical cost convention.

TURNOVER

Turnover represents increases in valuation of long term contracts, including amounts applicable to contracts completed in prior years, and the amount receivable in the ordinary course of business for goods sold and for services provided and includes the appropriate proportions of turnover of joint ventures.

PROFIT ON ORDINARY ACTIVITIES

Profit on ordinary activities includes the results of current long term contracts based on agreed certificates and on valuations by officials of the company and the appropriate proportions of the results of joint ventures. It also includes residual profits and losses on long term contracts completed in prior years.

INTEREST PAYABLE

Interest is normally written off to profit and loss account as it is incurred.

DEFERRED TAXATION

Deferred taxation is provided at the latest relevant rate of corporation tax of 35% on the excess of the book values of fixed assets over the corresponding written down values for taxation purposes and on other timing differences.

FOREIGN CURRENCIES

Monetary assets and liabilities in overseas currencies have been expressed in sterling at the rates of exchange ruling at 31 December. Differences on all other monetary items and on transactions completed in the ordinary course of business are dealt with in profit on ordinary activities.

TANGIBLE ASSETS

Fixed assets of overseas branches, previously included under stocks and long term contracts, have now been included under tangible assets. The comparative figures have been adjusted accordingly to reflect this change of treatment.

DEPRECIATION OF TANGIBLE ASSETS

Depreciation is provided to write off the cost of tangible assets on a straight line basis as follows:

	Percentage per annum
Fixed plant, computers, furniture and fittings	10 - 50

COSTAIN INTERNATIONAL LIMITED

NOTES ON THE ACCOUNTS (continued)

31 December 1988

1. Accounting policies continued

LONG TERM CONTRACTS IN PROGRESS

Long term contracts in progress consist mainly of agreed certificates of work done less progress payments received and receivable at the year end and estimates made by officials of the company of the realisable value of work carried out but not yet certified or charged to clients.

Claims receivable arising on long term contracts are normally taken to credit when agreed. In the case of unprofitable long term contracts full provision is made for foreseeable losses after taking into account a prudent estimate of claims receivable arising on such contracts.

2. Turnover

Geographical analysis:	1988 £	1987 £
Rest of World	24,295,132	27,638,044
United Kingdom	4,211,225	4,374,123
	<hr/>	<hr/>
	28,506,357	32,012,167
	<hr/>	<hr/>

3. Profit on ordinary activities before taxation

	1988 £	1987 £
Turnover	28,506,357	32,012,167
Cost of sales	(28,171,730)	(30,390,637)
	<hr/>	<hr/>
Gross Profit	334,627	1,621,530
Interest receivable:		
- on amounts due from fellow subsidiary companies	1,353,184	2,209,874
- external	41,029	337
	<hr/>	<hr/>
	1,394,213	2,210,211
	<hr/>	<hr/>
	1,728,840	3,831,741
Administrative expenses	(306,584)	(383,736)
Interest payable (note 4)	(227,553)	(156,162)
	<hr/>	<hr/>
	(534,137)	(539,898)
	<hr/>	<hr/>
	1,194,703	3,291,843
	<hr/>	<hr/>

COSTAIN INTERNATIONAL LIMITED

NOTES ON THE ACCOUNTS (continued)

31 December 1988

3. Profit on ordinary activities before taxation continued

	1988 £	1987 £
Profit on ordinary activities is after charging:		
Emoluments of directors (note 6)	447,710	389,898
Depreciation (note 9)	471,030	744,425
Hire of plant and machinery	879,695	210,857
Auditors' remuneration	27,873	45,787

4. Interest payable

On bank loans and overdrafts	227,553	156,162
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5. Staff costs

	1988 £	1987 £
Wages and salaries	6,312,662	6,306,594
Social security costs	333,274	401,832
Pension costs	19,426	108,058
Costain Employee Share Scheme	78,789	104,586
	<u>6,744,151</u>	<u>6,921,071</u>

The average weekly number of employees during the year in the United Kingdom was 84 and overseas was 955 (1987 287 and 817 respectively).

In addition, the average weekly number of staff seconded from a fellow subsidiary company who worked during the year for the company in the United Kingdom was 105 and overseas was Nil (1987 112 and NIL respectively).

COSTAIN INTERNATIONAL LIMITED

NOTES ON THE ACCOUNTS (continued)

31 December 1986

6. Emoluments of directors

Emoluments, excluding pension scheme contributions of directors whose duties are wholly or mainly discharged in the United Kingdom.

Directors	1988	1987
£ 5,001 - £10,000	-	1
£25,001 - £30,000	-	1
£30,001 - £35,000	3	5
£35,001 - £40,000	4	-
£40,001 - £45,000	1	1
£45,001 - £50,000	1	-
£55,001 - £60,000	-	1
£60,001 - £65,000	-	1
£75,001 - £80,000	1	-

The emoluments of the Chairman during 1988 amounted to £79,167 (1987 £62,666).

7. Taxation

	1988 £	1987 £
On Profits for the year:		
United Kingdom corporation tax at 35% (1987 35%)	167,871	974,416
Less relief for overseas taxation	(58,779)	(160,203)
	<hr/>	<hr/>
Net United Kingdom corporation tax	109,092	814,213
Overseas taxation	59,548	181,787
Deferred taxation	243,384	177,676
	<hr/>	<hr/>
	412,024	1,173,676
Adjustments in respect of prior years:		
United Kingdom corporation tax	(871,179)	(2,847,246)
Less relief for overseas taxation	(104,179)	(59,613)
	<hr/>	<hr/>
	(975,358)	(2,906,859)
Overseas taxation	124,837	(146,596)
Group relief	1,072,151	2,513,083
Deferred taxation	(37,384)	(294,676)
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	184,246	(835,048)
	<hr/>	<hr/>
	596,270	338,620
	<hr/>	<hr/>

COSTAIN INTERNATIONAL LIMITED
NOTES ON THE ACCOUNTS (continued)
31 December 1988

		1988 £	1987 £	
8.	<u>Extraordinary items</u>			
	Extraordinary credit:			
	Write back of investment in related company	23,937	114,617	
		<u> </u>	<u> </u>	
9.	<u>Tangible assets</u>			
		Land and buildings short leasehold £	Plant and equipment £	Total £
	<u>Cost</u>			
	At 1 January 1988	529,301	5,748,884	6,278,185
	Currency realignment	22,161	198,426	220,587
	Adjustment	-	5,905	5,905
	Additions	-	1,167,312	1,167,312
	Disposals	-	(1,078,300)	(1,078,300)
	Intra group transfers	-	(390,763)	(390,763)
		<u> </u>	<u> </u>	<u> </u>
	At 31 December 1988	551,462	5,651,464	6,202,926
		<u> </u>	<u> </u>	<u> </u>
	<u>Depreciation</u>			
	At 1 January 1988	485,287	4,466,174	4,951,461
	Currency realignment	20,318	157,703	178,021
	Adjustment	-	328	328
	Provisions	36,881	434,149	471,030
	Disposals	-	(931,126)	(931,126)
	Intra group transfers	-	(1,126)	(1,126)
		<u> </u>	<u> </u>	<u> </u>
	At 31 December 1988	542,486	4,126,102	4,668,588
		<u> </u>	<u> </u>	<u> </u>
	<u>Net book value</u>			
	At 31 December 1988	8,976	1,525,362	1,534,338
		<u> </u>	<u> </u>	<u> </u>
	At 31 December 1987	44,014	1,282,710	1,326,724
		<u> </u>	<u> </u>	<u> </u>

COSTAIN INTERNATIONAL LIMITED
 NOTES ON THE ACCOUNTS (continued)
 31 December 1988

10. Investments

	<u>Subsidiaries</u>	<u>Related</u> <u>Companies</u>	<u>Total</u>
	<u>£</u>	<u>£</u>	<u>£</u>
<u>Unlisted</u>			
<u>Cost</u>			
At 1 January 1988	2	658,493	658,495
	<u> </u>	<u> </u>	<u> </u>
At 31 December 1988	2	658,493	658,495
	<u> </u>	<u> </u>	<u> </u>
<u>Amounts written off</u>			
At 1 January 1988	-	405,758	408,758
Provision write back		23,937	23,937
	<u> </u>	<u> </u>	<u> </u>
At 31 December 1988	-	384,821	384,821
	<u> </u>	<u> </u>	<u> </u>
<u>Net book value</u>			
At 31 December 1988	2	273,672	273,674
	<u> </u>	<u> </u>	<u> </u>
At 31 December 1987	2	249,735	249,737
	<u> </u>	<u> </u>	<u> </u>

Investments in subsidiaries and related companies

Class of capital held
and percentage held

Subsidiary Company

CPI Consearch Limited Ordinary 100%

The company is incorporated in Great Britain and registered in England.

Related Company

Nesma Costain Process Co. Ltd 3,000 shares of SR 1,000 each (50%).

The company is registered in Saudi Arabia.

COSTAIN INTERNATIONAL LIMITED

NOTES ON THE ACCOUNTS (continued)

31 December 1988

11. Stocks and long term contracts

	1988 £	1987 £
Debit balances on long term contracts in progress	3,617,300	3,459,714

Balances on long term contracts in progress comprise valuations less progress payments received and receivable of £90,960,246 (1987 £125,227,902) and consist of:

Debit balances (included above)	3,617,300	3,459,714
Credit balances (included in note 15)	-	(5,705,192)
	<u>3,617,300</u>	<u>(2,245,478)</u>

The inclusion of attributable net profit in long term contracts in progress is in accordance with Statement of Standard Accounting Practice 9. Whilst this is a departure from the valuation requirements of the Companies Act 1985 it is required by Section 226(3) of the Companies Act 1985 to enable the accounts to give a true and fair view. It is not practicable to allocate progress payments between cost and profit nor, therefore, to state the effect of this departure on the balance sheet.

12. Debtors

Amounts falling due within one year:

Trade debtors	808,173	832,586
Other debtors	77,499	246,468
Debit balances on completed contracts and joint venture balances	4,756,533	2,528,853
Prepayments and accrued income	433,100	315,797
Amounts owing by holding and fellow subsidiary companies	7,950,135	5,231,998
Amounts owing by related companies	273,788	154,506
	<u>14,299,228</u>	<u>9,310,208</u>

COOSTAIN INTERNATIONAL LIMITED

NOTES ON THE ACCOUNTS (continued)

31 December 1968

13. Cash at bankers, monies on deposit and in hand

One of the company's bankers has the right to set off the company's bank balances with that bank when in credit against borrowings by Richard Costain Ltd.

14. Borrowings

	1968 Bank loans and Overdrafts £	1967 Bank loans and Overdrafts £
Due within one year	6,882,823	1,804,838

15. Creditors: amounts falling within one year

Trade creditors	7,722,632	8,130,352
Credit balances on long term contracts in progress (Note 11)	-	5,705,192
Credit balances on completed contracts and joint venture balances	81,893	-
Accruals and deferred income	6,857,939	5,252,953
Amounts owing to related companies	9,594	15,109
Amounts owing to holding and fellow subsidiary companies	317,882	2,907,154
Taxation	614,029	1,182,914
Dividends	399,000	2,000,000
	16,002,969	25,193,674

COSTAIN INTERNATIONAL LIMITED
NOTES ON THE ACCOUNTS (continued)
31 December 1988

16. Deferred tax (asset)

	1988 £
At 1 January 1988	386,000
Transfer to profit and loss account	206,000
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At 31 December 1988	180,000
	<hr/> <hr/>

17. Share capital

	1988 £ <u>Authorised</u>	1988 £ <u>Issued</u>	1987 £ <u>Authorised</u>	1987 £ <u>Issued</u>
Ordinary shares of £1 each, fully paid	1,800,100	1,800,100	1,300,100	1,800,100
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

18. Profit; and loss account

	£
At 1 January 1988	8,825,578
Profit retained for the year	223,370
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At 31 December 1988	9,048,948
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19. Consolidated accounts

Consolidated accounts have not been prepared as the company at 31 December 1988 was a wholly owned subsidiary of Costain Group PLC, its ultimate holding company, which is a company incorporated in Great Britain and registered in England.