Wrekin Construction Company Limited

Directors' report and financial statements

Registered number 664676

For the year ended 31 December 2001

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Managing director's report

It is particularly pleasing to report that 2001 ended positively, despite a difficult start to the year. The company returned to profitable trading for the last four months, demonstrating that the efforts of management and employees to restore our trading performance is now being rewarded.

Trading performance

Turnover for the year was £79.7 million *(2000: £61.2 million)* representing organic growth of 30%. Trading performance from September through to December improved significantly, generating pre tax profits of £450,000. The overall performance was dragged down by poor trading during the first eight months of the year which resulted in the company incurring a pre tax loss of £1,341,000 as at 31 August 2001 including one-off restructuring costs of £334,000 . We started trading in 2001 with a legacy from the previous year. A number of the contracts in our order book had little or no margin potential and our overhead cost base was too high.

The steps that we had to take were simple:-

Improve the quality of work awarded;

Reduce our overhead base; and

Refocus ourselves to produce sustainable contract results and to generate cash.

Marketing

The Company's approach to attracting contract opportunities and winning contracts was reappraised. An improved bid process has been developed placing greater emphasis on opportunities with above average margin potential. Additionally, our marketing has been directed towards seeking opportunities for higher value contracts resulting in our average order value increasing from £400,000 at the start of 2001 to £1 million by December 2001. Our control of risks has been improved with a structured risk management approach being adopted. This has improved our predictability of outcome and assisted in identifying key exposures so that we are able to better manage these exposures.

Focus on profit

Clear lines of reporting were created so that a Director has operational and profit responsibility for one or more profit centres. This provided additional management support for each of the cost centres, improved lines of communication and enabled teams to be developed that concentrate their attention towards achieving clearly defined operational profit targets. We also improved our financial reporting systems increasing our visibility of contract performance and overhead expenditure. Profit centre management were also given responsibility for managing their own overheads, increasing their ownership of the operating activities and encouraging initiative.

Cost base

The Company's overhead cost base was reviewed during the year and restructured. The restructuring will generate annualised savings of in excess of £1 million and ensure that overhead costs are aligned with trading volumes.

Our people

A well-trained, informed and motivated work force is the lifeblood of any business. We are continually investing in developing the skills and knowledge of our people. Greater attention has been paid to employee communications with regular briefing sessions at all our regional offices. These have given everyone a better understanding of the direction that the business is taking, facilitated the implementation of changes that had to be made and maintained our team culture. I should like to extend my thanks to all our employees for their hard work, commitment and continued support in returning the company to profitability.

Managing director's report *(continued)*

The future

We are confident that the Company is well placed to take advantage of and build upon the improvements made in 2001. Our order book at 31 December 2001 stood at a record £48.1 million and continued to rise in 2002. It stood at £62.6 million in May 2002, when the acquisition of Filcom Limited added £12 million.

We are greatly encouraged by the underlying trading performance of the last quarter of 2001 and from the solid profitability of the first five months of 2002.

J. Evans

J Evans
Managing Director

12 June 2002

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

Principal activity

The principal activity of the company continues to be civil engineering and the design and construction of building and civil engineering works.

Business review

The managing director's report on page 1 contains a review of the business activities during the year.

Proposed dividend

The directors do not propose the payment of a final dividend *(2000: £Nil)*. A deficit of £891,000 is transferred from reserves *(2000: £1,849,000)*.

Directors and directors' interests

The directors who served during the year were as follows:

Dr SPT Frain (resigned 11 September 2001)
Mr GAR Martin
Mr J Evans
Mr D O'Neill
Mr PW Greenwood
Mr R Mackay

Their interests in the share capital of the ultimate holding company as at 31 December of each year (or at date of appointment if later), are as follows:

Messrs J Evans and GAR Martin are directors of the ultimate holding company, and their interests in the shares of that company are shown in its financial statements.

	Ordinary shares of £1 each			**Options for ordinary shares of £1 each**		
	2001	Acquired during the year	2000	**2001**	Exercised during the year	2000
D O'Neill	**400**	400	-	-	400	400
PW Greenwood	**300**	300	-	-	300	300

Mr R Mackay did not hold any interest in the ultimate holding company, Wrekin Group plc.

No director had any interest in the ordinary share capital of the company or any fellow subsidiary undertaking.

Employees

Applications for employment by disabled persons are fully and fairly considered, bearing in mind the aptitude and ability of the person concerned. In the event of employees becoming disabled, every reasonable effort is made to ensure that their employment with the company continues.

The directors recognise the importance of good communications and endeavour to keep all employees informed of the activities and progress of the company and its plans for the future. This is enabled in a formal manner by a two-way system of appraisal, and informally through newsletters and other media.

Political and charitable contributions

The company made charitable donations totalling £2,458 *(2000: £4,119)*.

Directors' report *(continued)*

Creditors payment policy

It is the group policy to pay creditors in accordance with the agreed terms and conditions as long as they have complied with those terms and conditions. It is our policy to ensure that suppliers and sub-contractors understand the conditions which apply and not to acquire goods and services without a contract having been signed. Creditor days for the company at 31 December 2001 were 54 days *(2000: 62 days).*

Auditors

Our auditors, KPMG, have indicated to the directors that their business has transferred to a limited liability partnership, KPMG LLP. Accordingly, a resolution will be proposed at the annual general meeting for the appointment of KPMG LLP as auditors of the company.

Approved by order of the board of directors on 12 June 2002 signed on its behalf by:

Mr AJ Bushnell
Secretary

Lamledge Lane
Shifnal
Shropshire

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 for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on 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
2 Cornwall Street
Birmingham
B3 2DL

Independent auditors' report to the members of Wrekin Construction Company Limited

We have audited the financial statements on pages 6 to 16.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you, if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

12 June 2002

Profit and loss account
for the year ended 31 December 2001

	Note	2001 £000	2000 £000
Turnover	2	**79,692**	61,206
Own work capitalised		**-**	225
Raw materials and consumables		**(16,159)**	(14,594)
Other external charges		**(45,447)**	(30,429)
Staff costs	3	**(15,310)**	(14,103)
Depreciation and other amounts written off tangible fixed assets		**(1,514)**	(1,777)
Other operating charges		**(2,422)**	(2,756)
Operating loss			
- excluding exceptional operating costs		**(826)**	(2,228)
- redundancy costs		**(334)**	-
		(1,160)	(2,228)
Profit on sale of tangible fixed assets		**329**	226
Interest receivable and similar income	4	**48**	183
Interest payable and similar charges	5	**(108)**	(159)
Loss on ordinary activities before taxation	6	**(891)**	(1,978)
Tax on loss on ordinary activities	8	**-**	129
Loss on ordinary activities after taxation and for the financial year		**(891)**	(1,849)
Equity dividends paid and proposed		**-**	-
Transfer from reserves		**(891)**	(1,849)
Retained profit brought forward		**4,293**	6,142
Retained profit carried forward		**3,402**	4,293

All activity, in both the current and preceding years, arises from continuing operations.

There are no recognised gains or losses other than the loss for the year.

There is no material difference between the results as disclosed in the profit and loss account and the results as given by an unmodified historical cost basis.

Balance sheet
at 31 December 2001

	Note	2001		2000	
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*9*		**6,685**		7,142
Current assets					
Stocks	*10*	**245**		508	
Debtors	*11*	**13,241**		9,090	
Cash at bank and in hand		**53**		2,805	
		13,539		12,403	
Creditors: Amounts falling due within one year	*12*	**(15,064)**		(13,407)	
Net current liabilities			**(1,525)**		(1,004)
Total assets less current liabilities			**5,160**		6,138
Creditors: Amounts falling due after more than one year	*13*		**(847)**		(934)
Net assets			**4,313**		5,204
Capital and reserves					
Called up share capital	*15*		**8**		8
Revaluation reserve	*16*		**903**		903
Profit and loss account			**3,402**		4,293
Shareholders' funds (all equity interests)	*17*		**4,313**		5,204

These financial statements were approved by the board of directors on 12 June 2002 were signed on its behalf by:

Mr GAR Martin
Director

Mr J Evans
Director

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

Accounting standards

The financial statements have been prepared in accordance with applicable Accounting Standards.

The company is a wholly owned subsidiary undertaking of Wrekin Group plc which is established under the law of a member state of the European Community. Wrekin Group plc publishes consolidated financial statements, including a consolidated cash flow statement, which include the results of Wrekin Construction Company Limited, and consequently, in accordance with FRS1, no cash flow statement is included in these financial statements.

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold property.

Depreciation and amortisation

Depreciation of tangible fixed assets, other than land and buildings, is provided on a straight line basis estimated to write off such assets over their expected useful lives.

Freehold Buildings	50 years
Plant, equipment and Motor Vehicles	2-8 years

Freehold land is not depreciated

Stocks

Stocks are valued at the lower of cost and net realisable value. Work in progress is valued at contract selling price, based upon interim certificates and estimates of unmeasured work, less provision for maintenance, contingencies and anticipated losses and less progress payments received. This value includes attributable profit in accordance with Statement of Standard Accounting Practice No. 9 and the movement in value represents turnover for the period. To the extent that this value remains unpaid at the end of the year, it is included within debtors as "amounts recoverable on contracts".

Taxation

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

Pensions

The Wrekin Group plc group of companies ("the group"), of which the company is a member, provides contributory pension schemes to the directors and certain staff employees. These are defined benefit and defined contribution schemes administered by Trustees and are independent of the group's finances. Contributions for the defined benefit scheme are based on pension costs across the group as a whole.

Company payments, which are made in accordance with periodic actuarial valuations, are charged against the profits of the period in which they become payable.

The company has adopted the transitional rules of FRS 17 "Retirement Benefits". Full adoption of the standard is not expected to occur until the year ended 31 December 2003.

Notes *(continued)*

1 Accounting policies *(continued)*

Leases and hire purchase contracts

Assets acquired under finance lease and hire purchase contracts are capitalised and depreciated over their expected useful lives or the term of the agreement if less. An obligation for the capital element of future rentals is included in creditors. Finance charges are allocated to the profit and loss account so as to produce a constant periodic rate of charge on the remaining balance of the obligations.

Rentals charged under operating leases are charged against profits on a straight line basis over the term of the lease.

2 Turnover

Turnover represents the total value of work executed during the year, excluding value added tax, all of which arises in the United Kingdom.

3 Staff numbers and costs

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

	Number of employees	
	2001	2000
Administration and supervision	**161**	165
Contract operations	**429**	435
	590	600

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	**13,478**	12,486
Social security costs	**1,130**	1,149
Other pension costs	**702**	468
	15,310	14,103

Wages and salaries includes exceptional redundancy costs of £329,000 *(2000: £Nil).*

4 Interest receivable

	2001	2000
	£000	£000
Amounts derived from group undertakings	**-**	62
Other interest receivable	**48**	121
	48	183

Notes *(continued)*

5 Interest payable

	2001	2000
	£000	£000
On bank loans and overdrafts	**10**	3
Finance charges in respect of finance lease and hire purchase contracts	**98**	156
	108	159

6 Loss on ordinary activities before taxation

	2001	2000
	£000	£000
Loss on ordinary activities before taxation is stated		
after charging:		
Auditors' remuneration and expenses:		
Audit	**32**	28
Other services	**7**	4
Rentals payable under operating leases:		
Hire of plant and machinery	**2,824**	2,371
Other operating leases	**34**	45

7 Directors' remuneration

	2001	2000
	£000	£000
Aggregate directors' remuneration:		
Emoluments	**347**	350
Company contributions to money purchase pension schemes	**3**	3
	350	353
	Number	
Number of directors who are:		
Members of money purchase pension schemes	**4**	4
Members of defined benefit pension schemes	**5**	5
	£000	£000
Highest paid director:		
Total remuneration excluding pension contributions	**90**	99

The highest paid director is a member of a defined benefit scheme, under which the accrued pension to which he would be entitled from normal retirement date if he were to retire at the year end, was £38,000 *(2000: £35,000)*, and his accrued lump sum was £91,000 *(2000: £83,000)*.

Notes *(continued)*

8 Tax on loss on ordinary activities

	2001 £000	2000 £000
Taxation based on the loss for the year:		
UK corporation tax recoverable at 30% *(2000: 30%)*	-	(138)
Adjustments in respect of prior year:		
UK corporation tax	-	9
	-	(129)

9 Tangible fixed assets

	Freehold land and buildings £000	**Plant, equipment and motor vehicles £000**	**Total £000**
Cost or valuation			
At beginning of year	3,670	12,717	16,387
Additions	-	1,446	1,446
Disposals	-	(2,358)	(2,358)
At end of year	3,670	11,805	15,475
Depreciation			
At beginning of year	386	8,859	9,245
Charged in year	55	1,459	1,514
Disposals	-	(1,969)	(1,969)
At end of year	441	8,349	8,790
Net book value			
At 31 December 2001	**3,229**	**3,456**	**6,685**
At 31 December 2000	3,284	3,858	7,142
The gross book value represents items at:			
At cost	1,870	11,805	13,675
At 1989 valuation	1,800	-	1,800
	3,670	11,805	15,475

Freehold land and buildings of £3,670,000 includes non-depreciable land of £945,000.

Notes *(continued)*

9 Tangible fixed assets *(continued)*

The net book value of freehold land and buildings included above at valuation determined according to the historical cost accounting rules is as follows:

	2001 £000	2000 £000
Cost	897	897
Accumulated depreciation based on historical cost	(120)	(110)
Historical cost net book value	777	787

Freehold land and buildings were professionally valued on 30 June 1989 on the basis of open market value for existing use at a sum of £1.6 million. Subsequent to that date, additional work was carried out on the freehold land and buildings with the consequence that the directors revalued the freehold land and buildings at 31 December 1989 to £1.8 million.

The net book value of tangible assets includes an amount of £2,762,000 *(2000: £3,237,000)* in respect of assets held under finance leases and hire purchase contracts.

The amount of depreciation allocated during the year for such assets amounts to £1,151,000 *(2000: £1,197,000).*

10 Stocks

	2001 £000	2000 £000
Housing stock	-	171
Raw materials and consumables	245	337
	245	508

11 Debtors

	2001 £000	2000 £000
Amounts recoverable on contracts	11,916	7,513
Other trade debtors	261	551
Amounts owed by parent and fellow subsidiary undertakings	94	275
Corporation tax recoverable	115	120
Other debtors	70	43
Prepayments and accrued income	785	588
	13,241	9,090

Notes *(continued)*

12 Creditors: Amounts falling due within one year

	2001 £000	2000 £000
Bank overdraft	**603**	-
Payments on account	**334**	179
Obligations under finance leases and hire purchase contracts (see note 13)	**916**	1,088
Trade creditors	**11,999**	10,454
Amounts owed to parent and fellow subsidiary undertakings	**17**	105
Other creditors including taxation and social security	**843**	976
Accruals and deferred income	**352**	605
	15,064	13,407
Other creditors including taxation and social security comprise:		
Social security costs and other taxes	**520**	833
Other creditors	**323**	143
	843	976

The bank overdraft is secured on the assets and undertaking of the company.

13 Creditors: Amounts falling due after more than one year

	2001 £000	2000 £000
Obligations under finance leases and hire purchase contracts	**847**	934

The maturity of net obligations under finance leases and hire purchase contracts is as follows:

	£000	£000
Within one year	**916**	1,088
In the second to fifth years inclusive	**847**	934
	1,763	2,022

The amounts due under finance lease and hire purchase contracts are secured on the assets to which they relate.

Notes *(continued)*

14 Deferred tax

Deferred taxation asset for the company at 30% *(2000: 30%)* comprises:

	Amount not provided	
	2001	2000
	£000	£000
Accelerated capital allowances	**(76)**	(126)
Trading losses	**(721)**	(261)
	(797)	(387)

15 Share capital

	2001	2000
	£000	£000
Authorised:		
10,000 ordinary shares of £1 each	**10**	10
Allotted, called up and fully paid:		
7,623 ordinary shares of £1 each	**8**	8

16 Revaluation reserve

	£000
At 1 January and 31 December 2001	903

17 Movement in shareholders' funds

	£000
Transfer from reserves for the financial year	(891)
Shareholders' funds at 1 January 2001	5,204
Shareholders' funds at 31 December 2001	**4,313**

Notes *(continued)*

18 Commitments

Capital commitments at 31 December, for which no provision has been made in these financial statements, were as follows:

	2001	2000
	£000	£000
Contracted	**19**	-

At 31 December the company had annual commitments under non-cancellable operating leases as follows:

	2001		2000	
	Land and buildings	**Other**	Land and Buildings	Other
	£000	**£000**	£000	£000
Operating leases which expire:				
In the second to fifth years inclusive	**-**	**25**	-	34

19 Contingent liabilities

The company is the principal member company of the Wrekin Construction Company Limited group VAT registration. Companies participating in this arrangement have a joint and several liability to HM Customs & Excise for group indebtedness. It is not anticipated that any loss will result to the company from this arrangement.

The company has entered into a mortgage debenture and cross guarantee arrangement in favour of the group's bankers whereby the company guarantees the indebtedness from time to time of the other members of the Wrekin Group to the bank.

The company has given an indemnity to a third party in respect of performance bonds relating to contract works undertaken by the company and Wrekin Homes Limited.

20 Pensions

The company participates in the group money purchase and defined benefit pension schemes for staff employees and directors. Weekly paid employees participate in a scheme administered by the Building and Civil Engineering Holiday Scheme Management Limited. The assets of all schemes are held separately from those of the group.

Contributions to the money purchase schemes vary from time to time within limits specified by the actuary. The maximum contribution is that required to provide the Inland Revenue maximum benefits.

Contributions to the defined benefit scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. Contributions are determined by a qualified actuary on the basis of triennial valuations using the attained age method.

The company contribution for the year to all schemes was £702,000 *(2000: £468,000).*

FRS 17

As the scheme is run for the Wrekin Group as a whole the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis. Hence, as permitted by FRS 17: Retirement Benefits the Scheme will be accounted for by the company as if the scheme was a defined contribution scheme when the accounting standard is fully adopted. As at 31 December 2001 the scheme had a deficit on FRS 17 basis of £2.4 million after tax.

Notes *(continued)*

21 Post balance sheet event

On 21 May 2002 the group acquired Filcom Holdings Limited for an initial net cash consideration of some £600,000 plus costs. This acquisition will be reported fully in the 2002 financial statements.

22 Ultimate parent company

By virtue of being a wholly owned subsidiary included in the consolidated financial statements of a larger EU group, the company is exempt under FRS8 from disclosing transactions or balances with entities that are party of the group qualifying as a related party.

The company's ultimate parent company is Wrekin Group plc, which is incorporated in Great Britain and registered in England and Wales.

The financial statements of the company are included within the group financial statements of Wrekin Group plc, but no other group financial statements.

Copies of the group financial statements may be obtained from the registered office:

Lamledge Lane
Shifnal
Shropshire
TF11 8BE