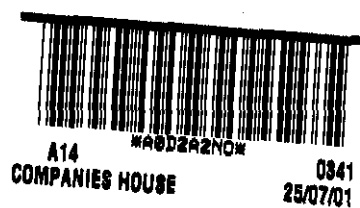


Wrekin Construction Company Limited

**Directors' report and financial
statements**

Registered number 664676

For the year ended 31 December 2000



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2000.

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 company continued to experience difficult trading conditions during the year. However, the company's business strategy has been refocused resulting in a turnover increase of 12.1% for the year and a 35% increase in turnover in the fourth quarter of 2000 compared with the same quarter in 1999.

Workload

Our forward workload at the start of 2000 reflected the low levels of work won during 1999. The company's workload increased steadily throughout 2000 to the extent that our forward workload at the year end was over 70% higher than at the end of the previous year.

Quality

Our commitment to quality remains unchanged. We remain of the opinion there is no easier way to make a profit than to do a job properly in a co-operative manner. It remains our policy to improve further the quality of the service we provide by means of good communication and mutually beneficial relationships within the company and with clients, suppliers and sub-contractors. Our Business Excellence commitment returns improved efficiencies and will continue to develop over the coming years.

Environment

Our Environmental Management systems received BSI accreditation under ISO 14001 on 11 February 2000.

Training

We remain committed to having a well trained, well motivated, directly employed workforce and we continue to reinforce our emphasis on safety.

Proposed dividend

The directors do not propose the payment of a final dividend (1999: £1,482,000). A deficit of £1,849,000 is transferred to reserves (1999: £1,311,000).

Directors and directors' interests

The directors who served during the year were as follows:

Mr T Frain (resigned 13 October 2000)
Dr SPT Frain
Mr GAR Martin
Mr J Evans
Mr D O'Neill
Mr PW Greenwood
Mr R Mackay

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

Mr D O'Neill held 400 share options in the ultimate holding company, Wrekin Group plc, at 31 December 1999 and 2000. Mr PW Greenwood held 300 share options in Wrekin Group plc at 31 December 1999 and 2000. 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.

Directors' report *(continued)*

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.

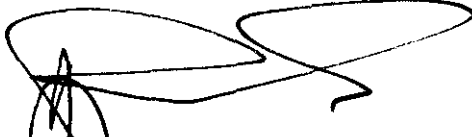
Political and charitable contributions

The company made charitable donations totalling £4,119 (1999: £5,719).

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 2000 were 62 days (1999: 44 days).

Approved by order of the board of directors on 5 June 2001 and signed on its behalf by:



Mr A.J. 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.



2 Cornwall Street
Birmingham
B3 2DL

Auditors' report to the members of Wrekin Construction Company Limited

We have audited the financial statements on pages 5 to 15.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, 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. 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 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

5 June 2001

Profit and loss account
for the year ended 31 December 2000

	Note	2000 £000	1999 £000
Turnover	2	61,206	54,596
Own work capitalised		225	68
Raw materials and consumables		(14,594)	(12,420)
Other external charges		(30,429)	(26,250)
Staff costs	3	(14,103)	(12,262)
Depreciation and other amounts written off tangible fixed assets		(1,777)	(1,736)
Other operating charges		(2,756)	(1,980)
Operating (loss)/profit		(2,228)	16
Profit on sale of tangible fixed assets		226	162
Interest receivable and similar income	4	183	441
Interest payable and similar charges	5	(159)	(258)
(Loss)/profit on ordinary activities before taxation	6	(1,978)	361
Tax on (loss)/profit on ordinary activities	8	129	(172)
(Loss)/profit on ordinary activities after taxation and for the financial year		(1,849)	189
Equity dividends paid and proposed		-	(1,500)
Transfer from reserves		(1,849)	(1,311)
Retained profit brought forward		6,142	7,453
Retained profit carried forward		4,293	6,142

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

There are no recognised gains or losses other than the profit and dividends 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 2000

	Note	2000 £000	1999 £000
Fixed assets			
Tangible assets	9	7,142	6,852
Current assets			
Stocks	10	508	318
Debtors	11	9,090	8,046
Cash at bank and in hand		2,805	3,841
		<u>12,403</u>	<u>12,205</u>
Creditors: Amounts falling due within one year	12	<u>(13,407)</u>	<u>(11,156)</u>
Net current (liabilities)/assets		<u>(1,004)</u>	<u>1,049</u>
Total assets less current liabilities		<u>6,138</u>	<u>7,901</u>
Creditors: Amounts falling due after more than one year	13	<u>(934)</u>	<u>(848)</u>
Net assets		<u>5,204</u>	<u>7,053</u>
Capital and reserves			
Called up share capital	15	8	8
Revaluation reserve	16	903	903
Profit and loss account		4,293	6,142
Shareholders' funds (all equity interests)	17	<u>5,204</u>	<u>7,053</u>

These financial statements were approved by the board of directors on 5 June 2001 and were signed on its behalf by:

Dr SPT Frain
 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, principally four years. Freehold buildings are depreciated at 2% per annum straight line. 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.

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.

Notes (continued)

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	
	2000	1999
Administration and supervision	165	148
Contract operations	435	420
	<hr/>	<hr/>
	600	568
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	12,486	10,833
Social security costs	1,149	1,022
Other pension costs	468	407
	<hr/>	<hr/>
	14,103	12,262
	<hr/>	<hr/>

4 Interest receivable

	2000	1999
	£000	£000
Amounts derived from group undertakings	62	426
Other interest receivable	121	15
	<hr/>	<hr/>
	183	441
	<hr/>	<hr/>

5 Interest payable

	2000	1999
	£000	£000
On bank loans and overdrafts	3	90
Finance charges in respect of finance lease and hire purchase contracts	156	168
	<hr/>	<hr/>
	159	258
	<hr/>	<hr/>

Notes (continued)

6 (Loss)/profit on ordinary activities before taxation

	2000	1999
	£000	£000
<i>(Loss)/profit on ordinary activities before taxation is stated</i>		
<i>after charging:</i>		
Auditors' remuneration and expenses:		
Audit	28	27
Other services	4	4
Rentals payable under operating leases:		
Hire of plant and machinery	2,371	2,716
Other operating leases	45	75

7 Directors' remuneration

	2000	1999
	£000	£000
Aggregate directors' remuneration		
Emoluments	350	265
Company contributions to money purchase pension schemes	3	3
	<u>353</u>	<u>268</u>

	Number	
Number of directors who are:		
Members of money purchase pension schemes	4	4
Members of defined benefit pension schemes	5	5
	<u> </u>	<u> </u>
	£000	£000
Highest paid director:		
Total remuneration excluding pension contributions	99	88

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 £35,000 (1999: £30,000), and his accrued lump sum was £83,000 (1999: £72,000).

Notes (continued)

8 Tax on (loss)/profit on ordinary activities

	2000 £000	1999 £000
Taxation based on the (loss)/profit for the year:		
UK corporation tax (recoverable)/payable at 30% (1999: 30.25%)	(138)	185
Adjustments in respect of prior year:		
UK corporation tax	9	(13)
	<u>(129)</u>	<u>172</u>

9 Tangible fixed assets

	Freehold land and buildings £000	Plant, equipment and motor vehicles £000	Total £000
Cost or valuation			
At beginning of year	3,393	12,054	15,447
Additions	277	1,957	2,234
Disposals	-	(1,294)	(1,294)
At end of year	<u>3,670</u>	<u>12,717</u>	<u>16,387</u>
Depreciation			
At beginning of year	339	8,256	8,595
Charged in year	47	1,730	1,777
Disposals	-	(1,127)	(1,127)
At end of year	<u>386</u>	<u>8,859</u>	<u>9,245</u>
Net book value			
At 31 December 2000	<u>3,284</u>	<u>3,858</u>	<u>7,142</u>
At 31 December 1999	<u>3,054</u>	<u>3,798</u>	<u>6,852</u>
The gross book value represents items at:			
At cost	1,870	12,717	14,587
At 1989 valuation	1,800	-	1,800
	<u>3,670</u>	<u>12,717</u>	<u>16,387</u>

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:

	2000 £000	1999 £000
Cost	897	897
Accumulated depreciation based on historical cost	(110)	(96)
	<hr/>	<hr/>
Historical cost net book value	787	801
	<hr/>	<hr/>

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 £3,236,611 (1999: £3,222,590) 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 £1,196,915 (1999: £1,351,614).

10 Stocks

	2000 £000	1999 £000
Housing stock	171	-
Raw materials and consumables	337	318
	<hr/>	<hr/>
	508	318
	<hr/>	<hr/>

11 Debtors

	2000 £000	1999 £000
Trade debtors	8,064	7,235
Amounts owed by fellow subsidiary undertakings	275	84
Other debtors	43	154
Corporation tax	120	-
Prepayments and accrued income	588	573
	<hr/>	<hr/>
	9,090	8,046
	<hr/>	<hr/>
Trade debtors comprise:		
Amounts recoverable on contracts	7,513	6,548
Other trade debtors	551	687
	<hr/>	<hr/>
	8,064	7,235
	<hr/>	<hr/>

Notes (continued)

12 Creditors: Amounts falling due within one year

	2000 £000	1999 £000
Payments on account	179	357
Trade creditors	10,454	6,820
Amounts owed to parent and fellow subsidiary undertakings	105	105
Other creditors including taxation and social security	976	976
Obligations under finance leases and hire purchase contracts (see note 13)	1,088	1,069
Accruals and deferred income	605	329
Dividend proposed	-	1,500
	<u>13,407</u>	<u>11,156</u>
Other creditors including taxation and social security comprise:		
Corporation tax	-	46
Social security costs and other taxes	833	848
Other creditors	143	82
	<u>976</u>	<u>976</u>

13 Creditors: Amounts falling due after more than one year

	2000 £000	1999 £000
Obligations under finance leases and hire purchase contracts	934	848

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

	£000	£000
Within one year	1,088	1,069
In the second to fifth years inclusive	934	848
	<u>2,022</u>	<u>1,917</u>

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 provision/(asset) for the company at 30% (1999: 30%) comprises:

	Amount provided		Amount not provided	
	2000 £000	1999 £000	2000 £000	1999 £000
Accelerated capital allowances	-	-	(126)	(117)
Trading losses	-	-	(261)	-
	<u>-</u>	<u>-</u>	<u>(387)</u>	<u>(117)</u>

15 Share capital

	2000 £000	1999 £000
<i>Authorised:</i>		
10,000 ordinary shares of £1 each	10	10
	<u>10</u>	<u>10</u>
<i>Allotted, called up and fully paid:</i>		
7,623 ordinary shares of £1 each	8	8
	<u>8</u>	<u>8</u>

16 Revaluation reserve

	£000
At 1 January and 31 December 2000	903
	<u>903</u>

17 Movement in shareholders' funds

	£000
Transfer from reserves for the financial year	(1,849)
Shareholders' funds at 1 January 2000	7,053
	<u>5,204</u>
Shareholders' funds at 31 December 2000	5,204

Notes (continued)

18 Commitments

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

	2000 £000	1999 £000
Contracted	-	108

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

	2000		1999	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
In the second to fifth years inclusive	-	34	-	43

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 group operates both 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.

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.

Assets of all schemes are held separately from those of the group.

Notes (continued)

20 Pensions (continued)

The most recent actuarial valuation of the defined benefit scheme was at 1 October 1999. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries. It was assumed the investment returns would be 7% per annum and that salaries would increase at 5.25% per annum. The valuation on a minimum funding requirement basis revealed that the defined benefit scheme held assets of £7,495,000 and that the value of those assets represented 108% of the benefits which had accrued to members, after allowing for expected future increases in earnings.

The company contribution for the year to all schemes was £468,000 (1999: £407,000).

21 Disclosable contracts

During the year, the company sold £Nil (1999: £5,900) of goods and services to Partell Limited, a company of which Mr T Frain and Dr SPT Frain are shareholders and directors.

At 31 December 2000, the amount due from Partell Limited was £Nil (1999: £3,620).

All transactions were on an arms length basis.

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