

**Wrekin Construction Company Limited**

**Directors' report and financial  
statements**

**Registered number 664676**

**For the 15 month period ended 31 March  
2006**



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## Contents

Chief Executive's review	1
Directors' report	5
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	7
Independent auditors' report to the members of Wrekin Construction Company Limited	8
Profit and loss account	10
Balance sheet	11
Reconciliation of movements in shareholders' funds	12
Statement of total recognised gains and losses	13
Notes	14

## **Chief Executive's review**

### **Results**

I am pleased to report that our results for the financial period 2005/06 have seen a significant improvement on those in the previous year with a profit before tax of £775,000 on a turnover of £133 million in the 15 month period from January 2005 to March 2006.

In the same period we have resolved a significant number of the legacy contracts, reported in the last accounts as exceptional items, which has greatly strengthened our financial position moving forward.

The year end order book shows a considerable improvement with a pipeline of opportunities of over £700 million and over £100 million of turnover secured for this financial year.

### **Operational Performance**

The business is now built around three work streams; Construction, Utilities and Rail. Construction is made up of Civil Engineering, Design & Build and Regeneration.

#### **Construction – Civil Engineering**

Our civil engineering capability is managed by four regions; Bradford in the north, Raunds in the east, Bridgend in the west and Shifnal in the midlands.

Our team in the north went through significant restructuring during 2005 and successfully delivered projects including £3.7 million of road works for Stockton-on-Tees Council as part of the regeneration of the Tees Valley, and a £2.2 million town centre regeneration for Sefton Council at Bootle. Works continue at Spinningfields, Manchester, for Allied London and at Barkers Pool, Sheffield, delivering £5 million of town centre developments for Sheffield City Council.

In the west projects were successfully completed at Burry Port Harbour, a £1.7 million project for Millennium Coastal Park, and Bridgend Bus Station, a £3 million project to construct a new terminal building and bus bays. Significant term contracts were also secured with Cardiff City Council, Bristol City Council and North Somerset Council for the delivery of highway improvement works.

Our midlands region continued to deliver projects for Staffordshire County Council through the term contract, which included the £3.5 million scheme for Burntwood Bypass. Work continued on Phase 1 of Rugeley Bypass, a £4.2 million scheme for the Council, and was completed in May 2006. During 2005/06 we also secured our first management contract for the construction of infrastructure and reinforced concrete works for Muller valued at £2.4 million.

The eastern region delivered two significant schemes during 2005; a £7.5 million production facility for Tulip Ltd and £8 million of infrastructure works for Carillion Building at Latimer Park. Work also continued on the delivery of Traffic Management Schemes for Cambridgeshire County Council as part of a term contract. The team in the east has also been successful in securing contracts with the MoD and United States Air Force for projects on air bases.

#### **Construction – Design & Build**

Our Design & Build division continues to support the regions in the procurement and management of projects. Significant projects completed during 2005/06 included a PC World and Currys building in Preston and an extension to a production facility for Tulip Ltd at Coalville valued at over £7 million. We also continue to deliver work on our design & build term contracts such as the highways improvements with Dudley MBC.

#### **Construction – Regeneration**

Work has continued on our £27 million mine stabilisation project to fill four abandoned salt mines beneath Northwich, with two of the mines already filled. We believe this to be the largest ever bulk mine infilling project and the largest ever single use of PFA as a grout in the UK. Two trains a day, each carrying 1120 tonnes of PFA from Drax in North Yorkshire, arrive at our specially constructed rail sidings and mixing plant, and to date we have pumped grout through over 100 boreholes throughout Northwich at the same time as removing the displaced brine. Completion of the other two mines is on target for summer 2007.

## **Chief Executives review** *(continued)*

### **Utilities**

The term contract with BT for the whole of Wales continues to provide steady turnover providing the base to explore other telecommunications opportunities. Significant improvements have been made to the quality of service we provide in a number of areas which has improved customer satisfaction measures. We believe we are well placed to respond to new opportunities for BT with their 21<sup>st</sup> Century Build initiative.

2005 also saw our Utilities division diversify into gas works carrying out £4 million of replacement work for our partners Morgan Est in the West Midlands. Following our successful entry into this market we continue to work in partnership to take advantage of significant opportunities in other regions throughout the country.

### **Rail**

Work has continued on delivering pollution prevention measures, working direct for Network Rail, at their Light Maintenance Depots across England and Wales. Projects have also been successfully completed for sea defences in North Wales, a new £0.5 million station building at Horwich Parkway, and £0.5 million of paving works for Freightliner in Manchester.

### **Plant and Transport**

Our continuous policy of investing in plant and equipment brings unique advantages to all sectors of our activities. The increasing need for more effective utilisation of mechanised plant is an essential factor in efficient contract delivery. At Wrekin we have pursued an active plant investment programme since the company was formed in 1960. This policy has given us huge experience in selection and operation of plant with the aim of achieving optimum contract performance.

One of the many advantages of our plant ownership experience is that we have total knowledge of our plant capability. We constantly review plant developments and innovations from worldwide manufacturers and our requirements are selected with the advice and knowledge of our maintenance and operational teams. This experienced choice ensures that we have the right plant for efficient completion of our contracts, with the added benefit that health and safety issues are addressed through the consultation process. Our plant is fully maintained for reliable performance by staff who in many cases have been team members since their apprenticeship with the company and operated by a team member who has had a say in the machine choice and knows its capability 'inside out'.

Where contracts present new challenges for unusual and individual plant requirements, our engineering staff can provide unique and inventive modifications to machines, making sure there is always an efficient solution to the problem.

Our plant investment programme ensures that plant is always available when it is needed and that it is to the latest specification available, in particular with regard to health and safety.

Our medium and long-term aspirations are to increase the usage of internal plant from its current 60:40 base.

### **Quality, Health, Safety and Environment**

Caring for the safety, health and well-being of our employees and everyone affected by our activities is of critical importance to us and during the past year we have continued to focus strongly on improving health and safety (H&S). Over the past year our accident frequency rate (AFR) has reduced from 0.42 to 0.24, achieved through a zero tolerance approach by the whole team, an achievement we are proud of, but we acknowledge that we must keep improving to achieve our goal of zero accidents. We strive for continual improvement and will be seeking another 10% reduction in our AFR for 2006/07.

Our successful management of H&S has been recognised by the British Safety Council with an International Safety Award for our performance during 2005 to add to our previous seven annual awards.

Our H&S Management System has been developed in accordance with ISO 18001 and we aim to achieve official registration during 2006.

## **Chief Executives review** *(continued)*

### **Quality, Health, Safety and Environment** *(continued)*

We are continuing with the development of our existing Quality Management Systems to provide proven processes and procedures for the whole works process. We are also pleased to confirm our certification to the new ISO 14001:2004 environmental standards.

Our approach and commitment to customer care is demonstrated through high levels of site management and we continue to register all our sites with the Considerate Constructors Scheme. Our approach during the past year has been rewarded with twelve individual site awards.

### **People**

We recognise that the success of our business is down to the people who work for it. In turn we are committed to providing all our staff with the right training and skills development to allow personal goals and career aspirations to be met.

Our objective for 2005/06, which will continue in the future, has been to recruit and retain staff with the best skills available, to invest in the development of our employees to meet our clients' needs and to provide a working environment in which staff can flourish.

We are committed to maintaining and investing in our in-house training capability and have begun work at our head office in Shifnal to provide improved training facilities for Wrekin staff and external clients. This new facility is scheduled for completion in September 2006.

We continue to invest heavily in the training and development of our employees in both internal and external programmes. During 2005 we undertook a review of our management training, which has since seen 20 senior managers and directors go through comprehensive executive development and a further thirty managers receive a detailed management development programme over a four month period. This will continue during 2006/07 with 30 different managers receiving similar training and others having refresher modules.

We are committed to providing the right working environment for all our staff and in order to achieve this we listen to and take on board their views. Over 50% of our employees completed our new employee survey in February 2006, which has now set the benchmark of their understanding of our direction and strategy. Following this a number of improvement initiatives have been put in place, and subsequent surveys will be carried out every six months to assess our performance.

In early 2006 we also put in place a new performance incentive scheme for all staff which will provide bonus payments that reflect personal, divisional and group performance.

### **Strategy**

During 2005 there was a significant restructuring of the business, which is now delivering improvements in results. It also saw the development of our five-year business plan which places the emphasis on growing the business through maintaining our existing client relationships and developing new business sectors and clients, in areas that fit our future business strategy.

The plan contains a programme of targets, activities and actions which will be regularly monitored to ensure that our strategy is right for moving the business forward and for achieving our vision "to be the contractor and employer of first choice for those who share our values".

We believe that our vision and values will continue to differentiate us from our competitors, through working in collaboration with our clients and living and believing in our core values. This will be crucial in maintaining and developing our reputation for being professional, fair and reasonable, user friendly and non-adversarial, providing the essential company attributes to sustain the long-term successful growth of our business.

## Chief Executives review *(continued)*

### Outlook

The greatly improved results for 2005/06 reflect the hard work and effort put in by the staff across the whole of the Wrekin business. In resolving the majority of the legacy contracts we are now in a position to look forward, to build on our successes of the past to achieve the targets for profitability and growth set out in our five-year business plan.

We have a very strong pipeline of opportunities focussing on our chosen markets and chosen clients, allowing us to be more selective with the work and services we deliver.

We see the foundations we have put in place allowing us to sustain the trading profitability and growth of the ongoing business, making 2006/07 a more successful year.

In conclusion we see a promising future and our thanks go out to all our staff for their considerable efforts.



GJ Worthington  
Chief Executive

14 July 2006

## Directors' report

The directors present their annual report and the audited financial statements for the 15 month period ended 31 March 2006.

### Principal activities and business review

The principal activities of the company continue to be that of contracting.

The company's results and financial position are set out in these financial statements. Profit before taxation for the fifteen month period to 31 March 2006 was £775,000 (*year ended 31 December 2004: loss £2,552,000*). The 2004 comparatives have been restated to reflect changes to accounting standards which are noted in note 1 and note 21.

### Proposed dividend

The directors do not propose the payment of a dividend (*year ended 31 December 2004: £Nil*).

### Directors and directors' interests

The directors who served during the period were as follows:

Mr GJ Worthington	
Mr PW Greenwood	
Mr GAR Martin	(resigned 23 June 2005)
Mr A Moss	(resigned 22 June 2005)
Mr PW Richardson	(appointed 4 August 2005)
Mr DC Blount	(appointed 9 February 2005)
Mr NJ Ibbotson	(appointed 4 August 2005)
Mr A Dinsdale	(appointed 18 July 2005)
Mr CJM Williamson	(appointed 4 April 2005)

The interests of the directors in the shares of the ultimate holding company, Wrekin Group Plc, are disclosed in the financial statements of that company.

Mr DC Blount, Mr A Dinsdale and Mr CJM Williamson did not hold any interest in the ultimate holding company.

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 £2,065 (*year ended 31 December 2004: £1,724*).

### Creditors' payment policy

It is the group policy to pay creditors in accordance with the 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 March 2006 were 66 days (*31 December 2004: 63 days*).

## **Directors' report** *(continued)*

### **Auditors**

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company will be proposed at the annual general meeting.

Approved by the board of directors



**Mr GJ Worthington**  
*Director*

Lamledge Lane  
Shifnal  
Shropshire  
TF11 8BE

14 July 2006



## **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to 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 period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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 LLP

2 Cornwall Street  
Birmingham  
B3 2DL

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

We have audited the financial statements of Wrekin Construction Company Limited for the period ended 31 March 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. 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 auditor's 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**

As described in the Statement of Directors' Responsibilities on page 5, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant 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 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 and consider the implications for our report if we become aware of any apparent misstatements within it.

### **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 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.

**Independent auditors' report to the members of Wrekin Construction Company Limited** *(continued)*

**Opinion**

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its profit for the period then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

**KPMG LLP**  
*Chartered Accountants*  
*Registered Auditor*

14 July 2006

## Profit and loss account

for the 15 month period ended 31 March 2006

	Note	15 month period ended 31 March 2006 £000	Year ended 31 December 2004 (restated) £000
Turnover	2	132,769	114,266
Own work capitalised		200	-
Raw materials and consumables		(22,442)	(21,690)
Other external charges		(70,021)	(63,209)
Staff costs	3	(30,158)	(21,381)
Depreciation and other amounts written off tangible and intangible fixed assets		(3,280)	(2,319)
Other operating charges		(5,790)	(7,764)
Operating profit before exceptional items		1,278	1,805
Exceptional operating items (see note 6)		-	(3,902)
<b>Operating profit/(loss)</b>		<b>1,278</b>	<b>(2,097)</b>
Profit on sale of fixed assets		329	159
Other interest receivable and similar income	4	24	2
Interest payable and similar charges	5	(363)	(304)
Other finance costs	22	(493)	(312)
<b>Profit/(loss) on ordinary activities before taxation</b>	6	<b>775</b>	<b>(2,552)</b>
Tax on profit/(loss) on ordinary activities	8	(477)	593
<b>Profit/(loss) on ordinary activities after taxation, being profit for the financial period</b>		<b>298</b>	<b>(1,959)</b>

The above results are wholly derived from continuing operations.


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.

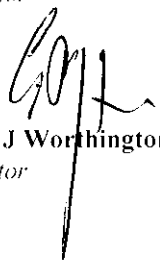
The movements in reserves are set out in note 18.

**Balance sheet**  
 at 31 March 2006

	Note	31 March 2006		31 December 2004 (restated)	
		£000	£000	£000	£000
<b>Fixed assets</b>					
Intangible assets	9		1,166		1,814
Tangible assets	10		9,464		8,613
Investments	11		100		100
			<u>10,730</u>		<u>10,527</u>
<b>Current assets</b>					
Stocks	12	294		344	
Debtors	13	15,908		18,510	
Cash at bank and in hand		4,376		2,782	
		<u>20,578</u>		<u>21,636</u>	
<b>Creditors: Amounts falling due within one year</b>	15	<u>(24,224)</u>		<u>(25,154)</u>	
<b>Net current liabilities</b>			<u>(3,646)</u>		<u>(3,518)</u>
<b>Total assets less current liabilities</b>			<u>7,084</u>		<u>7,009</u>
<b>Creditors: Amounts falling due after more than one year</b>	16		<u>(1,671)</u>		<u>(1,510)</u>
<b>Net assets excluding pension liability</b>			<u>5,413</u>		<u>5,499</u>
Pension liability	22		<u>(5,807)</u>		<u>(7,715)</u>
<b>Net liabilities</b>			<u>(394)</u>		<u>(2,216)</u>
<b>Capital and reserves</b>					
Called up share capital	17		8		8
Revaluation reserve	18		903		903
Profit and loss account	18		<u>(1,305)</u>		<u>(3,127)</u>
<b>Shareholders' funds (all equity interests)</b>			<u>(394)</u>		<u>(2,216)</u>

These financial statements were approved by the board of directors on 14 July 2006 and were signed on its behalf by:

  
 Mr PW Greenwood  
 Director

  
 Mr GJ Worthington  
 Director

## Reconciliation of movements in shareholders' funds

for the 15 month period ended 31 March 2006

	15 month period ended 31 March 2006 £000	Year ended 31 December 2004 (restated) £000
<b>Profit/(loss) for the financial period</b>	<b>298</b>	<b>(1,959)</b>
Actuarial gain/(loss) recognised in the pension scheme	2,177	(1,614)
Deferred tax arising on gains/(losses) in the pension scheme	(653)	484
<b>Net increase/(reduction) in shareholders' funds</b>	<b>1,822</b>	<b>(3,089)</b>
Opening shareholders' funds (restated)	(2,216)	873
<b>Closing shareholders' funds</b>	<b>(394)</b>	<b>(2,216)</b>

**Statement of total recognised gains and losses**  
*for the 15 month period ended 31 March 2006*

	Period ended 31 March 2006 £000	2004 Restated (see note 22) £000
<b>Profit/(loss) for the financial period</b>	<b>298</b>	<b>(1,959)</b>
Actuarial gain/(loss) recognised in the pension scheme	2,177	(1,614)
Deferred tax arising on (gains)/losses in the pension scheme	(653)	484
<b>Total recognised gains and losses relating to the financial period</b>	<b>1,822</b>	<b>(3,089)</b>
Prior year adjustment on the full adoption of FRS 17 (as explained in note 21)	(7,565)	
<b>Total gains and losses recognised since last annual report</b>	<b>(5,743)</b>	

## 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.

#### *Prior year adjustment*

The group has adopted the full requirements of FRS 17: Retirement Benefits during the current year, affecting a change in its accounting policy for pensions. The effects of this change are recorded in the financial statements as a prior year adjustment. The effect of this change in accounting policy is to increase profit for the financial year ended 31 December 2004 by £176,000 and reduce net assets at 31 December 2004 by £7,565,000.

#### *Basis of preparation*

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

These financial statements present information about the company as an individual company and not about its group. The company is exempt under Section 228 of the Companies Act 1985 from the obligation to prepare group financial statements as it is a wholly owned subsidiary undertaking of another body corporate.

#### *Investments*

Investments in subsidiary undertakings are shown at cost less provisions for any permanent diminution in value.

#### *Tangible fixed assets and depreciation*

The company has followed the transitional arrangements of FRS 15 and has retained previous revalued amounts as cost for this purpose.

Depreciation is provided on a straight line basis to write off the cost or valuation less the estimated residual value of tangible fixed assets over their estimated useful economic lives as follows:

Freehold buildings	50 years
Plant, equipment and motor vehicles	2-8 years

Freehold land is not depreciated.

#### *Goodwill*

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

#### *Long term contracts*

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less that transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

#### *Taxation*

The charge for taxation is based on the result for each year and takes into account deferred taxation, calculated in accordance with the requirements of FRS19 "Deferred taxation". Deferred tax assets or liabilities are calculated on a non-discounted full provision basis in respect of timing differences that are expected to reverse in future years.



## Notes (continued)

### 1 Accounting policies (continued)

#### Pensions

The company 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 company's finances. Contributions for the defined benefit scheme are based on pension costs across the company as a whole and are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. Contributions to the defined contribution schemes are charged to the profit and loss account as incurred.

The pension scheme deficit is recognised in full and presented on the face of the balance sheet. The movement in the scheme deficit is split between operating charges, financing items and in the statement of total recognised gains and losses, actuarial gains and losses.

#### 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 in respect of contracting represents the total value of work executed during the period, 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 period, analysed by category, was as follows:

	Number of employees	
	15 month period ended 31 March 2006	Year ended 31 December 2004
Administration and supervision	169	158
Contract operations	617	597
	<hr/> 786	<hr/> 755

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	26,630	18,962
Social security costs	2,551	1,736
Other pension costs	977	683
	<hr/> 30,158	<hr/> 21,381

**Notes (continued)**

**4 Interest receivable**

	15 month period ended 31 March 2006 £000	Year ended 31 December 2004 £000
Other interest receivable	24	2

**5 Interest payable and similar charges**

	15 month period ended 31 March 2006 £000	Year ended 31 December 2004 £000
On bank overdrafts	134	145
Finance charges in respect of finance lease and hire purchase contracts	215	132
Other financing charges	14	27
	<u>363</u>	<u>304</u>

**6 Profit/(loss) on ordinary activities before taxation**

	15 month period ended 31 March 2006 £000	Year ended 31 December 2004 £000
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*Profit/(loss) on ordinary activities before taxation is stated*

*after charging*

Auditors' remuneration and expenses:		
Audit	50	43
Other services	20	7
Rentals payable under operating leases:		
Hire of plant and machinery	6,638	6,216
Other operating leases	15	14
Depreciation:		
Owned assets	906	761
Leased assets	1,726	1,040
Goodwill amortisation	648	517
Exceptional contract losses	-	3,902

The audit fee is borne by Wrekin Group plc and recharged to the company.

The exceptional operating costs in 2004 relate to two specific contracts. The losses on these contracts were so significant they were deemed to be exceptional. Additional non recurring management costs were incurred resolving these issues.

## Notes (continued)

### 7 Directors' remuneration

	15 month period ended 31 March 2006 £000	Year ended 31 December 2004 £000
Aggregate directors' remuneration:		
Emoluments	324	406
Compensation for loss of office	40	39
Company contributions to pension schemes	47	67
	<u>411</u>	<u>512</u>
		Number
Number of directors who are:		
Members of money purchase pension schemes	4	5
Members of defined benefit pension schemes	3	4
	<u>£000</u>	<u>£000</u>
Highest paid director:		
Total remuneration excluding pension contributions	<u>118</u>	<u>129</u>

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 period end, was £29,000, and his accrued lump sum was £72,000. Directors remuneration as executives includes £47,000 paid to a third party for the services of one director.

### 8 Tax on profit/(loss) on ordinary activities

#### Analysis of charge/(credit) in period

	15 month period ended 31 March 2006		Year ended 31 December 2004 (restated)	
	£000	£000	£000	£000
<i>UK corporation tax</i>				
Current tax on income for the period		8		(78)
Adjustments in respect of prior periods		-		(62)
		<u>8</u>		<u>(140)</u>
<i>Deferred tax (see note 14)</i>				
Origination/reversal of timing differences	459		(485)	
Adjustment in respect of previous periods	10		32	
		<u>469</u>		<u>(453)</u>
		<u>477</u>		<u>(593)</u>
Tax on profit/(loss) on ordinary activities				

## Notes (continued)

### 8 Tax on profit/(loss) on ordinary activities (continued)

#### Factors affecting the tax charge/(credit) for the current period

The current tax credit for the period is lower (year ended 31 December 2004: lower) than the standard rate of corporation tax in the UK of 30%. The differences are explained below.

	15 month period ended 31 March 2006 £000	Year ended 31 December 2004 (restated) £000
<i>Current tax reconciliation</i>		
Profit/(loss) on ordinary activities before tax	775	(2,552)
	<hr/>	<hr/>
Current tax at 30% (year ended 31 December 2004: 30%)	233	(766)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	244	205
Capital allowances for period in excess of depreciation	13	(25)
(Utilisation)/recognition of tax losses	(366)	661
Movement in short term timing differences	53	-
Movement in timing differences on pension liabilities	(165)	(75)
Profits at small companies rate	(4)	-
Adjustment in respect of previous periods	-	(140)
	<hr/>	<hr/>
Total current tax charge/(credit) (see above)	8	(140)

### 9 Intangible assets

	Goodwill £000
<i>Cost</i>	
At beginning and end of period	2,505
	<hr/>
<i>Amortisation</i>	
At beginning of period	691
Charge in period	648
	<hr/>
At end of period	1,339
	<hr/>
<i>Net book value</i>	
At 31 March 2006	1,166
	<hr/>
At 31 December 2004	1,814
	<hr/>

The goodwill relates to the company's acquisition of the trade and net assets of an indirectly owned subsidiary, Wrekin Cable Services Limited, on 1 September 2003. The goodwill will be amortised over 58 months, being the directors' assessment of its remaining useful life.

**Notes (continued)**

**10 Tangible fixed assets**

	Freehold land and buildings	Plant, equipment and motor vehicles	Assets in the course of construction	Total
	£000	£000	£000	£000
<b>Cost or valuation</b>				
At beginning of period	4,500	14,282	-	18,782
Additions	200	3,237	196	3,633
Disposals	-	(2,488)	-	(2,488)
At end of period	4,700	15,031	196	19,927
<b>Depreciation</b>				
At beginning of period	621	9,548	-	10,169
Charged in period	86	2,546	-	2,632
Disposals	-	(2,338)	-	(2,338)
At end of period	707	9,756	-	10,463
<b>Net book value</b>				
At 31 March 2006	3,993	5,275	196	9,464
At 31 December 2004	3,879	4,734	-	8,613
The gross book value represents items:				
At cost	2,900	15,031	196	18,127
At 1989 valuation	1,800	-	-	1,800
	4,700	15,031	196	19,927

The cost or valuation of freehold land and buildings of £4,700,000 (31 December 2004: £4,500,000) includes non-depreciable land of £1,117,000 (31 December 2004: £1,117,000).

The following information relates to assets carried at revalued amounts which have been retained under the transitional provisions set out in FRS 15 "Tangible fixed assets".

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.

## Notes (continued)

### 10 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:

	31 March 2006 £000	31 December 2004 £000
Cost	897	897
Accumulated depreciation based on historical cost	(163)	(150)
Historical cost net book value	734	747

The net book value of tangible assets includes an amount of £3,922,000 (31 December 2004: £3,245,000) in respect of assets held under finance leases and hire purchase contracts.

The amount of depreciation allocated during the period for such assets amounts to £1,726,000 (31 December 2004: £1,040,000).

### 11 Fixed asset investments

	Shares in subsidiary undertakings £000
Cost and net book value	
At beginning and end of period	100

The amounts stated above represent the cost of the company's ownership of the entire issued share capital of Filcom, Holdings Limited, a company incorporated in Great Britain. Filcom Holdings Limited has a wholly-owned subsidiary, Wrekin Cable Services Limited, also incorporated in Great Britain which is a dormant company.

### 12 Stocks

	31 March 2006 £000	31 December 2004 £000
Raw materials and consumables	294	344

### 13 Debtors

	31 March 2006 £000	31 December 2004 (restated) £000
Amounts recoverable on contracts	14,057	17,261
Other trade debtors	361	200
Amounts owed by parent and fellow subsidiary undertakings	23	23
Other debtors	-	180
Prepayments and accrued income	1,223	298
Deferred tax asset (note 14)	244	548
	15,908	18,510

## Notes (continued)

### 14 Deferred tax asset

	31 March 2006 £000	31 December 2004 (restated) £000
At beginning of period	3,855	2,738
Transfer (to)/from profit and loss account	(469)	633
Recognised directly in equity in the statement of total recognised gains and losses	(653)	484
At end of period	2,733	3,855
The deferred tax asset comprises:		
Accelerated capital allowances	5	(14)
Short term timing differences	30	(23)
Unutilised trading losses	209	585
Pensions and post retirement benefits	2,489	3,307
	2,733	3,855
The deferred tax asset is recognised in:		
Debtors	244	548
Pension scheme liability	2,489	3,307
	2,733	3,855

### 15 Creditors: Amounts falling due within one year

	31 March 2006 £000	31 December 2004 (restated) £000
Payments on account	2,024	1,270
Obligations under finance leases and hire purchase contracts (see note 16)	1,379	1,068
Trade creditors	15,299	18,155
Other loans	127	127
Amounts owed to parent and fellow subsidiary undertakings	2,428	1,429
Corporation tax	8	40
Other creditors including taxation and social security	2,614	2,493
Accruals and deferred income	345	317
Deferred consideration	-	255
	24,224	25,154
Other creditors including taxation and social security comprise:		
Social security costs and other taxes	2,381	2,270
Other creditors	233	223
	2,614	2,493

**Notes (continued)**

**16 Creditors: Amounts falling due after more than one year**

	31 March 2006 £000	31 December 2004 £000
Obligations under finance leases and hire purchase contracts	1,618	1,287
Other loans	53	223
	<u>1,671</u>	<u>1,510</u>

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

	£000	£000
Within one year	1,379	1,068
In the second to fifth years inclusive	1,618	1,287
	<u>2,997</u>	<u>2,355</u>

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

**17 Share capital**

	31 March 2006 £000	31 December 2004 £000
<i>Authorised:</i>		
10,000 ordinary shares of £1 each	10	10
<i>Allotted, called up and fully paid:</i>		
7,623 ordinary shares of £1 each	8	8

**18 Reserves**

	Revaluation reserve £000	Profit and loss account £000
At beginning of period as previously stated	903	4,438
Prior year adjustment	-	(7,565)
At beginning of periods as restated	903	(3,127)
Dividends	-	-
Retained profit for the financial period	-	298
Actuarial gain on pension scheme (net)	-	1,524
At end of period	<u>903</u>	<u>(1,305)</u>



## Notes (continued)

### 19 Commitments

Capital commitments at 31 March 2006, for which no provision has been made in these financial statements, were as follows:

	31 March 2006 £000	31 December 2004 £000
Contracted	563	102

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

	31 March 2006		31 December 2004	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
In the second to fifth years inclusive	-	15	-	14

### 20 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.

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's liability under this arrangement at 31 March 2006 was £2,864,000 (31 December 2004: £1,538,000).

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

It is not anticipated that any loss will result to the company from these arrangements.

## Notes (continued)

### 21 Change in accounting policy

As described in note 1, the company has adopted FRS 17 'Retirement benefits' which become effective for accounting periods beginning on or after 1 January 2005. The effect of adopting FRS 17 on 2004 results is set out below:

	2004 £000
Operating profit	564
Other finance costs	(312)
Profit on ordinary activities before taxation	252
Taxation	(76)
Retained profit	176
Recognised gains and losses	(1,130)
Effect in year	(954)
Cumulative effect brought forward	(6,611)
Reduction to net assets	(7,565)

### 22 Pensions

The company operates both money purchase and defined benefit schemes for staff employees and directors. The schemes are funded under a separate trust and therefore the assets of the scheme are held separately from those of the company.

#### *Defined contribution schemes*

The company participates in two defined contribution schemes the Wrekin Group Executive Pension Scheme and a money purchase scheme administered by Building and Civil Engineering Holiday Scheme Management Limited. The amount charged to the profit and loss account in respect of these schemes represents contributions payable in respect of the accounting period. The pension cost for these schemes was £977,000 (*year ended 31 December 2004: £683,000*). Contributions amounting to £102,060 (*year ended 31 December 2004: £84,000*) were payable to the schemes and are included in creditors.

## Notes (continued)

### 22 Pensions (continued)

#### Defined benefit scheme

The group operates a defined benefit scheme, the Wrekin Group Pension Scheme. The defined benefit scheme was closed to new members on 31 August 2003.

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

The most recent valuation was at 1 January 2005. The principal assumptions adopted were future investment returns of 9% per annum, before retirement, 8% per annum after retirement and price inflation of 4% per annum with assets measured at market value. The valuation showed that the market value of the scheme's assets was £11,307,000 at 1 January 2005 and that those assets represented 76% of the benefits that had accrued to members on these assumptions on the Minimum Funding Requirement ("MFR") basis.

The company continues to pay contributions in respect of the past service liability.

The pension cost for the scheme was £Nil (year ended 31 December 2004 (restated): £36,000). Contributions amounting to £91,700 (year ended 31 December 2004: £50,000) were payable to the scheme and are included in creditors.

The valuation was updated by the actuary on an FRS 17 basis as at 31 March 2006.

The major assumptions used by the actuary in this valuation were:

	31 March 2006	31 December 2004	31 December 2003
Rate of increase in salaries	Nil	Nil	Nil
Rate of increase in pensions in payment	3.00%	3.00%	3.00%
Rate of increase in deferred pensions	2.50%	2.50%	3.00%
Discount rate applied to scheme liabilities	5.00%	5.25%	5.50%
Inflation assumption	2.50%	2.50%	2.75%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

## Notes (continued)

### 22 Pensions (continued)

#### Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus are inherently uncertain, were:

	Long term rate of return 31 March 2006	Value at 31 March 2006 £000	Long term rate of return 31 December 2004	Value at 31 December 2004 £000	Long term rate of return 31 December 2003	Value at 31 December 2003 £000
Equities	7.75%	13,471	7.00%	9,313	8.00%	8,179
Bonds	5.00%	1,077	5.25%	1,131	5.25%	1,143
Other – Property	4.50%	649	4.00%	673	5.50%	530
		<u>15,197</u>		<u>11,117</u>		<u>9,852</u>
Present value of scheme liabilities		<u>(23,493)</u>		<u>(22,139)</u>		<u>(19,512)</u>
Deficit in the scheme – pension liability		<u>(8,296)</u>		<u>(11,022)</u>		<u>(9,660)</u>
Related deferred tax asset		<u>2,489</u>		<u>3,307</u>		<u>2,898</u>
Net pension liability		<u><u>(5,807)</u></u>		<u><u>(7,715)</u></u>		<u><u>(6,762)</u></u>

An analysis of the movement in the deficit over the period is as follows:

	31 March 2006 £000	31 December 2004 £000
Deficit in scheme at beginning of period	(11,022)	(9,660)
Current service cost	-	(36)
Contributions paid	1,042	600
Other finance cost	(493)	(312)
Actuarial gain/(loss)	2,177	(1,614)
Deficit in the scheme at end of period	<u>(8,296)</u>	<u>(11,022)</u>

Analysis of other pension costs charged in arriving at operating profit:

	31 March 2006 £000	31 December 2004 £000
Current service cost	-	(36)
Total operating charge	<u>-</u>	<u>(36)</u>

## Notes (continued)

### 22 Pensions (continued)

Analysis of amounts included in other finance costs

	31 March 2006 £000	31 December 2004 £000
Expected return on pension scheme assets	957	752
Interest on pension scheme liabilities	(1,450)	(1,064)
Other finance costs	(493)	(312)

Analysis of amount recognised in the statement of total recognised gains and losses ("STRGL") is as follows:

	31 March 2006 £000	31 December 2004 £000
Actual return less expected return on scheme assets	2,469	277
Experience gains and losses arising on scheme liabilities	(11)	818
Changes in assumptions underlying the present value of scheme liabilities	(281)	(2,709)
Actuarial loss recognised in statement of total recognised gains and losses	2,177	(1,614)

History of experience gains and losses

	31 March 2006		31 December 2004		31 December 2002	
	%	£000	%	£000	%	£000
Difference between the expected and actual return on scheme assets						
Amount		2,469		277		819
Percentage of scheme assets	16%		2%		8%	
Experience gains and losses on scheme liabilities						
Amount		(11)		818		(4,019)
Percentage of present value of scheme liabilities	0%		4%		21%	
Total amount recognised in statement of recognised gains and losses						
Amount		2,177		(1,614)		(4,856)
Percentage of present value of scheme liabilities	9%		7%		25%	

**Notes** *(continued)*

**23 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