

Birch Construction Division Limited

(formerly Granite Construction Limited)

Directors' report and financial statements

30 September 1996

Registered number 688041



Birch Construction Division Limited

(formerly Granite Construction Limited)

Directors' report and financial statements

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Birch Construction Division Limited

(formerly Granite Construction Limited)

Directors and advisors

Directors: PJ Gadsby
CJ Endors BSc
TG Finnegan BSc ARICS
JA Cox BA ACA
WA Smalley
CR Turner
NC Gibson
RC Goodwin (resigned 9 October 1995)

Secretary: JA Cox BA ACA

Registered office: Cedar House
35 Ashbourne Road
Derby
DE22 3FS

Auditors: KPMG
5 Stuart Street
Derby
DE1 2EQ

Solicitors: Bakewells
64 Friargate
Derby
DE1 1OL

Edwards Geldard
St Michaels Court
St Michaels Lane
Derby
DE1 3HQ

Bankers: Royal Bank of Scotland plc
13-19 Derby Road
Nottingham
NG1 5AA

Royal Bank of Scotland plc
41 Cornmarket
Derby
DE1 2DH

Birch Construction Division Limited

(formerly Granite Construction Limited)

Directors' report

The directors present their report and the audited financial statements for the year ended 30 September 1996.

Principal activities and business review

The company's principal activity is traditional and "design and build" construction.

The company has consolidated its position in a very competitive market place whilst achieving a respectable level of profit. With a strong forward order book the company can look forward to 1997 with cautious optimism.

On 10 February 1997, the company changed its name to Birch Construction Division Limited.

Results and dividends

The results for the year are set out on page 7 of the accounts. The directors recommend the payment of a dividend of £67,000 (1995: £41,000).

Directors' interests

None of the directors had any interests in the shares of the company at any time during the year.

The directors' interests in the shares of the ultimate parent company are shown in that company's financial statements.

Creditor payment policy

The company's policy is to agree the terms and conditions of business transactions with its suppliers. Payments are then made in accordance with those terms, provided that the supplier is also complying with all relevant terms and conditions.

Birch Construction Division Limited

(formerly Granite Construction Limited)

Directors' report *(continued)*

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company, is to be proposed at the forthcoming Annual General Meeting.

By order of the board



JA Cox
Secretary

Cedar House
35 Ashbourne Road
Derby
DE22 3FS

24 March 1997

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.



5 Stuart Street
Derby
DE1 2EQ

Report of the auditors to the members of Birch Construction Division Limited *(formerly Granite Construction Limited)*

We have audited the financial statements on pages 5 to 14 in accordance with Auditing Standards.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 September 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to read 'KPMG', written in a cursive style.

KPMG
Chartered Accountants
Registered Auditors

24 March 1997

Birch Construction Division Limited

(formerly Granite Construction Limited)

Statement of accounting policies

The significant accounting policies adopted are as follows:

Accounting convention

The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable accounting standards.

Turnover

Turnover represents the invoiced value of sales and other services provided during the year, exclusive of value added tax.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In respect of finished goods and work in progress, cost represents the cost of purchase and an appropriate proportion of fixed and variable overheads. Net realisable value is the estimated selling price after allowing for the cost of realisation.

Turnover is recognised when invoiced and the attributable profit is calculated with respect to invoiced turnover. Contract work in progress is stated after the deduction of any foreseeable losses and progress payments received and receivable.

Depreciation and amortisation

Fixed assets are depreciated on a straight line basis over their estimated useful lives at rates which reduce them to their estimated residual value. The principal rates adopted are as follows:

| | |
|-----------------------|-----|
| Plant and machinery | 15% |
| Motor vehicles | 25% |
| Fixtures and fittings | 25% |

Leases and hire purchase

Assets acquired by leasing arrangements which give rights approximating to ownership ('finance leases') and similar hire purchase agreements are capitalised at the amount representing the outright purchase price of such assets and are depreciated in line with assets purchased outright.

The capital element of future rentals is treated as a liability and the interest element is charged to the profit and loss account over the period of the agreements in proportion to the balance outstanding.

Expenditure on leases other than finance leases ('operating leases') is charged to the profit and loss account on a straight line basis over the lease period.

Birch Construction Division Limited

(formerly Granite Construction Limited)

Statement of accounting policies *(continued)*

Taxation

The charge for taxation is based upon the profit for the year and takes into account deferred taxation on timing differences to the extent that a liability is expected to arise in the foreseeable future.

Pension costs

Pension costs are charged to the profit and loss account in the year in which they are incurred.

Cash flow statement

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking.

Birch Construction Division Limited

(formerly Granite Construction Limited)

Profit and loss account

for the year ended 30 September 1996

| | Note | 1996 £000 | 1995 £000 |
|------------------------------------------------------|------|--------------|--------------|
| Turnover | 1 | 23,550 | 29,463 |
| Cost of sales | | (22,108) | (27,740) |
| Gross profit | | 1,442 | 1,723 |
| Administrative expenses | | (1,506) | (1,703) |
| Operating (loss)/profit | | (64) | 20 |
| Profit on disposal of fixed assets | | 10 | 7 |
| Interest receivable | 4 | 182 | 195 |
| Interest payable | 5 | (15) | (19) |
| Profit on ordinary activities before taxation | 6 | 113 | 203 |
| Tax on profit on ordinary activities | 7 | (34) | (64) |
| Profit on ordinary activities after taxation | | 79 | 139 |
| Equity dividend proposed | | (67) | (41) |
| Retained profit for the year | 16 | 12 | 98 |

The company had no recognised gains or losses other than those disclosed above.

All results were derived from continuing activities.

Birch Construction Division Limited

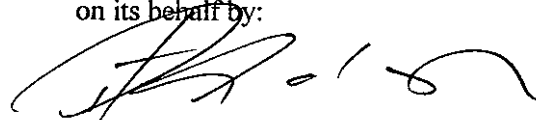
(formerly Granite Construction Limited)

Balance sheet

as at 30 September 1996

| | Notes | 1996 £000 | 1995 £000 |
|----------------------------------------------------------------|-------|----------------|----------------|
| Fixed assets | | | |
| Tangible assets | 8 | 296 | 381 |
| Current assets | | | |
| Stocks and work in progress | 9 | 1,840 | 1,643 |
| Debtors | 10 | 3,894 | 3,172 |
| Cash at bank and in hand | | 2,940 | 4,266 |
| | | <u>8,674</u> | <u>9,081</u> |
| Creditors: amounts falling due within one year | 11 | <u>(7,441)</u> | <u>(7,931)</u> |
| Net current assets | | <u>1,233</u> | <u>1,150</u> |
| Total assets less current liabilities | | <u>1,529</u> | <u>1,531</u> |
| Creditors: amounts falling due after more than one year | 12 | (34) | (42) |
| Provisions for liabilities and charges | 14 | (4) | (10) |
| | | <u>1,491</u> | <u>1,479</u> |
| Capital and reserves | | | |
| Called up share capital | 15 | 14 | 14 |
| Capital redemption reserve | 16 | 6 | 6 |
| Profit and loss account | 16 | 1,471 | 1,459 |
| Equity shareholders' funds | 17 | <u>1,491</u> | <u>1,479</u> |

These financial statements were approved by the board of directors on 24 March 1997 and signed on its behalf by:



PJ Gadsby
Director

Birch Construction Division Limited

(formerly Granite Construction Limited)

Notes

(forming part of the financial statements)

1 Turnover

The turnover and profit before taxation are attributable to the principal activities of the company and arose entirely in the United Kingdom.

2 Directors and employees

The average number of persons (including directors) employed by the company during the year was:

| | 1996 Number | 1995 Number |
|-------------------------------|----------------|----------------|
| Production | 25 | 29 |
| Management and administration | 46 | 55 |
| | <u>71</u> | <u>84</u> |

The aggregate payroll costs were:

| | 1996 £000 | 1995 £000 |
|-----------------------|--------------|--------------|
| Wages and salaries | 1,202 | 1,385 |
| Social Security costs | 96 | 124 |
| Other pension costs | 56 | 62 |
| | <u>1,354</u> | <u>1,571</u> |

3 Directors' emoluments

| | 1996 £000 | 1995 £000 |
|---------------------------------------------------------|--------------|--------------|
| Directors' emoluments (including pension contributions) | <u>165</u> | <u>216</u> |

Excluding pension contributions, the emoluments paid to the highest paid director were £41,000 (1995: £41,000).

The Chairman did not receive emoluments from the company in the year (1995: £nil).

The number of directors (including the Chairman and highest paid director) who received emoluments in the year (excluding pension contributions) in the following ranges were:

| | 1996 Number | 1995 Number |
|-------------------|----------------|----------------|
| £0 - £5,000 | 4 | 2 |
| £10,001 - £15,000 | - | 1 |
| £35,001 - £40,000 | 2 | 3 |
| £40,001 - £45,000 | 2 | 2 |
| | <u>8</u> | <u>8</u> |

Birch Construction Division Limited

(formerly Granite Construction Limited)

Notes (continued)

4 Interest receivable

| 1996 | 1995 |
|------|------|
| £000 | £000 |

| | | |
|---------------|-----|-----|
| Bank interest | 182 | 195 |
|---------------|-----|-----|

5 Interest payable

| 1996 | 1995 |
|------|------|
| £000 | £000 |

| | | |
|----------------------------|----|----|
| On hire purchase contracts | 15 | 19 |
|----------------------------|----|----|

6 Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after charging/(crediting) the following:

| 1996 | 1995 |
|------|------|
| £000 | £000 |

| | | |
|---------------------------------------------|------|-----|
| Depreciation of tangible fixed assets | 127 | 128 |
| Hire of plant and machinery | 546 | 835 |
| Auditors' remuneration - for audit services | 10 | 9 |
| Profit on sale of fixed assets | (10) | (7) |

7 Taxation

The taxation charge is based on the results for the year and comprises:

| 1996 | 1995 |
|------|------|
| £000 | £000 |

| | | |
|---------------------------------------|-----|-----|
| UK corporation tax at 33% (1995: 33%) | 41 | 69 |
| Prior year adjustment | (1) | (2) |
| Deferred taxation | (6) | (3) |
| | 34 | 64 |

Birch Construction Division Limited

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Notes (continued)

8 Tangible fixed assets

| | Plant and Machinery £000 | Fixtures and Fittings £000 | Motor Vehicles £000 | Total £000 |
|-----------------------|--------------------------------|-------------------------------------|---------------------------|---------------|
| <i>Cost</i> | | | | |
| At 1 October 1995 | 21 | 145 | 606 | 772 |
| Additions | - | 1 | 77 | 78 |
| Disposals | - | - | (132) | (132) |
| Intra group transfers | - | - | (5) | (5) |
| At 30 September 1996 | 21 | 146 | 546 | 713 |
| <i>Depreciation</i> | | | | |
| At 1 October 1995 | 16 | 95 | 280 | 391 |
| Charge for the year | 1 | 22 | 104 | 127 |
| Disposals | - | - | (98) | (98) |
| Intra group transfers | - | - | (3) | (3) |
| At 30 September 1996 | 17 | 117 | 283 | 417 |
| <i>Net book value</i> | | | | |
| At 30 September 1996 | 4 | 29 | 263 | 296 |
| At 30 September 1995 | 5 | 50 | 326 | 381 |

Included in motor vehicles is £191,000 (1995: £289,000) in respect of the net book value of assets acquired under hire purchase contracts, the depreciation charge for the year on which amounted to £54,000 (1995: £89,000).

9 Stocks and work in progress

| | 1996 £000 | 1995 £000 |
|----------------------------------|--------------|--------------|
| Long term contract balance: | | |
| Net cost less foreseeable losses | 1,840 | 1,643 |

10 Debtors

| | 1996 £000 | 1995 £000 |
|-----------------------------------------------------------|--------------|--------------|
| Trade debtors | 2,473 | 2,733 |
| Amounts owed by parent and fellow subsidiary undertakings | 927 | 172 |
| Other debtors | - | 225 |
| Prepayments and accrued income | 494 | 42 |
| | 3,894 | 3,172 |

Birch Construction Division Limited

(formerly Granite Construction Limited)

Notes (continued)

11 Creditors: amounts falling due within one year

| | 1996 £000 | 1995 £000 |
|----------------------------------------------------------|--------------|--------------|
| Trade creditors | 2,753 | 3,032 |
| Obligations under hire purchase contracts | 63 | 102 |
| Amounts due to parent and fellow subsidiary undertakings | 16 | 761 |
| Proposed dividend | 67 | 41 |
| Corporation tax | 41 | 17 |
| Other taxes and social security | 157 | 78 |
| Other creditors | 66 | 104 |
| Accruals and deferred income | 4,278 | 3,796 |
| | <u>7,441</u> | <u>7,931</u> |

12 Creditors: amounts falling due after more than one year

| | 1996 £000 | 1995 £000 |
|-------------------------------------------|--------------|--------------|
| Obligations under hire purchase contracts | 34 | 42 |
| | <u>34</u> | <u>42</u> |

13 Obligations under hire purchase contracts

The hire purchase payments to which the company was committed at 30 September 1996 are due within the following periods from the balance sheet date.

| | 1996 £000 | 1995 £000 |
|--------------------------------------------|--------------|--------------|
| Within one year | 71 | 115 |
| Between two and five years | 38 | 47 |
| | <u>109</u> | <u>162</u> |
| Less: interest allocated to future periods | (12) | (18) |
| | <u>97</u> | <u>144</u> |

14 Provisions for liabilities and charges

Deferred taxation

| | £000 |
|----------------------------------------|----------|
| At 1 October 1995 | 10 |
| Transferred to profit and loss account | (6) |
| | <u>4</u> |
| At 30 September 1996 | <u>4</u> |

Birch Construction Division Limited

(formerly Granite Construction Limited)

Notes (continued)

14 Provisions for liabilities and charges (continued)

The maximum potential deferred tax liability and the amount provided was as follows:

| | 1996 £000 | 1995 £000 |
|--------------------------------|--------------|--------------|
| Accelerated capital allowances | 6 | 13 |
| Short term timing differences | (2) | (3) |
| | <u>4</u> | <u>10</u> |

15 Called up share capital

| | 1996 £000 | 1995 £000 |
|-------------------------------------------|--------------|--------------|
| <i>Authorised</i> | | |
| 50,000 ordinary shares of £1 each | <u>50</u> | <u>50</u> |
| <i>Allotted, called up and fully paid</i> | | |
| 14,000 ordinary shares of £1 each | <u>14</u> | <u>14</u> |

16 Reserves

| | Capital redemption reserve £000 | Profit and loss account £000 |
|------------------------------|------------------------------------------|---------------------------------------|
| At 1 October 1995 | 6 | 1,459 |
| Retained profit for the year | - | 12 |
| | <u>6</u> | <u>1,471</u> |
| At 30 September 1996 | | |

17 Reconciliation of movement in shareholders' funds

| | 1996 £000 | 1995 £000 |
|-------------------------------------|--------------|--------------|
| Profit for the financial year | 79 | 139 |
| Less dividends proposed | (67) | (41) |
| | <u>12</u> | <u>98</u> |
| Net addition to shareholders' funds | 1,479 | 1,381 |
| Opening shareholders' funds | | |
| | <u>1,491</u> | <u>1,479</u> |
| Closing shareholders' funds | | |

Birch Construction Division Limited

(formerly Granite Construction Limited)

Notes (continued)

18 Operating leases

The total amount payable during the following year in respect of obligations under operating leases is as follows:

| Land and buildings | 1996 £000 | 1995 £000 |
|----------------------------------|--------------|--------------|
| <i>On leases expiring within</i> | | |
| One year | 20 | 5 |
| Two to five years | 8 | 43 |
| More than five years | 20 | 20 |
| | <hr/> 48 | <hr/> 68 |
| | <hr/> <hr/> | <hr/> <hr/> |

19 Pension commitments

The company is a member of the group's defined contribution pension scheme for certain directors and employees. The scheme funds are administered by an insurance company and are independent of the group's finances. The contributions to the scheme are charged against profits in the year in which they are made. The charge for the period was £56,000 (1995: £62,000). Pension costs accrued at the year end were £nil (1995: £11,000).

20 Contingent liabilities

The company has a contingent liability at 30 September 1996 of £675,000 (1995: £1,859,000) in respect of performance bonds and bonds for road and sewer agreements of £704,000 (1995: £756,000).

An unlimited cross guarantee is in place for all group companies in respect of any overdrafts and bank loans of the group. At 30 September 1996 the total bank loans and overdrafts relating to other group companies amounted to £7,800,000 (1995: £9,059,000). This does not, however, take into account group bank balances of £6,800,000 (1995: £7,004,000) which result in net group borrowings of £338,000 (1995: £2,055,000). Of the total bank balances, Birch Construction Division Limited has £2,940,000 (1995: £4,266,000) as shown in the balance sheet on page 8. Of the balance £2,054,000 is held within Birch plc (1995: £2,738,000) and £1,804,000 (1995: overdraft of £3,103,000) within Birch Developments Limited.

21 Ultimate parent company

The ultimate parent company is Birch plc, a company incorporated in the United Kingdom and registered in England and Wales. Copies of that company's accounts are available from Cedar House, 35 Ashbourne Road, Derby, DE22 3FS.