TPS Consult Limited

Directors' report and financial statements

For the year ended 31 December 1998
Registered number 2574820

Directors' report and financial statements

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

Principal activities

The company is principally engaged in the provision of architectural, engineering and structural design services.

Business review

Turnover for the year amounted to £16,741,000 *(1997: £16,108,000)* and loss on ordinary activities before taxation was £2,593,000 *(1997: £3,724,000)*.

The directors anticipate that the company will continue its present role during 1999.

The company's ultimate holding company, Tarmac plc, has announced that it intends to separate its two business streams; Construction Services, of which TPS Consult Limited is a part and Heavy Building Materials. Construction Services will be a separately listed company and the Board believes that with a strong order book, Construction Services will continue to improve its performance as a separate business.

Dividend

The directors do not propose the payment of a dividend for the year *(1997: £Nil)*.

Directors and directors' interests

The directors serving during the year were:

DT Simons	(resigned 6 March 1998)
SG Jessup	
BS Engstrom	(appointed 26 May 1998)
G Pearson	(appointed 28 September 1998)
B Pellard	(appointed 9 March 1998 and resigned 26 May 1998)

The directors who held office at the end of the financial year, other than those whose interests are disclosed in the financial statements of the immediate holding company, had the following interests in, and options to subscribe for, ordinary shares of 50p each in Tarmac plc:

Number of shares

	At 31 December 1998		At 1 January 1998 (or later date of appointment)		Share option movements in period		
	Shares	**Share options**	Shares	Share options	granted	exercised	lapsed
SG Jessup	-	**140,000**	-	100,000	40,000	-	-

At 31 December 1998 no director had any beneficial interest in the share or loan capital of any subsidiary of Tarmac plc.

Directors' report *(continued)*

Euro

A Steering Committee, under the chairmanship of Tarmac plc's Finance Director, is responsible for co-ordinating the EMU programme. The Steering Committee is supported by three sub-committees which are fully responsible for implementing the agreed policy.

Key aspects of Tarmac plc policy towards the Euro are:

- As only a small proportion of Tarmac plc's turnover is generated from undertakings in countries joining the Euro in the first wave, the Euro will not be adopted as the base currency for the Tarmac Group;
- It is Tarmac's policy for its businesses in countries joining EMU from 1 January 1999 to continue to keep records in their local currencies and re-express these in Euros as required;
- It is not policy to require any supplier to invoice any Tarmac UK business in Euros; and

Accounting systems will only be amended to handle dual currency transactions with the Euro when it becomes business critical to do so.

Year 2000

Tarmac recognises the importance of the Year 2000 problem and has established a Group-wide programme to ensure that the related risks are mitigated.

The programme, which is monitored regularly at Board level, covers five main areas: business systems and associated hardware, embedded chips in buildings and production facilities, key suppliers, joint ventures and client solutions.

In each area an analysis of the risks has been performed, from which corrective action plans have been developed. These plans are designed to address all key issues well in advance of 31 December 1999, without disruption to the underlying business processes.

The company is one of many which is included within the Tarmac Construction Services Business Stream. The total cost of the programme to the business stream as a whole, along with the amount spent in 1998, is included in the financial statements of Tarmac Construction Limited, the company's controlling entity. The company shares its business systems with Tarmac Construction Limited and for this reason it is not possible to directly apportion costs associated with the Year 2000 problem to this company.

Employees

Communication and consultation within working teams takes place, as appropriate, as part of the normal pattern of every operation.

Every employee receives the annual Employee Report which explains Tarmac Construction Service's financial performance and includes information on significant activities which are taking place. This report is supplemented by a regular publication, Tarmac World, which provides information on activities throughout the Tarmac Group. In addition, every employee receives a copy of On Balance, the quarterly magazine of Tarmac Professional Services.

The establishment and maintenance of safe working practices at all work places is of greatest importance to the company and special training in health and safety is provided for all employees. In addition, competitions are held regularly to encourage greater awareness of and attention to safety.

Directors' report *(continued)*

Employees *(continued)*

The company is an active and enthusiastic supporter of training schemes of all types and is providing valuable training and experience to a large number of young people, as well as increasing its own training commitment to full-time employees.

Equal opportunities

The company is an equal opportunities employer.

It is the policy of the company to give the fullest consideration to the employment needs of all prospective and existing employees. To that end, no job applicant or employee receives less favourable treatment than another on grounds of colour, race, nationality, ethnic or national origin, sex, religion or disability where the work content is commensurate with the individual's particular disability.

Special attention is given to interviewing, selection, recruitment and training to ensure that there is effective implementation of company policy. Promotion is based upon ability, merit and performance taking into account the future needs of the company. Where necessary training is carried out to assist employees to develop potential.

All aspects of employment are regularly reviewed by management to ensure this policy is achieved.

Research and development

The company continues to evaluate new developments in design practices and to adopt those which offer improvements to present practices. It gives active support to research and development organisations working on the problems and needs of the industry. Controlled innovation provides further opportunities to introduce competitive products to clients and to demonstrate technical capabilities.

Creditor payment policy

It is the company's policy to obtain best possible payment terms with its suppliers as part of periodic negotiations. As such there is no uniform payment policy. The company makes every effort to pay suppliers according to the agreed terms and to not knowingly exceed negotiated payment terms.

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.

Directors' report *(continued)*

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming annual general meeting.

Approved by the Board and signed on its behalf by:

J Perrott
Secretary

Construction House
Birch Street
Wolverhampton
WV1 4HY

16 March 1999

KPMG

KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

Report of the auditors to the members of TPS Consult Limited

We have audited the financial statements on pages 6 to 15.

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 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

16 March 1999

Profit and loss account

for the year ended 31 December 1998

	Note	1998 £'000	1997 £'000
Turnover	2	**16,741**	16,108
Cost of sales		**(12,000)**	(11,706)
Gross profit		**4,741**	4,402
Administrative expenses		**(6,733)**	(7,055)
Loss on ordinary activities before interest		**(1,992)**	(2,653)
Other interest receivable		**-**	1
Interest payable to group undertakings		**(601)**	(1,072)
Loss on ordinary activities before taxation	3	**(2,593)**	(3,724)
Taxation on loss on ordinary activities	6	**(693)**	1,417
Loss for the financial year	15	**(3,286)**	(2,307)

All amounts are derived from continuing operations.

The company has no recognised gains or losses in either the current or preceding year other than the losses for those years.

Balance sheet

at 31 December 1998

	Note	**1998**		1997	
		£'000	**£'000**	£'000	£'000
Fixed assets					
Tangible assets	*7*	**520**		299	
Investments	*8*	**-**		-	
			520		299
Current assets					
Stocks	9	**36**		50	
Debtors	*10*	**16,776**		18,196	
Cash at bank and in hand		**103**		166	
		16,915		18,412	
Creditors: amounts falling due within one year	*11*	**(14,135)**		(12,125)	
Net current assets			**2,780**		6,287
Net assets			**3,300**		6,586
Capital and reserves					
Called up share capital	*13*		**44,368**		44,368
Profit and loss account	*15*		**(41,068)**		(37,782)
Equity shareholders' funds	*14*		**3,300**		6,586

These financial statements were approved by the board of directors on 16 March 1999 and signed on its behalf by:

G Pearson
Director

Notes

(forming part of the financial statements)

1 Principal 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:

Basis of accounting

The financial statements have been prepared in accordance with applicable Accounting Standards under the historical cost convention.

Group financial statements

The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare group financial statements and deliver them to the Registrar of Companies. The financial statements therefore present information about the undertaking as an individual undertaking and not about its group. The company is included within the consolidated financial statements of Tarmac plc, the company's parent undertaking.

Cash flow statement

In accordance with Financial Reporting Standard Number 1 "Cash Flow Statements" the company is exempt from the requirement to prepare a cashflow statement on the grounds that Tarmac plc, the company's ultimate parent undertaking includes the company's cashflows in its own published consolidated cashflow statement.

Related parties

The company has taken advantage of the exemption in paragraph 3(c) of Financial Reporting Standard Number 8 "Related Party Disclosures" and has not disclosed details of transactions with entities that are part of the Tarmac plc Group or with investees of that group qualifying as related parties.

Goodwill

Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired) has been eliminated against reserves on acquisition. In accordance with the transitional rules of FRS 10, this treatment which applied under the previous accounting standard has continued to be applied to acquisitions prior to 1 January 1998. Future acquisitions, if any, will follow the provisions of FRS 10 which require the capitalisation of goodwill.

On a subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the amount of any related goodwill not written off through the profit and loss account, including any previously taken direct to reserves.

Long term contracts

Amounts recoverable on contracts, which are included in debtors, are stated at cost plus attributable profit less any foreseeable losses. The profit on each individual contract is the lower of profit earned to date and that forecast at completion. Payments received on account of contracts are deducted from amounts recoverable on contracts. Such amounts which have been received and exceed amounts recoverable are included in creditors.

Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes appropriate overheads.

Notes *(continued)*

1 Principal accounting policies *(continued)*

Depreciation

Depreciation is based on historic cost less estimated residual value of tangible fixed assets and is charged in equal instalments over their estimated useful economic lives, as follows:

Plant, machinery and vehicles 3 years

Deferred taxation

Deferred taxation, calculated using the liability method is included only where the effects of timing differences between results as stated in the financial statements and as computed for taxation purposes are likely to crystallise in the foreseeable future.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded at the rates of exchange ruling at the dates of the transactions. Balances denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date.

Leased assets

All leases are accounted for as operating leases. Rentals are charged to the profit and loss account in equal annual instalments over the life of the lease.

Government grants

Government grants in respect of capital expenditure are credited to the profit and loss account over the life of the related asset.

Pensions

Regular pension costs are established in accordance with the recommendations of independent actuaries and are charged to the profit and loss account based on the expected pension costs over the employees' service lives with the company.

2 Turnover

Turnover is stated exclusive of value added tax and represents the value of work executed during the year for all customers including fellow subsidiary undertakings.

The analysis of turnover by geographical area is as follows:

	1998	1997
	£'000	£'000
United Kingdom	**14,385**	14,165
Europe	**359**	74
USA	**-**	1
Asia	**498**	1,757
Africa	**238**	111
Other	**1,261**	-
	16,741	16,108

Notes *(continued)*

3 Loss on ordinary activities before taxation

	1998 £'000	1997 £'000
Loss on ordinary activities before taxation is stated after charging		
Depreciation of tangible fixed assets	**240**	218
Auditors' remuneration:		
Audit	**26**	22
Operating leases:		
Hire of plant and machinery	**187**	160

4 Directors remuneration

	1998 £	1997 £
Directors' emoluments	**137,712**	128,812
	Number	Number
Number of directors who are members of defined benefit pension schemes	**2**	2

5 Staff numbers and costs

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

	1998 Number	1997 Number
Technical staff	**206**	202
Administration staff	**64**	74
	270	276

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
Wages and salaries	**6,897**	6,942
Social security costs	**616**	620
Other pension costs	**928**	959
	8,441	8,521

Notes *(continued)*

6 Taxation on loss on ordinary activities

The tax (charge)/credit for the year is made up as follows:

	1998 £'000	1997 £'000
Group relief based on the loss for the year	**746**	1,414
Deferred tax	**252**	(188)
Adjustment in respect of prior years	**(1,691)**	237
Overseas tax	**-**	(46)
	(693)	1,417

The movement on deferred tax is shown in note 12.

7 Tangible fixed assets

	Plant, machinery and vehicles £'000
Cost	
At beginning of year	1,994
Additions	476
Group transfers	(14)
Disposals	(49)
At end of year	2,407
Depreciation	
At beginning of year	1,695
Charge in year	240
Group transfers	(6)
Disposals	(42)
At end of year	1,887
Net book value	
At 31 December 1998	**520**
At 31 December 1997	299

Notes *(continued)*

8 Investments

The company holds 100% of the ordinary share capital of the companies noted below. None of the companies have traded since incorporation.

The total cost of the company's investment in subsidiary undertakings is £10. The companies are as follows:

PSA Projects Edinburgh Limited
PSA Projects Birmingham Limited
Property Services Agency Limited
PSA Projects Limited
PSA Limited

9 Stocks

	1998	1997
	£'000	£'000
Work in progress	**36**	50

10 Debtors

	1998	1997
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	**1,568**	2,464
Amounts recoverable on contracts	**2,386**	2,146
Amounts owed by group undertakings	**2,597**	2,509
Amounts owed by associated undertakings	**4**	-
Group relief receivable	**9,184**	10,247
Other debtors	**134**	136
Prepayments and accrued income	**162**	205
	16,035	17,707
Amounts falling due after more than one year:		
Deferred tax (note 12)	**741**	489
	16,776	18,196

11 Creditors: amounts falling due within one year

	1998	1997
	£'000	£'000
Bank loans and overdrafts	**-**	3
Payments received on account - long term contracts	**509**	1,585
Trade creditors	**917**	803
Amounts owed to group undertakings	**9,788**	7,034
Other tax and social security	**285**	287
Other creditors	**690**	1,023
Accruals and deferred income	**1,946**	1,390
	14,135	12,125

Notes *(continued)*

12 Deferred taxation

The assets recognised in respect of deferred taxation are set out below:

	1998 £'000	1997 £'000
Accelerated capital allowances	**662**	357
Other timing differences	**79**	132
	741	489

There is an unrecognised deferred taxation asset of £136,046 at the year end, relating to accelerated capital allowances *(1997: £Nil)*.

The movement on the deferred taxation asset, which is disclosed within other debtors, is as follows:

	£'000
At beginning of year	489
Transfer to profit and loss account	252
At end of year	**741**

13 Share capital

	1998 £'000	1997 £'000
Authorised, allotted, called up and fully paid:		
44,368,024 ordinary shares of £1 each	**44,368**	44,368

14 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Loss for the financial year	**(3,286)**	(2,307)
Opening shareholders' funds	**6,586**	8,893
Closing shareholders' funds	**3,300**	6,586

Notes *(continued)*

15 Reserves

	Goodwill £'000	Profit and loss account £'000	Total £'000
At beginning of year	(19,410)	(18,372)	(37,782)
Reclassification	19,410	(19,410)	-
At beginning of year as restated	-	(37,782)	(37,782)
Loss for the year	-	(3,286)	(3,286)
At end of year	-	(41,068)	(41,068)

In accordance with the transitional provisions of Financial Reporting Standard 10 the goodwill write-off reserve has been transferred to the profit and loss account.

16 Pension contributions

Following the acquisition of the business and assets of the design and project management arm of the former Property Services Agency from HM Government, a scheme was established by deed on 1 December 1992 for employees of the company in the United Kingdom at that date.

The scheme is of the defined benefit type and is funded, with the assets of the scheme being held in trustee administered funds. At the date of the most recent actuarial valuation, 31 December 1997, the resources of the scheme were deemed likely in the normal course of events to meet in full the liabilities of the scheme as they fall due. The surplus held in the scheme at that date was •. A valuation of the scheme will be undertaken by independent qualified actuaries every three years, and the actuary has recommended a valuation as at 31 December 2000. The 31 December 1997 actuarial valuation assumes a return on investment of 7% per annum, and annual salary increases a minimum of 2% higher than the rate of annual pension increases.

On the recommendation of the actuary, employers contributions were 14.1% of members' aggregate pensionable pay with effect from 1 January 1998.

The above scheme is closed to staff who have commenced employment with the company since 1 December 1992. They are invited, if eligible, to join the Tarmac plc pension schemes. These are of the defined benefit type and are for the benefit of all relevant employees of Tarmac plc and its UK subsidiary and associated undertakings ("the group"). The assets of the schemes are held in trustee administered funds separate from those of the group. Details of the latest actuarial valuation of the principal schemes are given in the group's consolidated financial statements. The contributions to the schemes made by the company represent the regular cost of providing the benefits without any recognition of fund surpluses or deficits which are dealt with by Tarmac plc.

17 Commitments

The annual commitments under non-cancellable operating leases was as follows:

	1998 Land and buildings £'000	Other assets £'000	1997 Land and buildings £'000	Other assets £'000
On operating leases which expire:				
Within one year	**7**	-	74	-
Within two to five years inclusive	**194**	-	-	51
	201	-	74	51

Notes *(continued)*

18 Controlling and parent companies

The company's immediate controlling company is Tarmac Professional Services Limited, its immediate parent company, whilst the company's ultimate controlling company is Tarmac plc, its ultimate parent company, both of which are incorporated in Great Britain.

Copies of the group financial statements of Tarmac plc are available from Construction House, Birch Street, Wolverhampton, WV1 4HY.