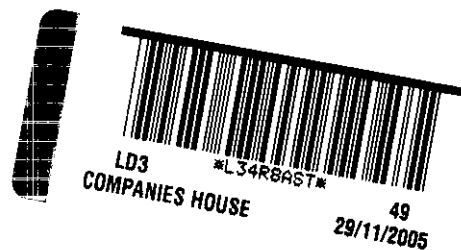


**The Mowlem Construction Company (East Africa)
Limited**

**Directors' report and financial
statements**

Registered number 775010
31 December 2004



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

Principal activities and business review

The principal activity of the Company during the year was the carrying out of civil engineering and drilling contracts in Africa. No change in activity is foreseen for the following year. Operations in East Africa are in the process of being wound down.

Results

The results for the year ended 31 December 2004 are disclosed in the profit and loss account on page 5.

The directors declared an interim dividend of £300,000, paid on 20 December 2004 out of prior years' reserves. No final dividend is proposed (2003:£nil).

Directors and directors' interests

The directors who held office during the year were as follows:

DJ Booth
GT Brown (resigned 31 May 2005)
Mowlem Management Ltd
DJ Ridley

Directors' interests in the ordinary share capital of Mowlem plc, the ultimate holding company were as follows:

	31 December 2004		31 December 2003	
	Beneficially held	Options held	Beneficially held	Options held
DJ Booth	9,318	117	6,561	4,311
GT Brown	124,930	150,538	119,355	163,092
DJ Ridley	25,156	50,000	25,156	100,000

Except as noted above, none of the directors had an interest in the share capital of the Company or any other group company.

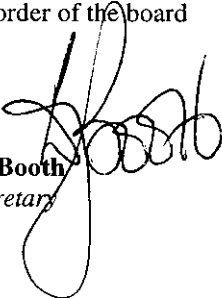
Directors' report *(continued)*

There were no contracts or arrangements in which the directors of the Company had interests which are required to be disclosed under the Companies Act 1985.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution concerning the reappointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board


DJ Booth
Secretary

8 November 2005

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 as at the end of the financial year and of the profit or loss of the company 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; 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 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Independent auditors' report to the members of The Mowlem Construction Company (East Africa) Limited

We have audited the financial statements on pages 5 to 14.

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

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

29 March 2005

P O Box 695
8 Salisbury Square
London EC4Y 8BB

Profit and loss account

for the year ended 31 December 2004

	<i>Note</i>	2004 £	2003 £
Turnover	2	-	-
Operating costs		33,584	(29,743)
		<hr/>	<hr/>
Operating profit / (loss)	3	33,584	(29,743)
Profit on sale of fixed assets		-	39,303
		<hr/>	<hr/>
Profit before interest and tax		33,584	9,560
Interest payable and similar charges	6	-	(1,754)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		33,584	7,806
Tax (charge)/credit on profit on ordinary activities	7	(9,254)	9,105
		<hr/>	<hr/>
Profit on ordinary activities after taxation		24,330	16,911
Dividend paid		(300,000)	-
		<hr/>	<hr/>
Retained (deficit) / profit for the financial year		(275,670)	16,911
		<hr/> <hr/>	<hr/> <hr/>

All operations are continuing.

Reserve movements are given in note 12.

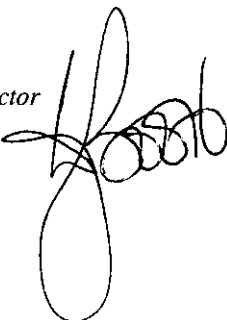
Balance sheet

at 31 December 2004

	Notes	2004 £	2004 £	2003 £	2003 £
Fixed assets					
Tangible assets	8		17,948		19,709
Current assets					
Debtors	9	851,137		700,799	
Cash at bank and in hand		857		648	
		<u>851,994</u>		<u>701,447</u>	
Creditors: amounts falling due within one year	10	(734,611)		(314,727)	
Net current assets			117,383		386,720
Net assets			135,331		406,429
Capital and reserves					
Called up share capital	11		100,000		100,000
Profit and loss account	12		35,331		306,429
Shareholders' funds			135,331		406,429

The notes on pages 8 to 14 form part of these financial statements.

These financial statements were approved by the board of directors on 8th November 2005 and were signed on its behalf by:

Director 

Statement of total recognised gains and losses

for the year ended 31 December 2004

	2004 £	2003 £
Profit for the financial year	24,330	16,911
Currency translation	4,572	51,261
	<hr/>	<hr/>
Total recognised gains relating to the financial year	28,902	68,172
	<hr/> <hr/>	<hr/> <hr/>

Note of historical cost profits and losses

for the year ended 31 December 2004

Historical cost profits and losses are shown in the profit and loss account for the year on page 5.

Reconciliation of movements in shareholders' funds

for the year ended 31 December 2004

	2004 £	2003 £
Profit for the financial year	24,330	16,911
Other recognised gains relating to the year	4,572	51,261
Dividend paid	(300,000)	-
	<hr/>	<hr/>
Net (decrease) / increase in shareholders' funds in the year	(271,098)	68,172
Opening shareholders' funds	406,429	338,257
	<hr/>	<hr/>
Closing shareholders' funds	135,331	406,429
	<hr/> <hr/>	<hr/> <hr/>

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.

Basis of preparation

The Company's financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Turnover

Contracting turnover comprises the value of work executed during the year including the settlement of monetary claims on contracts completed in previous years.

Profit

Operating profit comprises the results of carrying out civil engineering contracts. It includes the results attributable to contracts completed and contracts in progress after deducting amounts recognised in previous years and after making provision for foreseeable losses. Claims receivable are recognised as income when received or certified for payments, except that in estimating the amounts of foreseeable losses, a prudent and reasonable assessment of such claims is made.

Leases

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

Fixed assets and depreciation

Depreciation is provided by the Company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Leasehold land and buildings	-	life of lease
Plant and machinery	-	3 to 5 years

Taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation. In accordance with FRS 19 'Deferred Tax', deferred taxation is provided fully and on a non discounted basis at future corporation tax rates in respect of timing differences between profits computed for taxation and accounts purposes.

Notes (continued)

1. Accounting policies (continued)

Contract work in progress

Contract work in progress is stated at net realisable value which includes attributable profit on contracts and is determined on the basis of measured work to the balance sheet date. Deductions are made for net foreseeable losses and progress payments received are deducted.

This policy is applied irrespective of the length of the contract since, in the opinion of the directors, it is not appropriate to adopt a separate accounting policy for short term contracts

Foreign currencies

Assets and liabilities denominated or recorded in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Trading results are translated at the average rate for the year. Exchange differences arising on the retranslation of the net assets of overseas operations at the commencement of the year and of their retained results for the year are taken to reserves. Other exchange differences arising in the ordinary course of trading, are included in the profit and loss account.

2. Turnover

The Company has only one class of business which is generated in East Africa.

3. Operating profit / (loss)

Operating profit / (loss) is stated after charging/(crediting):

	2004	2003
	£	£
Auditors – audit	-	6,843
Refund on depot closure	(39,221)	-
Hire of plant and equipment	1,933	355
Raw materials	-	12,063
	=====	=====

In 2004 the auditors' remuneration was paid by Mowlem plc, the ultimate holding company.

Notes (continued)

4. Directors' emoluments

The directors of the Company are employed by Mowlem plc. and are remunerated by that company in respect of their services to the group as a whole. They receive no emoluments from Mowlem Construction Company (East Africa) Limited.

5. Staff numbers and costs

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

	2004	2003
Direct labour and operatives	1	1
Technical, supervision and administrative staff	-	2
	<u>1</u>	<u>3</u>
	£	£
The aggregate payroll of these persons was as follows:		
Wage and salaries	6,585	22,869
Other pension costs	559	536
	<u>7,144</u>	<u>23,405</u>

6. Interest payable

	2004	2003
	£	£
On bank loans, overdrafts and other loans wholly repayable within five years	-	1,754
	<u>-</u>	<u>1,754</u>

Notes *(continued)*

7. Tax on profit on ordinary activities

i) Analysis of charge for the year

	2004	2003
	£	£
Current tax (charge)/credit	(9,254)	10,544
Overseas tax	-	(806)
Adjustments in respect of previous periods	-	2,171
	<hr/>	<hr/>
Total current tax (charge)/credit	(9,254)	11,909
Deferred tax		
Origination and reversal of timing differences	-	(2,804)
	<hr/>	<hr/>
Total tax (charge) / credit	(9,254)	9,105
	<hr/> <hr/>	<hr/> <hr/>

ii) Factors affecting tax charge for the year

	2004	2003
	£	£
Profit on ordinary activities before tax	33,584	7,806
	<hr/>	<hr/>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30 per cent (2003: 30 per cent)	(10,075)	(2,342)
Effects of:		
Sale of fixed assets	-	11,791
Adjustments in respect of previous periods	-	2,171
Overseas tax	-	(806)
Capital allowances in excess of depreciation	821	1,095
	<hr/>	<hr/>
Total current tax (charge) / credit	(9,254)	11,909
	<hr/> <hr/>	<hr/> <hr/>

There is no actual or potential liability for deferred tax.

Notes (continued)

8. Tangible fixed assets

	Freehold Land and Buildings	Plant and Machinery	Total
	£	£	£
<i>Cost</i>			
At 1 January 2004	18,651	13,189	31,840
Currency translation	(1,666)	(1,178)	(2,844)
	<hr/>	<hr/>	<hr/>
At 31 December 2004	16,985	12,011	28,996
<i>Depreciation</i>			
At 1 January 2004	(5,812)	(6,319)	(12,131)
Currency translation	519	564	1,083
	<hr/>	<hr/>	<hr/>
At 31 December 2004	(5,293)	(5,755)	(11,048)
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 December 2004	11,692	6,256	17,948
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 1 January 2004	12,839	6,870	19,709
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

9. Debtors

	2004	2003
	£	£
<i>Amounts falling due within one year</i>		
Amounts recoverable on contracts	786,916	705,974
Bad debt allowance	-	(125,910)
Current tax	-	44,482
Prepayments and accrued income	-	16,539
Amounts owed by fellow subsidiaries	64,221	59,714
	<hr/>	<hr/>
	851,137	700,799
	<hr/> <hr/>	<hr/> <hr/>

Notes (*continued*)

10. Creditors: amounts falling due within one year

	2004 £	2003 £
Bank overdraft	-	1,110
Current tax	26,130	-
Amounts owing by holding company	553,972	279,800
Other creditors	67,500	-
Accruals and deferred income	87,009	33,817
	<u>734,611</u>	<u>314,727</u>

11. Called up share capital

	2004 £	2003 £
<i>Authorised</i>		
Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

12. Reserves

	Profit and loss account £
At beginning of year	306,429
Currency translation	4,572
Profit for the year	24,330
Dividend paid	(300,000)
	<u>35,331</u>

Notes (continued)

13. Trading indemnities and bonding arrangements

The foregoing accounts may include contracts entered into by Mowlem plc, the ultimate holding company that, by arrangement, are executed directly by this Company, for which the appropriate third party counter-indemnities are issued by the ultimate holding company in the normal course of business.

The Company is liable in the ordinary course of its business to liquidated and ascertained damages for delay in completion of contracts beyond the period specified in the contract plus certified extensions of time. Adjustment is made in valuing contract work in progress for any probable liability, account being taken of current and foreseen time delays against programme and extensions of time which may reasonably be anticipated.

14. Cash flow statement

Under FRS 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. A cash flow statement is prepared by the ultimate holding company, disclosed in note 16.

15. Related party transactions

As a wholly owned subsidiary of the Mowlem plc group, the company is exempt from the requirements of FRS 8, 'Related Party Transactions', to disclose transactions with entities that are part of the group or investees of the group qualifying as related parties.

16. Ultimate holding company

The ultimate holding company is Mowlem plc group, which is registered in England and Wales. Copies of the accounts of the company may be obtained from White Lion Court, Swan Street, Isleworth, Middlesex, TW7 6RN.