



HIGGINS CONSTRUCTION PLC
2006 REPORT AND ACCOUNTS

Higgins



Consultation and communication remains the key to successful regeneration. Our neighbourhood and residents charters have been developed and implemented on all regeneration and 'live' environment projects.

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Directors and Corporate Information

Directors

R G Higgins ACIOB (Chairman)

S P Higgins BA

B King (Managing Director)

A M Board FCIOB

P Cooke MCIOB

P H Lewellen BSc FCA

B Mason MConst.M

J D Mutter

G Robins MSc

B T Sabin FCIOB MBIM MCIM

Secretary

P H Lewellen BSc FCA

Auditor

KPMG LLP

8 Salisbury Square

London

EC4Y 8BB

Bankers

HSBC Bank PLC

City Corporate Banking Centre

Poultry & Princes Street

London

EC2P 2BX

The HBOS Group PLC

Essex Corporate Centre

Lyttleton House

64 Broomfield Road

Chelmsford

Essex CM1 1SW

Registered Office

One Langston Road

Loughton

Essex IG10 3SD

Registered Number

684617

Company website

www.higginsconstruction.co.uk

Directors' Report

Introduction

The Directors submit their Annual Report and Financial Statements for the year ended 31 July 2006.

Review of the business

The Directors are pleased to announce another strong year for Higgins Construction PLC in which they have maintained their market share. Turnover has increased by 2% to £127 million and profit before taxation is unchanged at £5.0 million.

The Company continues to operate as a "community contractor" in the key sectors of social housing and education working in partnership with our clients to create environments in which communities can thrive.

Higgins Construction PLC is consistently looking to broaden the services it offers to its clients. In conjunction with Higgins Homes PLC the Directors are able to bring expertise in order to meet the demand for comprehensive estate regeneration.

The Directors are aware of the inherent risks within the Construction industry. The Directors monitor and manage these risks through internal controls and maintaining awareness of market conditions. Marketing initiatives such as mixed tenure redevelopment and the maintenance of strong relationships with clients and suppliers will ensure that the Company can adapt to changing market demands.

Principal activities of the Company

The principal activity of the Company during the year was that of building contracting.

There were no significant changes in the Company's activities during the year and it is the Directors' intention to develop the business taking account of prevailing market conditions.

Results and dividends

The results for the year are shown in the profit and loss account. During the year no interim dividend was paid (2005: £nil). A final dividend of £2,000,000 has been paid (2005: £2,000,000).

Directors

Those Directors listed on page 2 all held office throughout the year and at the date of this report. A E Martin resigned as a Director on 11 November 2005 and A J Moran ceased to be a Director on 30 June 2006.

R G Higgins and S P Higgins are shareholders and Directors of the ultimate parent company, Higgins Group PLC, and their interests in the shares of that company are disclosed in the accounts of the parent company. No other Directors had any interest in the shares of the Company or in any other Group company.

Creditor payment policy

The Company's current policy concerning creditors is to:

- a) agree payment terms with its suppliers when it enters into binding purchase contracts;
- b) ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- c) abide by the payment terms agreed whenever it is satisfied that the supplier has provided the goods or services in accordance with the contracts.

For the year to 31 July 2006 the Company's average payment period from date of invoice or agreement of valuation was 21 days (2005: 20 days).

Directors' Report

Employment of disabled persons

It is the policy of the Company to employ disabled persons where they are suited to a particular vacancy and to develop their careers by means of training and promotion.

Employee involvement

The Company encourages disclosure of information and employee involvement in matters of concern to their employment. Special attention is paid to Health and Safety and Quality Assurance, accordingly industrial accidents remain at a level well below the industry norm. The Company actively promotes training programmes, the employment of trade apprentices and the participation in other youth training schemes; particularly within the London Boroughs' neighbourhood centres.

Quality assurance

The Company has received accreditation under ISO 9002 as a quality assured contractor.

Auditor

In accordance with Section 384 of the Companies Act 1985, a resolution to re-appoint KPMG LLP as auditor of the Company is to be proposed at a forthcoming General Meeting.

Disclosure to Auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By Order of the Board

P H Lewellen BSc FCA

Company Secretary

24 October 2006

Directors' Responsibilities Statement and Auditor's Report

Directors' Responsibilities Statement

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 the Directors 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 year.

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 to 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. Under applicable law the Directors are also responsible for preparing a Directors' Report that complies with that law.

Report of the Independent Auditor to the members of Higgins Construction PLC

We have audited the financial statements of Higgins Construction PLC for the year ended 31 July 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 Auditor

As described in the Statement of Directors' Responsibilities above, 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.

Audit 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 July 2006 and of its profit for the year then ended; and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

Chartered Accountants/Registered Auditor, London
24 October 2006

Profit and Loss Account

For the year ended 31 July 2006

	Notes	2006 £'000	2005 £'000
Turnover	2	127,459	124,941
Cost of sales		(115,384)	(113,688)
Gross profit		12,075	11,253
Administrative expenses		(7,235)	(6,286)
Operating profit	3	4,840	4,967
Net interest receivable	5	198	60
Profit on ordinary activities before taxation	2	5,038	5,027
Taxation on profit on ordinary activities	6	(1,465)	(1,324)
Profit on ordinary activities after taxation	14	3,573	3,703

Note of Historical Cost Profit

For the year ended 31 July 2006

	2006 £'000	2005 £'000
Reported profit on ordinary activities before taxation	5,038	5,027
Realisation of property revaluation gains of previous years	–	478
Realisation of property revaluation gains in current year	–	982
Historical cost profit on ordinary activities before taxation	5,038	6,487
Historical cost profit for the year	3,573	5,163

All gains and losses arising in the year have been recognised in the profit and loss account shown above.

No activities were acquired or discontinued during the year.

The notes on pages 8 to 15 form an integral part of these financial statements.

Balance Sheet

As at 31 July 2006

	Notes	£'000	2006 £'000	£'000	2005 £'000
Fixed assets					
Tangible assets	7		23,425		23,168
Investments	8		8		9
			23,433		23,177
Current assets					
Debtors	9	18,372		16,904	
Cash at bank and in hand		21,511		15,261	
		39,883		32,165	
Creditors: amounts falling due within one year	10	(35,664)		(28,322)	
Net current assets			4,219		3,843
Total assets less current liabilities			27,652		27,020
Creditors: amounts falling due after more than one year	11		(7,378)		(8,332)
Provisions for liabilities and charges	12		(108)		(95)
			20,166		18,593
Capital and reserves					
Called up share capital	13		234		234
Revaluation reserve	14		6,630		6,630
Profit and loss account	14		13,302		11,729
			20,166		18,593

Statement of Total Recognised Gains and Losses

For the year ended 31 July 2006

	2006 £'000	2005 £'000
Profit for the financial year	3,573	3,703
Unrealised surplus on revaluation of properties	–	6,630
Total recognised gains relating to the year	3,573	10,333

These financial statements were approved by the Board of Directors on 24 October 2006.

B King
Director

P H Lewellen BSc FCA
Director

The notes on pages 8 to 15 form an integral part of these financial statements.

Notes to the Accounts

For the year ended 31 July 2006

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.

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain freehold properties, and in accordance with applicable accounting standards.

(b) Tangible fixed assets and depreciation

Freehold Property

Freehold properties held by the Company are included in fixed assets at their latest valuation plus subsequent additions at cost. It is the policy of the Company to re-value freehold properties at least every five years. Surpluses or deficits on revaluation are included in the revaluation reserve account. Provision for any impairment in the value of properties held as fixed assets is made in the profit and loss account.

Depreciation is not provided in respect of freehold properties occupied. This is because the estimated remaining useful economic lives of the fixed assets have been determined to be in excess of 50 years and consequently any depreciation would not be considered to be material. In accordance with FRS11, Impairment of fixed assets and goodwill, the assets are reviewed for impairment at the end of each reporting period.

Other tangible fixed assets

Tangible fixed assets are stated at cost or valuation less accumulated depreciation. Depreciation is provided by the Company, on a reducing balance basis, to write off the cost, less the estimated residual value, of tangible fixed assets over their estimated useful lives as follows:

Leasehold Property	-	Period of the Lease
Plant and equipment	-	25% per annum
Motor vehicles	-	25% per annum
Office equipment	-	15% per annum

(c) Turnover

Turnover represents the invoiced value of certified construction and sub-contract work carried out.

(d) Long-term contract balances

Amounts recoverable on contracts are valued at surveyors' valuations, including attributable profit estimated to be earned to date less provision for any known or anticipated losses and are shown net of payments on account received or receivable. Attributable profit is based upon an assessment of the final outturn on contracts which includes forecast costs to complete and final anticipated valuations. Claims receivable are recognised as income once received or certified for payment.

(e) Taxation

Corporation tax payable is provided on taxable profits at the current rate. Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date, except that:

- i) deferred tax is not recognised on the revaluation of land and buildings unless there is a binding agreement to sell the re-valued property and it is probable that any taxable gain arising on the sale will not be rolled over into the purchase of another asset;
- ii) deferred tax assets are recognised only to the extent that they are considered recoverable.

Notes to the Accounts

For the year ended 31 July 2006

1. Accounting policies continued

(f) Pension Cost

The Company is a participating company in a Group pension scheme which has both defined contribution and defined benefit sections. The assets of the scheme are held separately from those of the Company. Contributions in respect of defined contribution pension schemes are charged to the profit and loss account when they are payable. In respect of the defined benefit section of the scheme, the company cannot identify its share of assets and liabilities of the group scheme, and as such accounts for it as a defined contribution scheme.

(g) Leases

Operating lease costs are charged to the profit and loss account on a straight line basis. Fixed assets leased under finance leases are capitalised and depreciated over their expected useful lives. The finance charges are allocated over the primary period of the lease in proportion to the capital outstanding.

(h) Cash Flow Statement

Under FRS1, Cash flow statements, the Company is exempt from the obligation to prepare a cash flow statement on the grounds that its ultimate parent company, Higgins Group PLC, prepares a consolidated cash flow statement, incorporating the cash flows of the Company.

2. Analysis of turnover and profit on ordinary activities before taxation

Turnover and profit on ordinary activities before taxation are attributable entirely to building contracting.

All activity relates to work done in the United Kingdom.

3. Operating profit

	2006 £'000	2005 £'000
Operating profit is stated after charging:		
Aggregate Directors' emoluments (Note 4)	1,665	1,658
Depreciation	733	611
Management charges	–	64
Hire of plant and machinery	575	810
Auditor's remuneration	30	30
Loss on sale of fixed assets	17	169
and after crediting:		
Rent receivable	–	131
Management charges	9	–

Notes to the Accounts

For the year ended 31 July 2006

4. Staff costs

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

	2006 Number	2005 Number
Office and management	152	151
Contract staff	239	244
	391	395
Their total remuneration comprised:	£'000	£'000
Wages and salaries	14,669	13,950
Social security costs	1,363	1,403
Other pension costs	1,008	928
	17,040	16,281

Pension costs of the Company, as described in Note 1(f), are determined by the scheme operated by the ultimate parent company, Higgins Group PLC. Details are disclosed in that company's accounts.

The aggregate emoluments (excluding pension contributions) of the highest paid Director amounted to £262,158 (2005: £251,004). This Director participated in a defined benefit pension scheme during the year and his accrued pension at 31 July 2006 amounted to £66,560 per annum (2005: £60,826 per annum).

5. Net interest receivable

	2006 £'000	2005 £'000
Interest income	706	566
Interest payable on bank loan and overdraft	(508)	(506)
	198	60

Notes to the Accounts

For the year ended 31 July 2006

6. Taxation on profit on ordinary activities

	2006 £'000	2005 £'000
Analysis of charge in year		
UK corporation tax charge at 30% (2005: 30%)	1,353	1,312
Adjustments in respect of prior years	99	(10)
	1,452	1,302
Deferred tax (Note 12)	13	22
	1,465	1,324

The Company is not aware of any factors that could materially affect the tax charge for the year or future tax charges.

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2005: lower) than the standard rate of corporation tax in the UK of 30% (2005: 30%). The differences are explained below:

	2006 £'000	2005 £'000
Profit on ordinary activities before taxation	5,038	5,027
Current tax at 30% (2005: 30%)	1,511	1,508
Effects of:		
Expenses not deductible for tax purposes	51	54
Capital allowances for period in excess of depreciation	(209)	(250)
Adjustments to tax charge in respect of previous periods	99	(10)
Total current tax charge (see above)	1,452	1,302

Notes to the Accounts

For the year ended 31 July 2006

7. Tangible fixed assets

	Freehold properties £'000	Leasehold property £'000	Motor vehicles £'000	Plant and equipment £'000	Total £'000
Cost or valuation					
At beginning of year	20,000	185	1,150	5,199	26,534
Additions	-	15	351	684	1,050
Disposals	-	-	(118)	(375)	(493)
At end of year	20,000	200	1,383	5,508	27,091
Depreciation					
At beginning of year	-	73	583	2,710	3,366
Provision in year	-	9	190	534	733
On disposals	-	-	(82)	(351)	(433)
At end of year	-	82	691	2,893	3,666
Net book amount					
At 31 July 2006	20,000	118	692	2,615	23,425
At 31 July 2005	20,000	112	567	2,489	23,168

The freehold property is known as One Langston Road, the Company's head office. This property was professionally valued at £20,000,000 by Savills, Chartered Surveyors, as at 31 July 2005 on an open market basis in compliance with RICS Statement of Asset Valuation Practice and Guidance Notes. The historical cost of the freehold property is £13,370,669 (2005: £13,370,669).

The leasehold property comprises leasehold improvements undertaken at the Company's plant yard offices. The property is held on a 25 year lease commencing 1 October 1991.

8. Fixed asset investments

Fixed asset investments comprise interests in £1 ordinary shares in the following companies:

	Shares held	Cost 2006 £'000	Cost 2005 £'000
Shares in wholly owned Subsidiary Undertakings			
D J Higgins Construction Ltd	1,000	1	1
D J Higgins Building Works Ltd	1,000	1	1
D J Higgins Plant Limited	1,000	1	1
Station Garage (Loughton) Ltd	5,000	5	5
		8	8
Other Investments			
Lloyds TSB Group PLC Ordinary £1 Shares		-	1
		8	9

The subsidiary undertakings, all registered in England and 100% owned, did not trade during the year and hence made neither profit nor loss. The Company is not required to prepare consolidated financial statements as it is a wholly owned subsidiary of Higgins Group PLC.

The ordinary shares in Lloyds TSB Group PLC are listed investments and were disposed of in the year.

Notes to the Accounts

For the year ended 31 July 2006

9. Debtors

	2006 £'000	2005 £'000
Trade debtors	10,681	8,253
Amounts recoverable on contracts	3,189	3,298
Amount owed by parent company	2,960	3,296
Amount owed by fellow subsidiary undertakings	16	16
Other debtors	1,070	1,566
Prepayments and accrued income	456	475
	18,372	16,904

Debtors include the following amounts falling due after more than one year:

- (a) £15,917 (2005: £15,917) falling due from a subsidiary undertaking, and
- (b) retentions totalling £1,094,000 (2005: £807,000) (included under trade debtors) on current contracts, where payment will not fall due until after completion of the contracts.

10. Creditors: amounts falling due within one year

	2006 £'000	2005 £'000
Bank loan and overdraft	2,005	668
Trade creditors	6,443	6,288
Payments on account	5,563	4,634
Amounts owed to fellow subsidiary undertakings	8	8
Taxation and social security	1,028	981
Other creditors	7	8
Accruals and deferred income	20,610	15,735
	35,664	28,322

The bank loan is secured by a fixed charge on the Company's freehold property, and by a cross guarantee from Higgins Group PLC and a fellow subsidiary undertaking.

11. Creditors: amounts falling due after more than one year

	2006 £'000	2005 £'000
Bank loans		
Amounts due:		
Between 1 and 2 years	1,186	1,146
Between 2 and 5 years	3,556	3,437
After 5 years	2,636	3,749
	7,378	8,332

The bank loan is repayable by monthly instalments and interest is charged at rates linked to the bank base lending rates.

Notes to the Accounts

For the year ended 31 July 2006

12. Provision for liabilities and charges

Deferred taxation provided in the accounts is as follows:

	2006 £'000	2005 £'000
Accelerated capital allowances	126	100
Short-term timing differences	(18)	(5)
	108	95

13. Called up share capital

	2006 £'000	2005 £'000
Authorised		
1,040,000 Ordinary shares of £1 each	1,040	1,040
Allotted and fully paid:		
234,000 Ordinary shares of £1 each	234	234

14. Reserves

	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
At beginning of year	6,630	11,729	18,359
Profit for financial year	–	3,573	3,573
Dividends paid (note 15)	–	(2,000)	(2,000)
At end of year	6,630	13,302	19,932

Shareholders' funds are attributable entirely to equity interests.

15. Dividend

	2006 £'000	2005 £'000
Final dividend	2,000	2,000

16. Capital commitments

	2006 £'000	2005 £'000
Capital expenditure not provided in the Accounts:		
Contracted	135	233
Authorised	45	121
	180	354

Notes to the Accounts

For the year ended 31 July 2005

17. Contingent liabilities and leasing obligations

(a) The Company has entered into counter indemnities in respect of performance bonds in the normal course of business.

(b) At 31 July 2006 the Company had contractual liabilities in respect of operating leases and contract hire agreements. The estimated future commitment in the next financial year is as follows:

	Property £'000	Contract hire £'000	Total £'000
Lease expiring			
Less than 1 year	–	405	405
1 to 5 years	–	536	536
Over 5 years	25	–	25
	25	941	966

(c) The Company has entered into guarantee arrangements with its parent company and a fellow subsidiary undertaking.

18. Related parties

Under FRS 8, Related party disclosures, the Company is exempt from the requirement to disclose related party transactions with the Higgins Group and its associated undertakings on the grounds that it is a wholly owned subsidiary undertaking of Higgins Group PLC.

19. Ultimate parent and controlling company

The ultimate parent and controlling company is Higgins Group PLC, registered in England and Wales.

Copies of the financial statements of Higgins Group PLC and its subsidiary undertakings (which incorporate the results of this Company) can be obtained from the Company's registered office.

Notice of Meeting

Short notice, having been approved, is hereby given that the Annual General Meeting of Higgins Construction PLC will be held at One Langston Road, Loughton, Essex on 31 October 2006 at 11.00am to transact the following business:

1. To receive and approve the Annual Report and Accounts for the year ended 31 July 2006 and the report of the Directors and Auditor thereon.
2. To appoint KPMG LLP as auditor of the Company and to authorise the Directors to fix their remuneration.
3. To transact any other business which may be transacted at an Annual General Meeting.

By Order of the Board

P H Lewellen BSc FCA
Company Secretary
24 October 2006

The Register of Directors and interests in the Company's shares are available for inspection at the Registered Office of the Company during usual business hours (weekends and public holidays excepted) and at the meeting from 15 minutes prior to and during the meeting.

HIGGINS CONSTRUCTION PLC

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