

K.I. (INVESTMENTS) LIMITED

DIRECTORS' REPORT AND ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2002



The directors present their annual report and audited financial statements for the year ended 30 June 2002.

Principal activities and business review

The principal activity of the Company is an investment holding company.

Results and dividends

	£
The profit for the year after taxation dealt with in the accounts is:	609,997
Dividends - final proposed	(650,000)
	<hr/>
	(40,003)
	<hr/>

Directors

The directors of the Company during the year were:-

R A Haller BSc MICE
D E Mattar BSc FCA
P J Staniland BSc FCA

Resigned 2 July 2001

Directors' interests

There were no directors' share interests recorded in the register kept in accordance with the provisions of Section 325 of the Companies Act 1985. Any interests or rights of directors who were also directors of the holding company or the ultimate holding company at 30th June 2002 appear in the directors' report of that company.

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 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 accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are also responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985. They have a general responsibility for taking steps that are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Auditor

A resolution to reappoint the auditor, KPMG Audit Plc, will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



H L THOMPSON
SECRETARY

Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

17 September 2002.

Report of the independent auditors to the members of K.I. (Investments) Limited

We have audited the accounts on pages 3 to 9.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the directors' report and, as described on page 1, 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 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 June 2002 and of the profit of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
17 September 2002

PROFIT AND LOSS ACCOUNT
YEAR ENDED 30 JUNE 2002

	Notes	2002 £	2001 £
Income from shares in subsidiary undertakings		450,593	288,719
Amounts provided for diminution in value of investments in subsidiary undertakings	5	159,404	(217,800)
Write off investment in subsidiary undertaking	5	-	(15,529)
OPERATING PROFIT AND PROFIT BEFORE TAXATION		<hr/> 609,997	<hr/> 55,390
Taxation	4	-	(865)
PROFIT FOR THE FINANCIAL YEAR		<hr/> 609,997	<hr/> 54,525
Dividends - final proposed		(650,000)	-
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR		<hr/> <hr/> 9 (40,003)	<hr/> <hr/> 54,525

There are no recognised gains or losses other than the loss for the year.

The notes on pages 5 to 9 form part of these accounts.

BALANCE SHEET AT 30 JUNE 2002

	Notes	2002 £	2001 £
FIXED ASSETS			
Investments	5	2,333,305	2,351,228
		<hr/>	<hr/>
CURRENT ASSETS			
Debtors due within one year	6	450,593	288,719
		<hr/>	<hr/>
		450,593	288,719
CURRENT LIABILITIES			
Creditors - amounts falling due within one year	7	(2,733,745)	(2,549,791)
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(2,283,152)	(2,261,072)
		<hr/>	<hr/>
NET ASSETS		50,153	90,156
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	8	100	100
Profit and loss account	9	50,053	90,056
		<hr/>	<hr/>
SHAREHOLDERS' FUNDS	10	50,153	90,156
		<hr/>	<hr/>



P J Staniland } Director

The accounts were approved by the Board of Directors on 17 September 2002.

The notes on pages 5 to 9 form part of these accounts.

Notes to the financial statements**1. Accounting policies****Convention**

The financial statements are prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

The adoption this year of FRS19 'Deferred Tax' and UITF34 'Pre-contract Costs' has resulted in no prior year adjustments

Foreign currencies

Transactions denominated in foreign currencies are recorded at the exchange rates in effect when they take place. Resulting foreign currency denominated assets and liabilities are translated at the exchange rates ruling at the balance sheet date unless they are covered by forward foreign exchange contracts in which case the contract rates are used. Exchange differences arising from foreign currency transactions are reflected in the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the exchange rates ruling at the balance sheet date. Trading profits or losses are translated at the average exchange rates prevailing during the accounting period. Exchange differences arising from the re-translation of net investments in overseas subsidiary undertakings at the year end rates are taken directly to reserves. All other translation differences are reflected in the profit and loss account.

Pension cost

The pension costs charged against profits are based on an actuarial method and actuarial assumptions designed to spread the anticipated pension costs over the service lives of the employees in the pension schemes, in a way that seeks to ensure that the regular pension cost represents a substantially level percentage of the current and expected future pensionable salary. Variations from regular cost are spread over the average remaining service lives of current employees in the pension scheme.

Cash flow

Under Financial Reporting Standard 1 (Revised), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly-owned subsidiary undertaking.

2. Information relating to directors and employees

The directors' emoluments and auditors' remuneration are paid through holding companies.

No persons were employed by the Company during the year (2001: Nil).

The directors of the Company participate in the Kier Group 1999 Long Term Incentive Plan, which is dependent upon performance of Kier Group plc over a three year period. Full details of the plan are disclosed in the Kier Group plc accounts. There are no costs in respect of this scheme recorded in these accounts.

Notes to the financial statements (continued)

3. Pensions

a) SSAP 24 Pension Costs

The principal UK pension scheme is the Kier Group Pension Scheme that includes a defined benefit scheme section and a defined contribution plan. The assets of the Scheme are held under trust separately from those of the Group; the Trustees are responsible for investing the assets and liabilities and delegate day-to-day decisions to independent professional investment managers. Pension costs are assessed on the advice of an independent qualified actuary using the projected unit method and the following main assumptions for the financial year ended 30 June 2002:

- pension liabilities will be discounted at the rates of 7% pre-retirement and 6% per annum post retirement (6.8% and 5.5% per annum respectively were adopted for the formal actuarial valuations as at 1 April 2000);
- salary increase will be 4.1% to 4.6% per annum (4.3% - 4.8% per annum was adopted for the formal actuarial valuations as at 1 April 2000);
- present and future pensions will increase at either 2.6% per annum (Limited Price Indexation) or at rates set in the scheme rules (2.7% per annum was adopted for the formal actuarial valuations as at 1 April 2000);
- assets will be taken at market value (less an asset allocation adjustment of £10m).

Full details of the scheme, including overall surplus, are set out in the accounts of the ultimate holding company, Kier Group plc.

b) FRS 17

The Accounting Standards Board has published an Exposure Draft of an amendment to FRS17 'Retirement Benefits'. The proposed amendment extends the transitional arrangements in FRS 17 and therefore defers the mandatory requirement for its full adoption. The Accounting Standards Board intends to adopt an UK standard for pensions based upon the proposals of the International Accounting Standards Board.

K.I. (Investments) Limited is a member of the Kier Group Pension Scheme a section of that provides benefits based on final pensionable pay. Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits' the scheme will be accounted for by the company when the accounting standard is fully adopted by the company as if the scheme was a defined contribution scheme. Full disclosure of the deficit in the Kier Group Pension Scheme (defined benefit section) is provided in the accounts of the ultimate parent company, Kier Group plc.

4. Taxation

(a) Analysis of charge/(credit) in period	2002 £	2001 £
Current tax (FRS 16)		
UK corporation tax on profits for the year at 30%	-	-
Adjustments in respect of previous years	-	865
	<hr/>	<hr/>
Total current tax (note 4 (b))	-	865
	<hr/>	<hr/>

Notes to the financial statements (continued)

4. Taxation (continued)

(b): Factors affecting the tax charge/(credit) for period	2002 £	2001 £
Profit on ordinary activities before tax	609,997	55,390
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	182,999	16,617
Effects of:		
Income from shares in subsidiary undertakings	(135,178)	(86,616)
Amounts provided for diminution in value of investments in subsidiary undertakings	(47,821)	65,340
Write off investment in subsidiary undertaking	-	4,659
Adjustments in respect of previous years	-	865
Current tax charge for period (note 4 (a))	-	865

(c) Factors that may affect future tax charges

The Company is not aware of any significant factors that may affect future tax charges.

5. Fixed assets – investments

	Cost £	Provision for Diminution in Value £	Net Book Value £
Cost at 1 July 2001	2,761,431	(410,203)	2,351,228
Movements during the year	710	(18,633)	(17,923)
	<u>2,762,141</u>	<u>(428,836)</u>	<u>2,333,305</u>

6. Debtors

	2002 £	2001 £
Amounts falling due within one year:		
Dividends receivable from subsidiary undertakings	450,593	288,719
	<u>450,593</u>	<u>288,719</u>

Notes to the financial statements (continued)

7. Creditors

	2002 £	2001 £
Amounts falling due within one year:		
Amounts due to parent undertaking	2,082,880	2,370,890
Proposed dividend	650,000	-
Corporation tax	865	865
Amounts provided against losses in subsidiary undertakings	-	178,036
	<hr/> 2,733,745 <hr/>	<hr/> 2,549,791 <hr/>

8. Called up share capital

	2002 £	2001 £
Ordinary shares of £1 each:		
Authorised	1,000	1,000
	<hr/>	<hr/>
Allotted, called up and fully paid	100	100
	<hr/>	<hr/>

9. Profit and loss account

	2002 £	2001 £
At 1 July 2001	90,056	35,531
Arising during the year	(40,003)	54,525
	<hr/>	<hr/>
At 30 June 2002	50,053	90,056
	<hr/>	<hr/>

10. Reconciliation of movements in shareholders' funds

	2002 £	2001 £
Profit/(loss) for the financial year	609,997	54,525
Dividends	(650,000)	-
	<hr/>	<hr/>
Net movement in shareholders' funds	(40,003)	54,525
Shareholders' funds at 1 July 2001	90,156	35,631
	<hr/>	<hr/>
Shareholders' funds at 30 June 2002	50,153	90,156
	<hr/>	<hr/>

Notes to the financial statements (continued)**11. Contingent liabilities**

There are contingent liabilities in respect of guarantees and claims under contracting and other agreements, including joint arrangements, entered into in the normal course of business.

12. Ultimate holding company

The Company is a wholly-owned subsidiary of Kier International Limited. The ultimate holding company is Kier Group plc. The parent of the largest group for which group accounts have been drawn up is Kier Group plc and the parent of the smallest group for which accounts, including the Company, have been drawn up is Kier International Limited. Both these parent companies are registered in England and copies of their accounts will be filed with Companies House, Crown Way, Cardiff where they will be available to the public.