1521006

KENNEDY CONSTRUCTION GROUP LIMITED
and its subsidiaries

REPORT AND ACCOUNTS

1 November 1998

Registered Office: 78 Ashley Road, Hale, Altrincham, WA14 2UN. Registered No: 1521006

KENNEDY CONSTRUCTION GROUP LIMITED
and its subsidiaries

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KENNEDY CONSTRUCTION GROUP LIMITED
and its subsidiaries

CHAIRMAN'S STATEMENT

I am delighted to report on an excellent year for the Kennedy Construction Group. 1998 was the first full year of trading since the management buyout and my first as Chairman. I am pleased to announce that the Group continued to perform well, and remains in a healthy financial position. Whilst achieving a creditable set of results, the Board has taken a number of steps to ensure control is maintained while the Group pursues its expansion plan.

In the twelve months to 1 November 1998, turnover on existing operations increased by 15% to £79.0m, and operating profit rose to £7.3m. This is an outstanding set of results for the sector, and was achieved despite considerable investment on training in health and safety and quality control systems.

The investment in training continues with a new multi-utility training centre soon to be opened in Trafford Park for the benefit of our 1,500 employees and those of our blue chip customers who will also enjoy the use of our training facility to meet the changing needs of the industry. Our Utilities division recently achieved a Five Star Award from the British Safety Council following an audit of its health and safety management systems. Accreditation to ISO 9002 was also achieved during the year for the quality systems in place at the asphalt plant. This is in addition to various accreditations previously achieved by the Utility division.

On 2 November 1998 the four companies previously carrying out utility work were merged under the umbrella of Kennedy Utility Management Limited. This will further improve the professional service Kennedy provides to its clients by ensuring improved communications together with a co-ordinated approach, which will be of particular benefit on multi-utility contracts in which an increasing number of clients are showing an interest.

The largest contract won during the year was the three year £45m Transco contract in Scotland. Contracts have also been renewed with Norweb, Scottish Power, Northumbrian Water and Southern Water. The Group's customer base has further strengthened with the additions during the year of Northern Utility Services Limited, Yorkshire Electricity, Hyder, Yorkshire Water and West of Scotland Water. Kennedy is firmly established nationally, and is seeking to further expand regionally.

Growth was achieved throughout the Group. In addition, a partnering contract was successfully completed for the Highways agency in 1998. In all sectors there is a trend towards long term relationships and partnering to enable greater efficiencies which would be beneficial to both parties. These types of arrangement now account for a significant share of turnover.

A recycling joint venture was established in 1998 with BG Opsco as part of the Group's commitment to environmental protection. I believe that this investment will reap dividends as legislation forces the industry to become more sensitive to environmental issues.

The Group's prospects for the future are excellent with the Utility markets still increasing, and a substantial forward workload secured. I can see further opportunities to develop the business into new areas and am confident that developments in 1998 have placed Kennedy in a strong position to achieve sustained growth in profitability.

Stuart Doughty
Chairman

KENNEDY CONSTRUCTION GROUP LIMITED
and its subsidiaries

REPORT OF THE DIRECTORS

The directors submit their report and the accounts for the year ended 1 November 1998.

PRINCIPAL ACTIVITIES

The principal activities of the company and its subsidiaries comprise public works contracting and other ancillary activities.

REVIEW OF THE BUSINESS

The group's growth ambitions started well with the ongoing businesses achieving an increase in turnover of 15% spread throughout each division. Minor problems with certain contracts in Telecoms and Clean Water had an impact on overall margins, however despite this operating profit (before deduction of last year's deficit on revaluation of properties) rose by 10%. The directors are pleased with these results given the cost of strengthening the health and quality systems and training referred to in the Chairman's statement, and the inevitable disruption caused by the restructuring of the group.

Two new term contracts were obtained by the electricity division during the year which will have a full impact in 1999. The Transco contract in Scotland was replaced in September by a new three year contract expected to generate turnover of £45million (2.5 times its previous size). The tender activity in the Roads division and Telecoms is high and 80% of the group's 1999 budgeted turnover is already in hand. The directors are therefore confident of a continued growth in turnover and profits in the forthcoming year.

FIXED ASSETS

Details of movements in fixed assets are included in notes 12 to 14 to the accounts.

RESULTS AND DIVIDENDS

The results of the group for the year are set out in detail on page 7.

Dividends of £1,400,000 were paid during the year (1997 - £1,524,600). The directors recommend that a final dividend of £4,300,000 be paid (1997 - £1,500,000). Details of dividends payable in relation to each class of share in issue are disclosed in note 11 to the accounts.

DIRECTORS

The directors who served during the year were as follows:

P V Carolan
S E Atkinson
P Carney
S D B Carter
J W Reid
S J Doughty

S J Doughty, who was appointed since the last annual general meeting, retires and, being eligible, offers himself for re-election. P V Carolan and S E Atkinson retire by rotation, and being eligible offer themselves for re-election.

None of the directors have any interest in the share capital of the company. The beneficial interests of the first five named directors in the ordinary share capital of the ultimate parent company, Proby Limited, are shown in that company's accounts. S J Doughty had no interest in the share capital of the company or the ultimate parent company during the year.

DISABLED PERSONS

The company has an established policy of encouraging the employment of disabled persons wherever this is practicable. In compliance with the current legislation the company seeks to employ at least the quota of disabled persons required. The company endeavour that disabled employees benefit from training and career development programmes in common with all employees.

CHARITABLE CONTRIBUTIONS

Contributions during the year to United Kingdom charitable organisations amounted to £ 6,140 (1997 - £380,707).

YEAR 2000

Consideration of the impact of the change in dates at the commencement of the year 2000 is the responsibility of the group finance director. Minor upgrades are required to certain items of computer hardware, operating systems and software which are virtually complete. The impact on other items of plant and office equipment is assessed to be minor, with no significant costs required to rectify or replace problematic equipment. Whilst the group's current assessment is that it is adequately prepared it cannot be certain, and it continues to monitor the situation. Furthermore we are not in a position to assess the preparedness of the major utility companies which represent our customers.

KENNEDY CONSTRUCTION GROUP LIMITED
and its subsidiaries

REPORT OF THE DIRECTORS continued

AUDITORS

A resolution to re-appoint Deloitte & Touche as auditors will be proposed at the annual general meeting.

By order of the Board

RWKirkin

R W Kirkin

Secretary

23 February 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the company and the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 the group as at the end of the financial year and of the profit or loss of the group 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 and the group will continue in business.

Deloitte & Touche

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AUDITORS' REPORT TO THE MEMBERS OF KENNEDY CONSTRUCTION GROUP LIMITED

We have audited the financial statements on pages 7 to 28 which have been prepared under the accounting policies set out on pages 13 to 15.

Respective responsibilities of directors and auditors

As described on page 5 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 circumstances of the company and the group, 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 mis-statement, 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 affairs of the company and the group as at 1 November 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors

23 February 1999

Deloitte Touche Tohmatsu International

KENNEDY CONSTRUCTION GROUP LIMITED
and its subsidiaries

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 1 November 1998

	Note		52 weeks ended 1.11.98		53 weeks ended 2.11.97
			£		£
TURNOVER	1				
Continuing operations			79,029,646		68,569,750
Discontinued operations			-		9,593,194
			79,029,646		78,162,944
Cost of sales	2		(67,040,956)		(64,374,578)
GROSS PROFIT			11,988,690		13,788,366
Net operating expenses	2		(4,733,601)		(7,166,587)
OPERATING PROFIT	3				
Continuing operations		7,255,089		5,878,277	
Discontinued operations		-		743,502	
			7,255,089		6,621,779
Profit on disposal of discontinued operations			-		922,902
Share of loss in joint venture	13		(66,235)		-
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST			7,188,854		7,544,681
Interest receivable and similar income	7	216,773		543,993	
Interest payable and similar charges	8	(75,249)		(50,295)	
			141,524		493,698
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			7,330,378		8,038,379
Tax on profit on ordinary activities	9		(2,382,135)		(2,695,019)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION			4,948,243		5,343,360
Equity minority interests			-		(71,680)
PROFIT FOR THE FINANCIAL YEAR	10		4,948,243		5,271,680
Dividends on equity shares	11		(5,700,000)		(3,024,600)
RETAINED (LOSS)/PROFIT FOR THE YEAR	21		(751,757)		2,247,080

KENNEDY CONSTRUCTION GROUP LIMITED
and its subsidiaries

CONSOLIDATED BALANCE SHEET
1 November 1998

	Note		1998 £		1997 £
FIXED ASSETS					
Tangible assets	12		6,942,702		7,123,734
Intangible assets	14		167,200		176,117
			7,109,902		7,299,851
CURRENT ASSETS					
Stock	15	731,931		60,972	
Debtors - due within one year	16	16,307,656		12,660,043	
Debtors - due after more than one year	16	18,588,028		15,840,403	
Cash at bank and in hand		2,825,722		4,777,391	
		38,453,337		33,338,809	
CREDITORS:AMOUNTS FALLING DUE WITHIN ONE YEAR	17	(22,843,205)		(16,815,375)	
NET CURRENT ASSETS			15,610,132		16,523,434
TOTAL ASSETS LESS CURRENT LIABILITIES			22,720,034		23,823,285
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	18		(61,349)		(82,995)
PROVISIONS FOR LIABILITIES AND CHARGES	19		(1,280,214)		(1,610,062)
			21,378,471		22,130,228
CAPITAL AND RESERVES					
CALLED UP SHARE CAPITAL	20		218,800		218,800
RESERVES					
Revaluation reserve	21	345,748		345,748	
Profit and loss account	21	20,813,923		21,565,680	
			21,159,671		21,911,428
Equity shareholders' funds		21,377,471		22,129,228	
Non-equity shareholders' funds		1,000		1,000	
TOTAL SHAREHOLDERS' FUNDS			21,378,471		22,130,228

APPROVED BY THE BOARD OF DIRECTORS ON 23 FEBRUARY 1999

P V Carolan

S E Atkinson

PARENT COMPANY BALANCE SHEET
1 November 1998

	Note		1998 £		1997 £
FIXED ASSETS					
Tangible assets	12		3,151,514		3,112,990
Investments	13		768,085		768,085
			3,919,599		3,881,075
CURRENT ASSETS					
Debtors - due within one year	16	203,139		1,764,039	
Debtors - due after more than one year	16	18,191,352		15,615,012	
		18,394,491		17,379,051	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	17	(19,092,181)		(13,006,658)	
NET CURRENT ASSETS			(697,690)		4,372,393
			3,221,909		8,253,468
CAPITAL AND RESERVES					
CALLED UP SHARE CAPITAL	20		218,800		218,800
RESERVES					
Revaluation reserve	21	345,748		345,748	
Profit and loss account	21	2,657,361		7,688,920	
			3,003,109		8,034,668
TOTAL SHAREHOLDERS' FUNDS			3,221,909		8,253,468
Attributable to equity shareholders			3,220,909		8,252,468
Attributable to non-equity shareholders			1,000		1,000

APPROVED BY THE BOARD OF DIRECTORS

P V Carolan

S E Atkinson Sarah Atkinson

23 February 1999

KENNEDY CONSTRUCTION GROUP LIMITED
and its subsidiaries

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 1 November 1998

	Note	**1998** £	1997 £
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(a)	4,322,203	(9,021,582)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		216,773	543,993
Interest paid		(75,249)	(50,256)
Dividends paid to minority shareholders in subsidiary undertakings		-	(324,500)
Net cash inflow from returns on investments and servicing of finance		141,524	169,237
TAXATION			
Corporation tax paid		(2,220,894)	(1,872,261)
Tax paid		(2,220,894)	(1,872,261)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(1,892,199)	(1,261,532)
Payments to acquire and improve investment properties		-	(104,187)
Receipts from sale of tangible fixed assets		667,460	1,249,111
Receipts from sale of investments		-	50,000
Net cash outflow from investing activities		(1,224,739)	(66,608)
ACQUISITIONS AND DISPOSALS	13		
Investment in joint venture		(50,000)	-
Proceeds on sale of subsidiaries		-	4,520,001
Purchase of minority interests		-	(292,318)
Net cash inflow from investing activies		(50,000)	4,227,683
EQUITY DIVIDENDS PAID			
Dividends paid		(2,900,000)	(1,524,600)
		(2,900,000)	(1,524,600)
MANAGEMENT OF LIQUID RESOURCES			
Proceeds of sale of listed investment		-	65,118
		-	65,118
Net cash outflow before financing		(1,931,906)	(8,023,013)
FINANCING			
Repayment of finance leases		(19,763)	(4,822)
Net cash outflow from financing		(19,763)	(4,822)
DECREASE IN CASH	(c)	(1,951,669)	(8,027,835)

KENNEDY CONSTRUCTION GROUP LIMITED
and its subsidiaries

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT
for the year ended 1 November 1998

(a) RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1998 £	1997 £
Operating profit	7,255,089	6,621,779
Depreciation charge	1,787,327	2,115,167
Deficit on revaluation of land and buildings	-	676,091
Amortisation of goodwill	8,917	16,623
Profit on sale of fixed assets	(381,556)	(413,924)
Decrease in reinstatement and other provisions	(346,083)	(388,815)
Increase in stocks	(670,959)	(182,377)
Increase in debtors	(3,793,250)	(1,894,979)
Increase in creditors	3,720,889	43,865
Increase in amounts due from parent companies	(3,258,171)	(15,615,012)
Net cash inflow/(outflow) from operating activities	4,322,203	(9,021,582)

(b) RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS (see note c)

	£
Decrease in cash in the period	(1,951,669)
Repayment of finance leases	19,763
Change in net funds resulting from cash flows	(1,931,906)
Net funds at 2 November 1997	4,675,048
Net funds at 1 November 1998	2,743,142

(c) ANALYSIS OF NET FUNDS

	At 2 November 1997	Cash flows	At 1 November 1998
Cash at bank and in hand	4,777,391	(1,951,669)	2,825,722
Finance leases	(102,343)	19,763	(82,580)
	4,675,048	(1,931,906)	2,743,142

STATEMENT OF RECOGNISED GAINS AND LOSSES
for the year ended 1 November 1998

	1998 £	1997 £
Profit for the financial year	4,948,243	5,271,680
Surplus on revaluation of investment properties	-	345,748
Total recognised gains relating to the year	4,948,243	5,617,428

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	1998 £	1997 £
Reported profit on ordinary activities before taxation	7,330,378	8,038,379
Realisation of property revaluation gains of earlier years	-	631,513
Difference between historical cost depreciation and the actual depreciation charge	22,376	5,346
Historical cost profit on ordinary activities before taxation	7,352,754	8,675,238
Historical cost (loss)/profit for the year after taxation, minority interests and dividends	(729,381)	2,883,939

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
for the year ended 1 November 1998

	1998 £	1997 £
Profit for the financial year	4,948,243	5,271,680
Dividends	(5,700,000)	(3,024,600)
	(751,757)	2,247,080
Other recognised gains relating to the year	-	345,748
Net movement in shareholders' funds	(751,757)	2,592,828
Opening shareholders' funds	22,130,228	19,537,400
Closing shareholders' funds	21,378,471	22,130,228

NOTES TO THE ACCOUNTS
1 November 1998

1. ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified by the revaluation of fixed asset land and buildings and in accordance with applicable accounting standards. The principal accounting policies adopted by the group are as follows:

BASIS OF CONSOLIDATION

The group accounts consolidate the accounts of the company and all its subsidiaries and include the group share of the reserves of the associated company. The accounts of subsidiaries are made up to the same date as the parent company. The results of the associated company, which has a December year end, are included based on management accounts as at the group's year end.

GOODWILL ON CONSOLIDATION

Goodwill arising on consolidation in previous years was written off against reserves in the year of acquisition. Purchased goodwill arising since 27 October 1996 is amortised over its useful economic life of 20 years. Permanent diminutions are charged to the profit and loss account.

FOREIGN EXCHANGE

Exchange rates used to translate overseas profits and currency assets and liabilities (other than shares held in overseas subsidiaries) are at the rates ruling at the balance sheet date. The differences arising on the retranslation of the group's share at the beginning of the year of net assets of overseas subsidiaries are treated as movements on reserves. All other currency adjustments are included in the profit before taxation.

TURNOVER

Turnover represents the value of work carried out and goods and services provided during the year.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Depreciation is provided at rates estimated to write off fixed assets over their anticipated lives and is applied from the month following that in which they are first brought into use.

The rates are as follows:

Land and buildings:		
Freehold land	-	Nil%
Freehold buildings	-	2.5% on cost or revalued amount
Leasehold	-	equal annual instalments over the period of the lease
Plant and machinery	-	10% to 50% on cost
Wagons and other vehicles	-	25% to 100% on cost

Surpluses on revaluation of properties are transferred to revaluation reserve. Shortfalls between cost and valuation on individual properties are charged to the profit and loss account.

NOTES TO THE ACCOUNTS
1 November 1998

1. **ACCOUNTING POLICIES** continued

INVESTMENT PROPERTIES

In accordance with Statement of Standard Accounting Practice No 19 investment properties are revalued annually by the directors and at least every five years by an external valuer. The aggregate surplus or deficit is transferred to revaluation reserve, except for permanent shortfalls between cost and valuation on individual properties which are charged to the profit and the loss account. No depreciation is provided in respect of investment properties.

The Companies Act 1985 requires all properties to be depreciated. However, this requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider that, because these properties are not held for consumption but for their investment potential, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP 19 in order to give a true and fair view.

If this departure from the Act had not been made, the profit for the financial year would have been reduced by depreciation. However, the amount of depreciation cannot reasonably be quantified because depreciation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

INVESTMENTS

Investment income is included in the accounts of the year in which it is receivable. Fixed asset investments are stated at cost less provisions for permanent diminution in value.

STOCK

Stock is valued at the lower of cost and net realisable value. Cost is calculated on the first in first out basis.

LONG TERM CONTRACTS IN PROGRESS

Amounts recoverable on long term contracts are included in debtors and comprise any excess of cumulative turnover for a contract over cumulative payments on account for that contract.

Long term contract balances are stated, contract by contract, at cumulative costs less cumulative amounts transferred to cost of sales, less foreseeable losses and applicable payments on account. Any resulting excesses, for a particular contract, of foreseeable losses or payments on account are included in creditors.

Turnover and related costs on each long term contract are recorded in the profit and loss account as contract activity progresses. Turnover includes attributable profit when the outcome to the contract can be assessed with reasonable certainty. Full provision is made for losses on a contract and no credit is taken for claims by the company until there is a firm agreement with the client.

NOTES TO THE ACCOUNTS
1 November 1998

1. **ACCOUNTING POLICIES** continued

REINSTATEMENT PROVISION

The reinstatement provision represents the group's estimate of the cost of final road surfacing still to be incurred on individual contracts otherwise complete.

Particular estimates for individual contracts can prove to be incorrect. However, the directors consider that the provision as a whole is the best estimate of the eventual cost to the group which can be made.

DEFERRED TAXATION

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

PENSIONS

The group operates a contributory defined contribution scheme which covers a large proportion of its permanent salaried staff. Contributions to the scheme are charged to profit and loss account when they become payable.

LEASES

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

NOTES TO THE ACCOUNTS
1 November 1998

2. COST OF SALES AND NET OPERATING EXPENSES

	52 weeks ended 1.11.98	53 weeks ended 2.11.97		
	Continuing	Continuing £	Discontinued £	Total £
Cost of sales	67,040,956	56,527,389	7,847,189	64,374,578
Net operating expenses:				
Administrative expenses	4,733,601	5,493,517	1,002,503	6,496,020
Deficit on revaluation of properties	-	676,091	-	676,091
Other operating income	-	(5,524)	-	(5,524)
	4,733,601	6,164,084	1,002,503	7,166,587

3. OPERATING PROFIT

Operating profit is arrived at after charging/(crediting):

	52 weeks ended 1.11.98 £	53 weeks ended 2.11.97 £
Depreciation - assets held under finance lease	22,812	4,952
- other	1,764,515	2,110,215
Amortisation of goodwill	8,917	16,623
Profit on sale of tangible assets	(381,556)	(413,924)
Auditors remuneration - audit fees	39,520	42,835
- non-audit fees	42,742	55,459

4. EMPLOYEES

The average number employed by the group, which includes directors, within each category of persons was:

	No.	No.
Production staff	947	843
Administrative staff	154	120
	1,101	963

NOTES TO THE ACCOUNTS
1 November 1998

	52 weeks ended 1.11.98 £	53 weeks ended 2.11.97 £
4. EMPLOYEES continued		
The costs incurred in respect of these employees were:		
Wages and salaries	22,311,285	19,291,628
Social security costs	2,643,244	2,279,786
Other pension costs	289,855	302,283
	25,244,384	21,873,697

5. DIRECTORS

The remuneration of directors who served during the year included in employee costs were:

Emoluments	486,478	606,460
Pension contributions	36,313	22,322
	522,791	628,782

Five of the directors were members of the group pension schemes during the year (1997 - three).

The highest paid director received emoluments during the year of £125,187 (1997: £284,152) and pension of £8,339 (1997: £12,431).

6. OTHER OPERATING INCOME

Income from current asset investments	-	5,337
Profit on sale of current asset investments	-	187
	-	5,524

7. INTEREST RECEIVABLE AND SIMILAR INCOME

Interest receivable:		
Bank deposits	215,580	543,993
Other interest	1,193	-
	216,773	543,993

8. INTEREST PAYABLE AND SIMILAR CHARGES

On bank loans, overdrafts and other loans repayable within 5 years	66,080	44,959
On finance leases	8,564	2,990
Other interest	605	2,307
Exchange differences	-	39
	75,249	50,295

NOTES TO THE ACCOUNTS
1 November 1998

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	52 weeks ended 1.11.98 £	53 weeks ended 2.11.97 £
Taxation is based on the profit for the year and comprises:		
Corporation tax at 31% (1997 - 31.83%) of taxable profit	1,817,686	2,695,082
Group relief	552,604	-
Tax credits on UK dividends received	-	1,066
	2,370,290	2,696,148
Prior year adjustments:		
Corporation tax	11,845	(1,129)
	2,382,135	2,695,019
The tax for the year has been increased/(decreased) by the following amounts as a result of:		
General disallowable expenditure	147,406	161,729
Depreciation on assets not qualifying for capital allowances	-	241,473
Deferred taxation not provided	(68,291)	45,966
Tax rate differences	20,108	1,067
Non taxable income	(1,347)	(312,488)
	97,876	137,747

10. RESULT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO THE MEMBERS OF KENNEDY CONSTRUCTION GROUP LIMITED

Dealt with in the accounts of the parent company	668,441	3,377,145

The company has taken advantage of Section 230 of the Companies Act 1985 and consequently a profit and loss account for the company alone is not presented.

NOTES TO THE ACCOUNTS
1 November 1998

11. DIVIDENDS ON EQUITY SHARES

	52 weeks ended 1.11.98 £	53 weeks ended 2.11.97 £
Ordinary shares:		
Paid - £6.43 per ordinary share (1997 - £7)	1,400,000	1,524,600
Payable - £19.74 per ordinary share (1997 - £6.89)	4,300,000	1,500,000
	5,700,000	3,024,600

12. TANGIBLE FIXED ASSETS

(a) THE GROUP	Land and buildings £	Plant and machinery £	Total £
Cost/Valuation:			
At 2 November 1997	3,000,121	13,081,393	16,081,514
Additions	54,004	1,838,195	1,892,199
Disposals	-	(1,821,362)	(1,821,362)
At 1 November 1998	3,054,125	13,098,226	16,152,349
Depreciation:			
At 2 November 1997	24,497	8,933,283	8,957,780
Charge for the year	78,492	1,708,835	1,787,327
On disposals	-	(1,535,458)	(1,535,458)
At 1 November 1998	102,989	9,106,660	9,209,647
Balance sheet value:			
At 1 November 1998	2,951,136	3,991,566	6,942,702
At 2 November 1997	2,975,624	4,148,110	7,123,734

The net book value of plant and machinery includes £79,962 in respect of assets held under finance leases (1997 - £102,774).

NOTES TO THE ACCOUNTS
1 November 1998

12. **TANGIBLE FIXED ASSETS** continued

(b) THE COMPANY

	Land and buildings £	Plant and machinery £	Total £
Cost:			
At 2 November 1997	2,995,000	639,006	3,634,006
Additions	54,004	140,811	194,815
Disposals	-	(24,608)	(24,608)
Group transfers	-	19,355	19,355
At 1 November 1998	3,049,004	774,564	3,823,568
Depreciation:			
At 2 November 1997	19,376	501,640	521,016
Charge for the year	78,492	90,633	169,125
Disposals	-	(24,511)	(24,511)
Group transfers	-	6,424	6,424
At 1 November 1998	97,868	574,186	672,054
Balance sheet value:			
At 1 November 1998	2,951,136	200,378	3,151,514
At 2 November 1997	2,975,624	137,366	3,112,990

12. **TANGIBLE FIXED ASSETS** continued

(c) LAND AND BUILDINGS

	GROUP		COMPANY	
The balance sheet value of land and buildings comprises:	**1998** £	1997 £	**1998**	1997
Freehold	1,902,957	1,931,098	1,902,957	1,931,098
Long leasehold	1,048,179	1,044,526	1,048,179	1,044,526
	2,951,136	2,975,624	2,951,136	2,975,624
Land and buildings at cost or valuation are stated:				
At open market value with existing use	2,995,000	2,995,000	2,995,000	2,995,000
At cost	59,125	5,121	54,004	-
	3,054,125	3,000,121	3,049,004	2,995,000
If stated under historical cost principles the comparable amount for the total of land and buildings would be:				
Cost	2,864,928	2,810,924	2,859,807	2,805,803
Depreciation	(231,819)	(175,703)	(226,698)	(170,582)
Historical cost value	2,633,109	2,635,221	2,633,109	2,635,221

The land and buildings were valued on an existing use open market value basis on 8 August 1997 by King Sturge & Co, Chartered Surveyors, and the values incorporated into the balance sheet at that date.

(d) FUTURE CAPITAL EXPENDITURE

	GROUP		COMPANY	
	1998 £	1997 £	**1998** £	1997 £
Contracted for but not provided in the accounts	112,800	575,500	-	-

NOTES TO THE ACCOUNTS
1 November 1998

13. FIXED ASSET INVESTMENTS

(a) THE GROUP

(i) Investment in subsidiaries

	£
Cost:	
At 2 November 1997 and 1 November 1998	156,685
Provisions:	
At 2 November 1997 and 1 November 1998	156,685
Balance sheet value:	
At 1 November 1998	-
At 2 November 1997	-

(ii) Investment in joint venture

	Share of net liabilities £
Investment during the year	50,000
Share of loss for the year	(66,235)
Net book value (see note 19)	(16,235)

On 19 March 1998 Kennedy Utility Services (Scotland) Limited subscribed for 50,000 £1 shares in Encore Environmental Aggregates Limited at par. The company is a 50:50 joint venture with B G Opsco Limited, and its principal activity is the recycling of aggregation. The joint venture has not been accounted for by the gross equity method on the grounds of immateriality.

The turnover and loss before and after tax for the company in the seven months to 1 November 1998 were £156,770 and £132,417 respectively, of which £78,385 and £66,235 are attributable to Kennedy Construction Group Limited.

The balance sheet at 1 November is summarised below:

	Total £	Attributable to the group £
Current assets	100,711	50,356
Current liabilities	(133,182)	(66,591)
	(32,471)	(16,235)

NOTES TO THE ACCOUNTS
1 November 1998

13. **FIXED ASSET INVESTMENTS** continued

(b) THE COMPANY

	Total
Shares in subsidiaries	£
Cost and balance sheet value:	
At 2 November 1997 and 1 November 1998	768,085

(c) The subsidiary companies of which the company holds 100% of ordinary shares issued, being the only class of shares in issue, as at 1 November 1998 are:

Kennedy Utility Management Limited (formerely Joseph Kennedy & Co (Manchester) Limited)
Kennedy Asphalt Limited
Kennedy Pipelining Services Limited
STH Plant Limited
Hale Brooks Insurance Company Limited (incorporated in the Isle of Man)

In addition to the above, the following companies are 100% owned by subsidiaries:
Kennedy Utility Services (Scotland) Limited (registered in Scotland)
Astley Self Drive Limited
Kendat Cabling Services Limited
Kennedy Brooks Limited (registered in Ireland)

Kennedy Brooks Limited is in voluntary liquidation and has not been consolidated as in the opinion of the directors the amounts involved are not material.

Except as stated above all the subsidiaries are incorporated in Great Britain and registered in England and Wales.

The total value of goodwill written off on consolidation of the above subsidiaries is £136,831 (1997 - £127,914).

On 2 November 1998 Joseph Kennedy & Co (Manchester) Limited changed its name to Kennedy Utility Management Limited ("KUM"). The assets and liabilities of Kennedy Utility Services (Scotland) Limited, Kendat Cabling Services Limited and Kennedy Pipelining Services Limited were transferred to KUM as at that date. The operations previously carried out by these separate companies continue to be performed as divisions of KUM.

NOTES TO THE ACCOUNTS
1 November 1998

13. **FIXED ASSET INVESTMENTS** continued

(d) The principal activities of subsidiary companies are public works contracting other ancillary services.

14. **INTANGIBLE ASSETS**

THE GROUP	Goodwill £
Cost:	
At 2 November 1997 and 1 November 1998	192,740
Amortisation:	
At 2 November 1997	16,623
Charge in the year	8,917
At 1 November 1998	25,540
Net book value:	
At 1 November 1998	167,200
At 2 November 1997	176,117

15. **STOCK**

THE GROUP	**1998** £	1997 £
Raw materials and consumables	731,931	60,972

The replacement value of stock and work in progress is estimated to be the same as book value.

NOTES TO THE ACCOUNTS
1 November 1998

16. DEBTORS

	GROUP		COMPANY	
	1998	1997	**1998**	1997
	£	£	£	£
Due within one year:				
Trade debtors	13,367,147	10,148,532	-	-
Amounts recoverable on long term contracts	2,214,288	1,487,162	-	-
Amounts owed by subsidiaries	-	-	-	927,795
Other debtors	96,055	537,400	14,536	395,469
Prepayments and accrued income	451,631	334,062	127,168	78,512
Dividends receivable	-	-	61,435	362,263
Corporation tax recoverable	178,535	152,887	-	-
	16,307,656	12,660,043	203,139	1,764,039
Due after more than one year:				
Trade debtors	396,676	225,391	-	-
Amounts owed by parent companies	18,191,352	15,615,012	18,191,352	15,615,012
	18,588,028	15,840,403	18,191,352	15,615,012

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Bank overdraft	-	-	1,971,201	1,258,147
Finance leases	21,231	19,348	-	-
Trade creditors	10,982,230	8,186,869	-	-
Amounts owed to subsidiaries	-	-	10,091,833	8,390,824
Corporation tax	2,140,419	2,635,361	734,861	356,064
Other taxation and social security	2,377,284	1,628,928	552,009	550,293
Other creditors	1,572,935	1,197,327	955,496	274,801
Accruals and deferred income	1,449,106	1,647,542	486,781	676,529
Dividend payable	4,300,000	1,500,000	4,300,000	1,500,000
	22,843,205	16,815,375	19,092,181	13,006,658

The company's overdraft is secured by fixed and floating charges on certain assets of the company and group.

NOTES TO THE ACCOUNTS
1 November 1998

18. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	GROUP	
	1998	1997
	£	£
Finance leases payable between one and five years.	61,349	82,995

The amounts payable in the second year are £22,968.
The obligations under finance leases are secured on the assets financed.

19. PROVISION FOR LIABILITIES AND CHARGES

	1998	1997
Reinstatement and other provisions	1,263,979	1,610,062
Provision for losses in associated company (see note 13)	16,235	-
	1,280,214	1,610,062

a) Deferred taxation

The balance on the deferred taxation account for which benefit has not been recognised is as follows:

	Provided		Unprovided	
i) THE GROUP	**1998**	1997	**1998**	1997
	£	£	**£**	£
Capital allowances in excess of depreciation	-	-	(76,686)	(114,969)
Short term timing differences	-	-	(421,547)	(486,930)
Capital losses	-	-	(123,401)	(127,514)
	-	-	(621,634)	(729,413)
ii) THE COMPANY				
Capital allowances in excess of depreciation	17,843	-	-	(30,564)
Short term timing differences	(17,843)	-	(85,414)	(76,639)
Capital losses	-	-	(115,243)	(119,085)
	-	-	(200,661)	(226,288)

NOTES TO THE ACCOUNTS
1 November 1998

19. **PROVISION FOR LIABILITIES AND CHARGES** continued

(b) Reinstatement and other provisions

THE GROUP	Reinstatement and remedial	Plant repairs	Total
	£	£	£
Movement in the year:			
At 2 November 1997	1,513,446	96,616	1,610,062
Provided in the year	577,260	83,730	660,990
Utilised in the year	(706,923)	(129,200)	(836,123)
Released in the year	(170,950)	-	(170,950)
At 1 November 1998	1,212,833	51,146	1,263,979

20. **CALLED UP SHARE CAPITAL**

Authorised, allotted and fully paid:	Ordinary shares of £1 each	"A"Ordinary shares of £1 each	Total
At 1 November 1998 and 2 November 1997	217,800	1,000	218,800

The ordinary shares of £1 each are equity shares.

The "A" Ordinary shares of £1 each are non equity shares.
The holders of the "A" Ordinary Shares:

(i) have no rights to dividends other than those recommended by the directors in respect of "A" Ordinary shares;

(ii) have no redemption rights;

(iii) rank parri-passu with the holders of the Ordinary shares in respect of repayment of paid-up capital on a winding-up but have no further right to participate in distribution of surplus assets;

(iv) have no voting rights.

NOTES TO THE ACCOUNTS
1 November 1998

21. RESERVES

	Revaluation reserve	Profit and loss account	Total
	£	£	£
(a) THE GROUP			
At 2 November 1997	345,748	21,565,680	21,911,428
Retained loss for the year	-	(751,757)	(751,757)
At 1 November 1998	345,748	20,813,923	21,159,671
(b) THE COMPANY			
At 2 November 1997	345,748	7,688,920	8,034,668
Retained loss for the year	-	(5,031,559)	(5,031,559)
At 1 November 1998	345,748	2,657,361	3,003,109

The balance on the profit and loss account is all available for distribution.

22. CONTINGENT LIABILITIES

The company is liable under the group election scheme for the value added tax liabilities of other group companies. The contingent liability at 1 November 1998 amounted to £1,007,361 (1997 - £524,060).

Under the terms of a cross guarantee set up between Kennedy Construction Group Limited, its parent companies and its subsidiaries, the company has a contingent liability at 1 November 1998 of £10,840,426 for the bank overdrafts of other group companies (1997 - £17,500,000).

23. PENSIONS

During the year, the defined benefit scheme previously operated by the Kennedy Construction Group was replaced by a defined contribution scheme. The scheme covers a large proportion of the group's permanent salaried staff.

Contributions to the new scheme are charged to profit and loss when they become payable. The total pension cost for the group was £289,855 (1997 - £302,283).

24. ULTIMATE PARENT COMPANY

The company's ultimate parent company is Proby Limited, a company incorporated in Great Britain and registered in England and Wales. Copies of the group financial statements of Proby Limited are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.