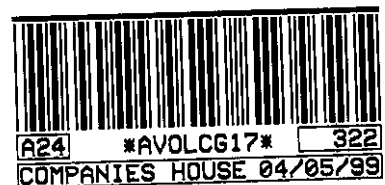


**KENNEDY UTILITY MANAGEMENT
LIMITED**

(formerly Joseph Kennedy & Co (Manchester) Limited)

REPORT AND ACCOUNTS

1 November 1998



KENNEDY UTILITY MANAGEMENT LIMITED
(formerly Joseph Kennedy & Co (Manchester) Limited)

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITY

The principal activity of the company is the laying of electricity cables and telephone ducting.

REVIEW OF THE BUSINESS

Two term contracts with new customers started during the year, contributing to the increase in turnover. However the rise in overall profits was restricted by the shortage of high voltage contracts. Since the year end term contracts with two major customers have been up for renewal. A reduction in the workload with one of these customers will be offset by the increase in the contract awarded by the other. Therefore taking into account the two additional term contracts awarded during the year, turnover and profits from these activities are expected to increase in 1999. Following the group reorganisation referred to below, next year's accounts will include the results of other group operations.

POST BALANCE SHEET EVENTS

On 2 November 1998 the company changed its name from Joseph Kennedy & Co (Manchester) Limited to Kennedy Utility Management Limited. On the same date the assets and liabilities of subsidiaries Kennedy Utility Services (Scotland) Limited and Kendat Cabling Services Limited, and fellow subsidiary Kennedy Pipelining Services Limited were transferred to the company. All transfers were made at net book value. The operations previously carried out by these companies will continue to be performed as divisions of Kennedy Utility Management Limited.

RESULTS AND DIVIDENDS

The results of the company for the year are set out in detail on page 5.

No dividend was paid during the year (1997 - £Nil). The directors recommend that no final dividend be paid (1997 - £Nil).

FIXED ASSETS

Details of movement in fixed assets are set out in notes 6 and 7 to the accounts.

DIRECTORS

The directors who served during the year and have been appointed since the year end are as follows:

P G Comer	
K E Hunt	
P V Carolan	
D W Kenyon	
M J Glover	
S E Atkinson	- resigned 5 January 1998
J W Reid	- appointed 2 November 1998
M J Beirne	- appointed 2 November 1998
N P Armstrong	- appointed 2 November 1998
A P Brown	- appointed 2 November 1998

KENNEDY UTILITY MANAGEMENT LIMITED
(formerly Joseph Kennedy & Co (Manchester) Limited)

REPORT OF THE DIRECTORS continued

DIRECTORS continued

J W Reid, M J Beirne, N P Armstrong and A P Brown, who were appointed since the last annual general meeting, retire and, being eligible, offer themselves for re-election. The following directors retire by rotation and, being eligible, offer themselves for re-election:

P V Carolan
M J Glover

None of the directors had an interest in the share capital of the company. The interests of P V Carolan, S E Atkinson and J W Reid in the ultimate parent company, Proby Limited, are shown in that company's accounts. No other director had an interest in the shares of 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.

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. Whist it is the group's current assessment that it is adequately prepared it cannot be certain, and 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.

CHARITABLE DONATIONS

Contributions during the year to United Kingdom charitable organisations amounted to £3,260 (1997 - £2,195).

AUDITORS

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

By order of the Board



R W Kirkin

Secretary

23 February 1999

KENNEDY UTILITY MANAGEMENT LIMITED
(formerly Joseph Kennedy & Co (Manchester) Limited)

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 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 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 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;
- * prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Deloitte & Touche



Chartered Accountants

Deloitte & Touche
(P.O. Box 500)
201 Deansgate
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International + 44 161 832 3555
Fax (Gp. 3): 0161 829 3800
DX 14324 - Manchester 1 Exchange

AUDITORS' REPORT TO THE MEMBERS OF KENNEDY UTILITY MANAGEMENT LIMITED (formerly Joseph Kennedy & Co (Manchester) Limited)

We have audited the financial statements on pages 5 to 13 which have been prepared under the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material 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 the company's affairs as at 1 November 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and Registered Auditors

23 February 1999

**Deloitte Touche
Tohmatsu
International**

Aberdeen, Bath, Belfast, Birmingham, Bournemouth, Bracknell, Bristol, Cambridge, Cardiff, Crawley, Dartford, Edinburgh, Glasgow, Leeds, Leicester, Liverpool, London, Manchester, Milton Keynes, Newcastle upon Tyne, Nottingham, St Albans and Southampton.

Principal place of business at which a list of partners' names is available:
Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR.

Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

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	29,535,535	25,020,168
Cost of sales		<u>(25,551,696)</u>	<u>(21,149,380)</u>
GROSS PROFIT		3,983,839	3,870,788
Administrative expenses		<u>(1,797,534)</u>	<u>(1,267,952)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	2,186,305	2,602,836
Tax on profit on ordinary activities	5	<u>(686,675)</u>	<u>(830,313)</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR	13	<u>1,499,630</u>	<u>1,772,523</u>

There are no recognised gains and losses other than the retained profit for the year and for the preceding year.

All the activities relate to continuing operations.

KENNEDY UTILITY MANAGEMENT LIMITED
(formerly Joseph Kennedy & Co (Manchester) Limited)

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BALANCE SHEET

1 November 1998

	Note		1998 £	1997 £
FIXED ASSETS				
Tangible assets	6	165,508	192,649	
Investments	7	<u>172,698</u>	<u>172,698</u>	
			338,206	365,347
CURRENT ASSETS				
Stock	8	43,477	-	
Debtors - due within one year	9	10,663,402	9,719,949	
Debtors - due after more than one year	9	168,033	-	
Cash at bank and in hand		<u>1,067,636</u>	<u>666,485</u>	
		11,942,548	10,386,434	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	10	<u>(3,955,652)</u>	<u>(3,717,559)</u>	
NET CURRENT ASSETS			<u>7,986,896</u>	<u>6,668,875</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			8,325,102	7,034,222
PROVISIONS FOR LIABILITIES AND CHARGES	11		<u>(803,850)</u>	<u>(1,012,600)</u>
			<u>7,521,252</u>	<u>6,021,622</u>
CAPITAL AND RESERVES				
CALLED UP SHARE CAPITAL	12		110,000	110,000
RESERVES				
Share premium account	13	75,000	75,000	
Profit and loss account	13	<u>7,336,252</u>	<u>5,836,622</u>	
			<u>7,411,252</u>	<u>5,911,622</u>
Equity Shareholders' Funds			<u>7,521,252</u>	<u>6,021,622</u>

APPROVED BY THE BOARD OF DIRECTORS

P V Carolan



A P Brown

A. P. Brown

23 February 1999

NOTES TO THE ACCOUNTS
1 November 1998

1. ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The principal accounting policies adopted are as follows:

TURNOVER

Turnover represents the value of work carried out.

FIXED ASSET INVESTMENTS

Fixed asset investments are stated at cost less a provision for any permanent diminution in value.

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:

Plant and machinery	- 25% to 33⅓% per annum on cost
Freehold land	- Nil%

STOCK

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

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.

REINSTATEMENT PROVISION

The reinstatement provision represents the company's estimate for 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 company which can be made.

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 when they become payable.

CASH FLOW STATEMENTS

The company is exempt under FRS 1 (revised) from the requirement to produce a cash flow statement.

NOTES TO THE ACCOUNTS
1 November 1998

	52 weeks ended 1.11.98 £	53 weeks ended 2.11.97 £
2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		
Profit on ordinary activities before taxation is arrived at after charging/(crediting):		
Depreciation - owned assets	88,453	77,242
Profit on sale of fixed assets	(7,999)	(34,736)
Auditors remuneration - audit fees	11,310	4,800
- non audit fees	5,925	2,450
	<u> </u>	<u> </u>
3. EMPLOYEES		
The average number employed by the company, which includes directors, within each category of persons was:	No.	No.
Production staff	450	425
Administrative staff	60	44
	<u> </u>	<u> </u>
	510	469
	<u> </u>	<u> </u>
The costs incurred in respect of these employees were:	£	£
Wages and salaries	9,236,289	7,909,021
Social security costs	1,200,196	1,027,726
Other pension costs	94,890	80,339
	<u> </u>	<u> </u>
	10,531,375	9,017,086
	<u> </u>	<u> </u>
4. DIRECTORS		
The remuneration of directors who served during the year included in employee costs were:		
Emoluments	390,488	413,959
Pension contributions	25,980	21,802
	<u> </u>	<u> </u>
	416,468	435,761
	<u> </u>	<u> </u>

The highest paid director received emoluments of £125,187 (1997: £121,016) and pension costs of £8,339 during the year.

Five of the directors that served during the year were members of the Group's pension schemes (1997 - eight).

NOTES TO THE ACCOUNTS

1 November 1998

	52 weeks ended 1.11.98 £	53 weeks ended 2.11.97 £
5. TAX ON PROFIT ON ORDINARY ACTIVITIES		
Taxation is based on the profit for the year and comprises:		
Corporation tax at 31% (1997 - 31.83%) of taxable profit	140,235	841,324
Group relief	<u>552,604</u>	<u>-</u>
	692,839	841,324
Prior year adjustment:		
Corporation tax	<u>(6,164)</u>	<u>(11,011)</u>
	<u>686,675</u>	<u>830,313</u>
The tax charge for the year has been increased/(decreased) by the following amounts as a result of:		
General disallowable expenditure	36,312	26,832
Deferred taxation not provided	(25,545)	(13,922)
Rate differences on unprovided deferred taxation	5,255	-
Non taxable income	<u>(937)</u>	<u>-</u>
	<u>15,085</u>	<u>12,910</u>
6. TANGIBLE FIXED ASSETS		
		Plant and machinery £
Cost:		
At 2 November 1997		441,110
Additions		61,313
Disposals		<u>(25,191)</u>
At 1 November 1998		<u>477,232</u>
Depreciation:		
At 2 November 1997		248,461
Charge for the year		88,453
On disposals		<u>(25,190)</u>
At 1 November 1998		<u>311,724</u>
Balance sheet value:		
At 1 November 1998		<u>165,508</u>
At 2 November 1997		<u>192,649</u>

NOTES TO THE ACCOUNTS
1 November 1998

6. TANGIBLE FIXED ASSETS continued

	1998	1997
	£	£
Future capital expenditure:		
Contracted for but not provided in the accounts	<u>-</u>	<u>-</u>

7. FIXED ASSET INVESTMENTS

Shares in group undertakings	£
Cost:	
At 1 November 1998 and 2 November 1997	<u>329,383</u>
Provisions:	
At 1 November 1998 and 2 November 1997	<u>156,685</u>
Balance sheet value:	
At 1 November 1998 and 2 November 1997	<u>172,698</u>

All fixed asset investments are in subsidiary companies. The subsidiary companies of which the company holds 100% of the ordinary shares issued are:

Kennedy Utility Services (Scotland) Limited	- public works contracting
Kendat Cabling Services Limited	- public works contracting
Kennedy Brooks Limited (incorporated in the Republic of Ireland)	- in voluntary liquidation

In accordance with Section 228(1) Companies Act 1985 group accounts have not been prepared on the basis that the Company is a wholly owned subsidiary of Kennedy Construction Group Limited, which is incorporated in Great Britain.

In the directors opinion the aggregate value of the shares in and amounts due from each subsidiary is not less than the aggregate value of the amounts at which they are stated in the accounts.

	1998	1997
	£	£
8. STOCK		
Raw materials and consumables	<u>43,477</u>	<u>-</u>

NOTES TO THE ACCOUNTS

1 November 1998

9. DEBTORS	1998	1997
	£	£
Due within one year:		
Trade debtors	6,378,312	4,572,666
Amounts owed by group companies	4,026,433	4,833,368
Other debtors	6,518	68,741
Prepayments and accrued income	119,729	103,116
Corporation tax recoverable	132,410	142,058
	<u>10,663,402</u>	<u>9,719,949</u>
Due after more than one year:		
Trade debtors	<u>168,033</u>	<u>-</u>
10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR		
Trade creditors	2,629,781	2,122,107
Corporation tax	140,235	855,514
Other taxation and social security	673,535	357,359
Other creditors	217,421	121,127
Accruals and deferred income	294,680	261,452
	<u>3,955,652</u>	<u>3,717,559</u>
11. PROVISIONS FOR LIABILITIES AND CHARGES		
Reinstatement provisions	<u>803,850</u>	<u>1,012,600</u>
(a) Reinstatement provisions:		
Movement in the year		
At 2 November 1997	1,012,600	
Provided during the year	165,000	
Utilised during the year	(216,050)	
Released during the year	<u>(157,700)</u>	
At 1 November 1998	<u>803,850</u>	
(b) Deferred taxation:		
The balance on the deferred taxation account for which benefit has not been recognised is as follows:		
Depreciation in excess of capital allowances	(16,775)	(11,150)
Other timing differences	(134,805)	(165,773)
Capital losses	<u>(6,073)</u>	<u>(6,275)</u>
	<u>(157,653)</u>	<u>(183,198)</u>

NOTES TO THE ACCOUNTS
1 November 1998

12. CALLED UP SHARE CAPITAL	1998 £	1997 £
Authorised and allotted:		
Ordinary shares of £1 each fully paid	<u>110,000</u>	<u>110,000</u>

13. RESERVES	Share premium £	Profit and loss account £	Total £
At 2 November 1997	75,000	5,836,622	5,911,622
Retained profit for the year	<u>-</u>	<u>1,499,630</u>	<u>1,499,630</u>
At 1 November 1998	<u>75,000</u>	<u>7,336,252</u>	<u>7,411,252</u>

Of the total reserves at 1 November 1998 and 2 November 1997, the balance on the share premium account of £75,000 is not available for distribution.

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	1998 £	1997 £
Profit for the financial year	1,499,630	1,772,523
Opening shareholders' funds	<u>6,021,622</u>	<u>4,249,099</u>
Closing shareholders' funds	<u>7,521,252</u>	<u>6,021,622</u>

15. 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 £1,107,568 (1997 - £815,853).

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 £12,812,044 for the bank borrowings of other group companies (1997 - £18,758,880).

16. 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 to the company was £94,890 (1997 - £80,339).

NOTES TO THE ACCOUNTS
1 November 1998

17. ULTIMATE PARENT COMPANY

The company's parent company is Kennedy Construction Group Limited which is incorporated in Great Britain. The ultimate parent company is Proby Limited which is registered in England and Wales and incorporated in Great Britain.

The company has taken advantage of the exemption provided by FRS 8 not to disclose transactions with entities that are part of the same group.

Copies of the group financial statements of Kennedy Construction Group Limited and Proby Limited are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

18. POST BALANCE SHEET EVENTS

On 2 November 1998 the company changed its name from Joseph Kennedy & Co (Manchester) Limited to Kennedy Utility Management Limited. On the same date the assets and liabilities of subsidiaries Kennedy Utility Services (Scotland) Limited and Kendat Cabling Services Limited, and fellow subsidiary Kennedy Pipelining Services Limited were transferred to the company. All transfers were made at net book value. The operations previously carried out by these companies will continue to be performed as divisions of Kennedy Utility Management Limited.