



**KENNEDY UTILITY MANAGEMENT
LIMITED**

(formerly Joseph Kennedy & Co (Manchester) Limited)

REPORT AND ACCOUNTS

31 October 1999



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 31 October 1999.

PRINCIPAL ACTIVITIES

The principal activity of the company is the laying of electricity cables and telephone ducting and gas pipelines and the relining and replacement of water mains.

REVIEW OF THE BUSINESS

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 continue to be performed as divisions of Kennedy Utility Management Limited.

The comparative figures for 1998 for turnover, gross profit and profit before tax of the company as it is now formed are £61,339k, £7,409k and £3,984k respectively. The rise in turnover of £26,125k is largely attributable to the large partnering style contract with Transco awarded in Scotland where volumes increased by £12,365k, and greater activity in Telecoms generating an additional £5,285k. Gross profit was adversely affected by start up costs associated with the larger partnering style contracts and problems arising during the year on certain contracts. These were mainly associated with fluctuating workloads and were all resolved during the year. At the same time overheads increased due to the administrative support required to manage the additional workload. As a result profit before tax fell by £1,069k. A much lower increase in turnover is anticipated for the current year. Having resolved the problems experienced in 1999 on certain contracts, profitability in 2000 is expected to increase significantly compared to 1999.

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 (1998 - £Nil). The directors recommend that no final dividend be paid (1998 - £Nil).

FIXED ASSETS

Details of movement in fixed assets are set out in notes 7 and 8 to the accounts.

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

REPORT OF THE DIRECTORS continued

DIRECTORS

The directors who served during the year are as follows:

P G Comer	-	retired 12 March 1999
K E Hunt		
P V Carolan		
D W Kenyon		
M J Glover	-	retired 31 January 2000
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

The following directors retire by rotation and, being eligible, offer themselves for re-election:

K E Hunt
D W Kenyon

None of the directors had an interest in the share capital of the company. The interests of P V Carolan 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.

CHARITABLE DONATIONS

Contributions during the year to United Kingdom charitable organisations amounted to £8,650 (1998 - £3,260).

YEAR 2000 ISSUES

Following their initial review, the directors continue to be alert to the potential risks and uncertainties surrounding the year 2000 issue. As at the date of this report, the directors are not aware of any significant factors which have arisen, or that may arise, which will affect the activities for the business; however, the situation is still being monitored. Any future costs associated with this issue cannot be quantified but are not expected to be significant.

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

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

A handwritten signature in black ink, appearing to read 'R W Kirkin', written in a cursive style.

R W Kirkin

28 February 2000

Secretary

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
(P.O. Box 500)
201 Deansgate
Manchester M60 2AT

Telephone: National 0161 832 3555
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 6 to 15 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4 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 31 October 1999 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

28 February 2000

**Deloitte Touche
Tohmatsu**

Aberdeen, Belfast, Birmingham, Bracknell, Bristol, Cambridge, Cardiff, Crawley,
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 31 October 1999

	Note	1999 £	1998 £
TURNOVER	1	87,464,100	29,535,535
Cost of sales		<u>(79,639,887)</u>	<u>(25,551,696)</u>
GROSS PROFIT		7,824,213	3,983,839
Administrative expenses		<u>(4,909,581)</u>	<u>(1,797,534)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	2,914,632	2,186,305
Tax on profit on ordinary activities	6	<u>(999,001)</u>	<u>(686,675)</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR	15	<u>1,915,631</u>	<u>1,499,630</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.

BALANCE SHEET

31 October 1999

	Note		1999 £	1998 £
FIXED ASSETS				
Tangible assets	7	394,719	165,508	
Investments	8	<u>172,698</u>	<u>172,698</u>	
			567,417	338,206
CURRENT ASSETS				
Stock	9	895,923	43,477	
Debtors - due within one year	10	20,709,262	10,663,402	
Debtors - due after more than one year	10	235,828	168,033	
Cash at bank and in hand		<u>5,705,398</u>	<u>1,067,636</u>	
		27,546,411	11,942,548	
CREDITORS:AMOUNTS FALLING DUE WITHIN ONE YEAR	11	<u>(18,043,157)</u>	<u>(3,955,652)</u>	
NET CURRENT ASSETS			<u>9,503,254</u>	<u>7,986,896</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			10,070,671	8,325,102
CREDITORS:AMOUNTS FALLING AFTER MORE THAN ONE YEAR	12		(27,967)	-
PROVISIONS FOR LIABILITIES AND CHARGES	13		<u>(605,821)</u>	<u>(803,850)</u>
			<u>9,436,883</u>	<u>7,521,252</u>
CAPITAL AND RESERVES				
CALLED UP SHARE CAPITAL	14		110,000	110,000
RESERVES				
Share premium account	15	75,000	75,000	
Profit and loss account	15	<u>9,251,883</u>	<u>7,336,252</u>	
			<u>9,326,883</u>	<u>7,411,252</u>
Equity Shareholders' Funds			<u>9,436,883</u>	<u>7,521,252</u>

APPROVED BY THE BOARD OF DIRECTORS

P V Carolan

A P Brown

A. P.

28 February 2000

NOTES TO THE ACCOUNTS

31 October 1999

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 33% per annum on cost

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

31 October 1999

2. GROUP RE-ORGANISATION

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 are now performed within Kennedy Utility Management Limited. Hence the large increase in turnover and changes to the balance sheet.

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1999 £	1998 £
---	------------------	-----------

Profit on ordinary activities before taxation is arrived
at after charging/(crediting):

Depreciation - owned assets	293,673	88,453
- leased assets	2,659	-
Profit on sale of fixed assets	(22,566)	(7,999)
Auditors remuneration - audit fees	20,400	11,310
- non audit fees	4,000	5,925
	<u> </u>	<u> </u>

4. EMPLOYEES

The average number employed by the company, which includes directors, within each category of persons was:	No.	No.
---	-----	-----

Production staff	1,216	450
Administrative staff	<u>77</u>	<u>60</u>
	<u>1,293</u>	<u>510</u>

The costs incurred in respect of these employees were:	£	£
--	---	---

Wages and salaries	27,597,632	9,236,289
Social security costs	3,410,087	1,200,196
Other pension costs	<u>165,296</u>	<u>94,890</u>
	<u>31,173,015</u>	<u>10,531,375</u>

NOTES TO THE ACCOUNTS

31 October 1999

	1999	1998
	£	£

5. DIRECTORS

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

Emoluments	593,479	390,488
Pension contributions	<u>44,633</u>	<u>25,980</u>
	<u>638,112</u>	<u>416,468</u>

The highest paid director received emoluments of £108,444 (1998 : £125,187) and pension costs of £11,857 during the year (1998 - £8,339).

Seven of the directors that served during the year were members of the Group's pension schemes (1998 - five).

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

Taxation is based on the profit for the year and comprises:

Corporation tax at 30% (1998 - 31%) of taxable profit	1,002,862	140,235
Group relief	<u>-</u>	<u>552,604</u>
	1,002,862	692,839
Prior year adjustment:		
Corporation tax	<u>(3,861)</u>	<u>(6,164)</u>
	<u>999,001</u>	<u>686,675</u>

The tax charge for the year has been increased/(decreased) by the following amounts as a result of:

General disallowable expenditure	86,799	36,312
Deferred taxation not provided	29,683	(20,290)
Non taxable income	<u>(67)</u>	<u>(937)</u>
	<u>116,415</u>	<u>15,085</u>

NOTES TO THE ACCOUNTS

31 October 1999

7. TANGIBLE FIXED ASSETS

	<u>Plant and machinery</u>
Cost:	£
At 1 November 1998	477,232
Group transfers	958,350
Additions	370,750
Disposals	<u>(107,000)</u>
31 October 1999	<u>1,699,332</u>
Depreciation:	
At 1 November 1998	311,724
Group transfers	769,374
Charge for the year	296,332
On disposals	<u>(72,817)</u>
31 October 1999	<u>1,304,613</u>
Balance sheet value:	
At 31 October 1999	<u>394,719</u>
At 1 November 1998	<u>165,508</u>

The net book value of plant and machinery includes £43,605 in respect of assets held under finance leases (1998 - £Nil).

Future capital expenditure:	1999	1998
	£	£
Contracted for but not provided in the accounts	<u>-</u>	<u>-</u>

8. FIXED ASSET INVESTMENTS

	Participating Interests £	Shares £	Loans £	Total £
Cost:				
At 1 November 1998	-	329,383	-	329,383
Group transfers	58,766	-	-	58,766
Provided in year	-	-	50,000	50,000
	<u>58,766</u>	<u>329,383</u>	<u>50,000</u>	<u>438,149</u>
Provisions:				
At 1 November 1998	-	156,685	-	156,685
Group transfers	58,766	-	-	58,766
On loan	-	-	50,000	50,000
	<u>58,766</u>	<u>156,685</u>	<u>50,000</u>	<u>265,451</u>
Balance sheet value:				
At 31 October 1999	-	172,698	-	172,698
At 1 November 1998	-	172,698	-	172,698

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

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

The participating interest investment is the company's investment in 50,000 £1 shares in Encore Environmental Aggregates Limited. This company is a 50:50 joint venture with BG Opsco Limited, and its principal activity is the recycling of aggregates. The company is incorporated in Great Britain.

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.

NOTES TO THE ACCOUNTS

31 October 1999

9. STOCK	1999	1998
	£	£
Raw materials and consumables	<u>895,923</u>	<u>43,477</u>
10. DEBTORS		
Due within one year:		
Trade debtors	20,413,090	6,378,312
Amounts owed by group companies	-	4,026,433
Other debtors	24,379	6,518
Prepayments and accrued income	271,793	119,729
Corporation tax recoverable	<u>-</u>	<u>132,410</u>
	<u>20,709,262</u>	<u>10,663,402</u>
Due after more than one year:		
Trade debtors	<u>235,828</u>	<u>168,033</u>
11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR		
Finance leases	12,820	-
Amounts owed to group companies	2,821,321	-
Trade creditors	11,191,006	2,629,781
Corporation tax	672,280	140,235
Other taxation and social security	2,121,568	673,535
Other creditors	711,244	217,421
Accruals and deferred income	<u>512,918</u>	<u>294,680</u>
	<u>18,043,157</u>	<u>3,955,652</u>
12. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR		
Finance leases payable between one and five years	<u>27,967</u>	<u>-</u>
The amounts payable in the second year are £14,035		
The obligations under finance leases are secured on the assets financed		

NOTES TO THE ACCOUNTS

31 October 1999

13. PROVISIONS FOR LIABILITIES AND CHARGES

1999

1998

£

£

Reinstatement and other provisions

605,821

803,850

(a) Reinstatement and other provisions:

Movement in the year

At 1 November 1998

803,850

Group transfers

397,896

Provided during the year

482,413

Utilised during the year

(402,101)

Released during the year

(676,237)

31 October 1999

605,821

(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

(74,187)

(16,775)

Other timing differences

(239,765)

(134,805)

Capital losses

(6,073)

(6,073)

(320,025)

(157,653)

14. CALLED UP SHARE CAPITAL

Authorised and allotted:

Ordinary shares of £1 each fully paid

110,000

110,000

15. RESERVES

Share
premium

£

Profit
and loss
account

£

Total

£

At 1 November 1998

75,000

7,336,252

7,411,252

Retained profit for the year

-

1,915,631

1,915,631

31 October 1999

75,000

9,251,883

9,326,883

Of the total reserves at 31 October 1999 and 1 November 1998, the balance on the share premium account of £75,000 is not available for distribution.

NOTES TO THE ACCOUNTS

31 October 1999

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	1999 £	1998 £
Profit for the financial year	1,915,631	1,499,630
Opening shareholders' funds	<u>7,521,252</u>	<u>6,021,622</u>
Closing shareholders' funds	<u>9,436,883</u>	<u>7,521,252</u>

17. 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 31 October 1999 amounted to £558,185 (1998 - £1,107,568).

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 31 October 1999 of £13,462,486 bank borrowings of other group companies (1998 - £12,812,044).

18. 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.