KENNEDY CONSTRUCTION GROUP
LIMITED
and its subsidiaries

REPORT AND ACCOUNTS

31 October 1999

KENNEDY CONSTRUCTION GROUP LIMITED
and its subsidiaries

CONTENTS

KENNEDY CONSTRUCTION GROUP LIMITED
and its subsidiaries

CHAIRMAN'S STATEMENT

I am delighted to report on another successful year for Kennedy Construction Group. Turnover for the year grew by 30% to £103 million and operating profit of £7.8m was achieved despite set-up costs on major contracts and heavy investment in training and systems. This is a creditable performance for the sector.

The growth in turnover was due to the award of a number of major long term partnering contracts including a second contract for Transco in Yorkshire, further contracts for West of Scotland water and a ten-year partnering agreement with Midlands Electricity. There was also an increase in activity in the telecoms sector. The Group's strategy of working closely with clients to structure contracts for long term improvement in efficiency has led to a strong market position which should enable sustained growth and stability. The current year has begun with over 82% of budgeted turnover already secured and £109 million has already been secured for subsequent years. Margins on highway works were also good despite severe market conditions and there are positive opportunities for growth in the long term.

The integration of all utility activities under the name Kennedy Utility Management has been successful, leading to a more co-ordinated approach. This will play a major role in maintaining Kennedy's strong position in the multi-utility sector. Management in all sectors has been strengthened particularly in the regions with the appointment of new southern and midland regional managers. Changes in the nature of clients requirements has also necessitated the recruitment of commercial and administrative staff at all levels.

Investment in systems and controls for continued improvement has continued. The safety, quality and environmental functions have been combined into an integrated Risk Management function which will lead to better communication and improved efficiency. Accreditation to ISO14001 for the environmental management system is expected to be achieved this year.

I was delighted to welcome Stephen Byers the Secretary of State for Trade and Industry to open the Manchester training centre in March. This facility will enable the company to train and develop its entire workforce in addition to carrying out training for many of its clients. Kennedy now has almost 2000 employees and is committed to Investors in People as part of its commitment to their personal development.

I believe Kennedy is now in an extremely strong position to take advantage of the new opportunities that arise as our market continues to change from the execution of low value short term contracts into the total provision of service with contract periods of up to ten years carried out on a cost reimbursable basis. Whilst slower growth is predicted for 2000, I feel confident that the Group is extremely well positioned to enjoy sustained increased profit in the future.

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 31 October 1999.

PRINCIPAL ACTIVITIES

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

REVIEW OF THE BUSINESS

Operating profit of £7.8m was achieved during the year, representing an increase of £0.5m on 1998. The increase in turnover of 30% brought the total for the year to £103m. The rise was largely due to the increase in activity in the telecoms sector combined with the partnering contract awarded by Transco in Scotland which generates turnover of £20m per annum compared with £7-8m in previous years. The group was successful in obtaining further partnering contracts during the year with Transco in Yorkshire and Midlands Electricity. Among other awards was the West of Scotland Water contract which was renewed for two years in October.

Margins were adversely affected by start up costs on the larger partnering style contracts. This was exasperated by a small number of contracts suffering problems due to large swings in volumes. These problems were resolved during the course of the year. The Roads division also suffered due to fierce competition in the industry which affected both turnover and margins. At the same time overheads increased due to administrative support required to manage the additional workload in the Utilities divisions.

A much smaller increase in turnover is planned for the current year. Activity in the roads division is much improved, and the problems experienced in 1999 on certain contracts were resolved during that year. The directors are therefore confident that profits will increase significantly in 2000. 82% of budgeted turnover for 2000 is already in hand, plus 53% and 32% for the two subsequent years.

FIXED ASSETS

Details of movements in fixed assets are included in notes 10 to 12 to the accounts.

RESULTS AND DIVIDENDS

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

Dividends of £2,000,000 were paid during the year (1998 - £1,400,000). The directors recommend that a final dividend of £1,900,000 be paid (1998 - £4,300,000). Details of dividends payable in relation to each class of share in issue are disclosed in note 9 to the accounts.

KENNEDY CONSTRUCTION GROUP LIMITED
and its subsidiaries

REPORT OF THE DIRECTORS continued

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

P V Carney and D B Carter 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 £9,050 (1998 - (£6,140).

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 of the business; however, the situation is still being monitored. Any future costs assoctiated with this issue cannot be quantified but are not expected to be significant.

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

28 February 2000

Secretary

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

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 CONSTRUCTION GROUP LIMITED

We have audited the financial statements on pages 7 to 27 which have been prepared under the accounting policies set out on pages 13 and 14.

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 31 October 1999 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

28 February 2000

KENNEDY CONSTRUCTION GROUP LIMITED
and its subsidiaries

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 October 1999

	Note		**1999**		1998
			£		£
TURNOVER	1		103,170,572		79,029,646
Cost of sales			(90,250,993)		(67,040,956)
GROSS PROFIT			12,919,579		11,988,690
Administrative expenses			(5,151,218)		(4,733,601)
OPERATING PROFIT			7,768,361		7,255,089
Share of loss in joint venture	11		(98,008)		(66,235)
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST			7,670,353		7,188,854
Interest receivable and similar income	5	171,020		216,773	
Interest payable and similar charges	6	(237,718)		(75,249)	
			(66,698)		141,524
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			7,603,655		7,330,378
Tax on profit on ordinary activities	7		(2,393,236)		(2,382,135)
PROFIT FOR THE FINANCIAL YEAR	8		5,210,419		4,948,243
Dividends on equity shares	9		(3,900,000)		(5,700,000)
RETAINED PROFIT/ (LOSS) FOR THE YEAR	19		1,310,419		(751,757)

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

All activities relate to continuing operations.

KENNEDY CONSTRUCTION GROUP LIMITED
and its subsidiaries

CONSOLIDATED BALANCE SHEET
31 October 1999

	Note		1999 £		1998 £
FIXED ASSETS					
Tangible assets	10		6,001,170		6,942,702
Intangible assets	12		158,283		167,200
			6,159,453		7,109,902
CURRENT ASSETS					
Stock	13	965,134		731,931	
Debtors - due within one year	14	24,962,007		16,307,656	
Debtors - due after more than one year	14	13,392,912		18,588,028	
Cash at bank and in hand		5,575,381		2,825,722	
		44,895,434		38,453,337	
CREDITORS:AMOUNTS FALLING DUE WITHIN ONE YEAR	15	(26,634,222)		(22,843,205)	
NET CURRENT ASSETS			18,261,212		15,610,132
TOTAL ASSETS LESS CURRENT LIABILITIES			24,420,665		22,720,034
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	16		(941,853)		(61,349)
PROVISIONS FOR LIABILITIES AND CHARGES	17		(789,922)		(1,280,214)
			22,688,890		21,378,471
CAPITAL AND RESERVES					
CALLED UP SHARE CAPITAL	18		218,800		218,800
RESERVES					
Revaluation reserve	19	296,069		345,748	
Profit and loss account	19	22,174,021		20,813,923	
			22,470,090		21,159,671
Equity shareholders' funds		22,687,890		21,377,471	
Non-equity shareholders' funds		1,000		1,000	
TOTAL SHAREHOLDERS' FUNDS			22,688,890		21,378,471

APPROVED BY THE BOARD OF DIRECTORS ON 28 FEBRUARY 2000

P V Carolan

S E Atkinson

PARENT COMPANY BALANCE SHEET
31 October 1999

	Note		1999 £		1998 £
FIXED ASSETS					
Tangible assets	10		3,247,493		3,151,514
Investments	11		768,085		768,085
			4,015,578		3,919,599
CURRENT ASSETS					
Debtors - due within one year	14	318,725		203,139	
Debtors - due after more than one year	14	13,486,052		18,191,352	
		13,804,777		18,394,491	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	15	(16,225,840)		(19,092,181)	
NET CURRENT LIABILITIES			(2,421,063)		(697,690)
TOTAL ASSETS LESS CURRENT LIABILITIES			1,594,515		3,221,909
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	16		(868,711)		-
PROVISIONS FOR LIABILITIES AND CHARGES	17		(27,961)		-
			697,843		3,221,909
CAPITAL AND RESERVES					
CALLED UP SHARE CAPITAL	18		218,800		218,800
RESERVES					
Revaluation reserve	19	296,069		345,748	
Profit and loss account	19	182,974		2,657,361	
			479,043		3,003,109
TOTAL SHAREHOLDERS' FUNDS			697,843		3,221,909
Attributable to equity shareholders			696,843		3,220,909
Attributable to non-equity shareholders			1,000		1,000

APPROVED BY THE BOARD OF DIRECTORS

P V Carolan

S E Atkinson

28 February 2000

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 October 1999

	Note	1999 £	1998 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	(a)	10,236,237	4,322,203
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		171,020	216,773
Interest paid		(237,718)	(75,249)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(66,698)	141,524
TAXATION			
Corporation tax paid		(2,399,751)	(2,220,894)
Tax paid		(2,399,751)	(2,220,894)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(997,227)	(1,892,199)
Receipts from sale of tangible fixed assets		496,413	667,460
Net cash outflow from investing activities		(500,814)	(1,224,739)
ACQUISITIONS AND DISPOSALS			
Investment in joint venture	11	(50,000)	(50,000)
Net cash outflow from investing activies		(50,000)	(50,000)
EQUITY DIVIDENDS PAID			
Dividends paid		(6,300,000)	(2,900,000)
		(6,300,000)	(2,900,000)
Net cash inflow/(outflow) before financing		918,974	(1,931,906)
FINANCING			
Bank loan		2,000,000	-
Bank loan repayments		(153,810)	-
Repayment of finance leases		(15,505)	(19,763)
Net cash inflow/(outflow) from financing		1,830,685	(19,763)
INCREASE/(DECREASE) IN CASH	(c)	2,749,659	(1,951,669)

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 October 1999

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

	1999	1998
	£	£
Operating profit	7,768,361	7,255,089
Depreciation charge	1,805,593	1,787,327
Regional development grant amortisation	(414)	-
Amortisation of goodwill	8,917	8,917
Profit on sale of fixed assets	(293,072)	(381,556)
Decrease in reinstatement and other provisions	(566,261)	(346,083)
Increase in stocks	(233,203)	(670,959)
Increase in debtors	(8,315,911)	(3,793,250)
Increase in creditors	5,855,269	3,720,889
Decrease/(increase) in amounts due from parent companies	4,206,958	(3,258,171)
Net cash inflow from operating activities	10,236,237	4,322,203

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

	£
Increase in cash in the year	2,749,659
New bank loan	(2,000,000)
Repayment of bank loan and finance leases	169,315
Change in net funds resulting from cash flows	918,974
New finance leases	(41,800)
Net funds at 1 November 1998	2,743,142
Net funds at 31 October 1999	3,620,316

(c) ANALYSIS OF NET FUNDS

	At 1 November 1998	Cash flows	Other non cash changes	At 31 October 1999
Cash at bank and in hand	2,825,722	2,749,659	-	5,575,381
Bank loan	-	(1,846,190)	-	(1,846,190)
Finance leases	(82,580)	15,505	(41,800)	(108,875)
	2,743,142	918,974	(41,800)	3,620,316

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	1999 £	1998 £
Reported profit on ordinary activities before taxation	7,603,655	7,330,378
Difference between historical cost depreciation and the actual depreciation charge	22,483	22,376
Historical cost profit on ordinary activities before taxation	7,626,138	7,352,754
Historical cost profit/(loss)for the year after taxation and dividends	1,332,902	(729,381)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 October 1999

	1999 £	1998 £
Profit for the financial year	5,210,419	4,948,243
Dividends	(3,900,000)	(5,700,000)
Net movement in shareholders' funds	1,310,410	(751,757)
Opening shareholders' funds	21,378,471	22,130,228
Closing shareholders' funds	22,688,890	21,378,471

NOTES TO THE ACCOUNTS
31 October 1999

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 31 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.

1. **ACCOUNTING POLICIES** continued

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.

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
31 October 1999

2. OPERATING PROFIT

Operating profit is arrived at after charging/(crediting):	**1999** £	1998 £
Depreciation - assets held under finance lease	25,471	22,812
- other	1,780,120	1,764,515
Amortisation of regional development grant	(414)	-
Amortisation of goodwill	8,917	8,917
Profit on sale of tangible assets	(293,072)	(381,556)
Auditors remuneration - audit fees	38,380	39,520
- non audit fees	29,064	42,742

3. EMPLOYEES

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

	No.	No.
Production staff	1,322	947
Administrative staff	130	154
	1,452	1,101

The costs incurred in respect of these employees were:

Wages and salaries	31,180,635	22,311,285
Social security costs	3,812,444	2,643,244
Other pension costs	335,347	289,855
	35,328,426	25,244,384

4. DIRECTORS

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

Emoluments	443,091	486,478
Pension contributions	43,198	36,313
	486,289	522,791

Five of the directors were members of the group pension schemes during the year (1998 - five).

The highest paid director received emoluments during the year of £104,052 (1998: £125,187) and pension of £11,857 (1998: £8,339).

5. INTEREST RECEIVABLE AND SIMILAR INCOME

Interest receivable:		
Bank deposits	171,020	215,580
Other interest	-	1,193
	171,020	216,773

NOTES TO THE ACCOUNTS
31 October 1999

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1999	1998
	£	£
On bank loans, overdrafts and other loans repayable within 5 years	149,489	66,080
On finance leases	6,137	8,564
Other interest	8,603	605
Other costs of financing	73,489	-
	237,718	75,249

7. 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	2,025,692	1,817,686
Group relief	472,842	552,604
	2,498,534	2,370,290
Prior year adjustments:		
Corporation tax	(105,298)	11,845
	2,393,236	2,382,135

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

General disallowable expenditure	111,270	147,406
Depreciation on assets not qualifying for capital allowances	3,507	-
Deferred taxation not provided	74,134	(48,183)
Non taxable income	(196)	(1,347)
Small companies tax rate difference	(2,735)	-
	185,980	97,876

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

Dealt with in the accounts of the parent company	1,375,934	668,441

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.

9. DIVIDENDS ON EQUITY SHARES

	52 weeks ended 31.10.99 £	53 weeks ended 1.11.98 £
Ordinary shares:		
Paid - £9.18 per ordinary share (1998 - £6.43)	2,000,000	1,400,000
Payable - £8.72 per ordinary share (1998 - £19.74)	1,900,000	4,300,000
	3,900,000	5,700,000

10. TANGIBLE FIXED ASSETS

	Land and buildings £	Plant and machinery £	Total £
(a) THE GROUP			
Cost/Valuation:			
At 1 November 1998	3,054,123	13,098,226	16,152,349
Additions	175,227	892,175	1,067,402
Disposals	-	(2,111,748)	(2,111,748)
At 31 October 1999	3,229,350	11,878,653	15,108,003
Depreciation:			
At 1 November 1998	102,987	9,106,660	9,209,647
Charge for the year	81,723	1,723,870	1,805,593
On disposals	-	(1,908,407)	(1,908,407)
At 31 October 1999	184,710	8,922,123	9,106,833
Balance sheet value:			
At 31 October 1999	3,044,640	2,956,530	6,001,170
At 1 November 1998	2,951,136	3,991,566	6,942,702

The net book value of plant and machinery includes £107,623 in respect of assets held under finance leases (1998 - £79,962).

10. **TANGIBLE FIXED ASSETS** continued

(b) THE COMPANY

	Land and buildings £	Plant and machinery £	Total £
Cost:			
At 1 November 1998	3,049,002	774,564	3,823,566
Additions	175,227	103,692	278,919
At 31 October 1999	3,224,229	878,256	4,102,485
Depreciation:			
At 1 November 1998	97,868	574,186	672,054
Charge for the year	81,721	101,217	182,938
At 31 October 1999	179,589	675,403	854,992
Balance sheet value:			
At 31 October 1999	3,044,640	202,853	3,247,493
At 1 November 1998	2,951,136	200,378	3,151,514

NOTES TO THE ACCOUNTS
31 October 1999

10. **TANGIBLE FIXED ASSETS** continued

(c) LAND AND BUILDINGS

	GROUP		COMPANY	
The balance sheet value of land and buildings comprises:	**1999** £	1998 £	**1999**	1998
Freehold	1,897,445	1,902,957	1,897,445	1,902,957
Long leasehold	1,147,195	1,048,179	1,147,195	1,048,179
	3,044,640	2,951,136	3,044,640	2,951,136
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	234,350	59,125	229,229	54,002
	3,229,350	3,054,125	3,224,229	3,049,002
If stated under historical cost principles the comparable amount for the total of land and buildings would be:				
Cost	3,040,155	2,864,928	3,035,034	2,859,807
Depreciation	(291,059)	(231,819)	(285,938)	(226,698)
Historical cost value	2,749,096	2,633,109	2,749,096	2,633,109

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	
	1999 £	1998 £	**1999** £	1998 £
Contracted for but not provided in the accounts	-	112,800	-	-

NOTES TO THE ACCOUNTS
31 October 1999

11. FIXED ASSET INVESTMENTS

(a) *THE GROUP*

(i) Investment in subsidiaries

	£
Cost:	
At 1 November 1998 and 31 October 1999	156,685
Provisions:	
At 1 November 1998 and 31 October 1999	156,685
Balance sheet value:	
At 31 October 1999	-
At 1 November 1998	-

(ii) Investment in joint venture

	Share of net liabilities	Loan	Total
	£	£	£
At 1 November 1998	(16,235)	-	(16,235)
Loan during the year	-	50,000	50,000
Share of loss for the year	(98,008)	-	(98,008)
Net book value (see note 17)	(114,243)	50,000	(64,243)

Encore Environmental Aggregates Limited, which is incorporated in Great Britain, is a 50:50 joint venture with B G Opsco Limited, and its principal activity is the recycling of aggregates. 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 year to 31 October 1999 were £632,840 and £196,015 respectively, of which £316,420 and £98,008 are attributable to Kennedy Construction Group Limited.

The balance sheet at 31 October is summarised below:

	Total	Attributable to the group
	£	£
Current assets	390,229	195,115
Current liabilities	(618,715)	(309,358)
	(228,486)	(114,243)

11. **FIXED ASSET INVESTMENTS** continued

(b) THE COMPANY

	Total
Shares in subsidiaries	£
Cost and balance sheet value:	
At 1 November 1998 and 31 October 1999	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 £145,748 (1998 - £136,831).

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
31 October 1999

11. **FIXED ASSET INVESTMENTS** continued

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

12. INTANGIBLE ASSETS

THE GROUP	Goodwill £
Cost:	
At 1 November 1998 and 31 October 1999	192,740
Amortisation:	
At 1 November 1998	25,540
Charge in the year	8,917
At 31 October 1999	34,457
Net book value:	
At 31 October 1999	158,283
At 1 November 1998	167,200

13. STOCK

THE GROUP	**1999** £	1998 £
Raw materials and consumables	965,134	731,931

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

NOTES TO THE ACCOUNTS
31 October 1999

14. DEBTORS

	GROUP		COMPANY	
	1999	1998	**1999**	1998
	£	£	£	£
Due within one year:				
Trade debtors	23,683,131	15,581,435	6,897	-
Amounts owed by group companies	500,000	-	28,070	-
Other debtors	88,734	96,055	12,931	14,536
Prepayments and accrued income	690,142	451,631	270,827	127,168
Dividends receivable	-	-	-	61,435
Corporation tax recoverable	-	178,535	-	-
	24,962,007	16,307,656	318,725	203,139
Due after more than one year:				
Trade debtors	379,701	396,676	-	-
Amounts owed by parent companies	13,013,211	18,191,352	13,486,052	18,191,352
	13,392,912	18,588,028	13,486,052	18,191,352

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Bank loan (see note 16a)	977,479	-	-	-
Bank overdraft	-	-	1,235,432	1,971,201
Finance leases (see note 16b)	35,733	21,231	-	-
Trade creditors	16,583,479	10,982,230	7,953	-
Amounts owed to group companies	-	-	10,653,299	10,091,833
Corporation tax	1,484,186	2,140,419	543,593	734,861
Other taxation and social security	2,885,106	2,377,284	501,933	552,009
Other creditors	1,795,993	1,572,935	1,022,843	955,496
Accruals and deferred income	972,246	1,449,106	360,787	486,781
Dividend payable	1,900,000	4,300,000	1,900,000	4,300,000
	26,634,222	22,843,205	16,225,840	19,092,181

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

16. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	GROUP		COMPANY	
	1999	1998	**1999**	1998
			£	£
Bank loan	868,711	-	868,711	-
Finance leases payable between one and five years	73,142	61,349	-	-
	941,853	61,349	868,711	-

a) Bank loan
Interest is charged at 2¼% above LIBOR. All amounts due in more than one year are payable in the second year. The obligations are secured on certain of the Group's plant and machinery.

b) Finance leases
The amounts payable in the second year are £36,948. The obligations under finance leases are secured on the assets financed.

17. PROVISION FOR LIABILITIES AND CHARGES

	GROUP		COMPANY	
	1999	1998	**1999**	1998
Reinstatement and other provisions	697,718	1,263,979	-	-
Provision for losses in associated company (see note 13)	64,243	16,235	-	-
Regional development grant	27,961	-	27,961	-
	789,922	1,280,214	27,961	-

a) Deferred taxation

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

i) THE GROUP	Unprovided	
	1999	1998
	£	£
Capital allowances in excess of depreciation	(174,229)	(76,686)
Short term timing differences	(334,393)	(421,547)
Capital losses	(123,401)	(123,401)
	(632,023)	(621,634)

NOTES TO THE ACCOUNTS
31 October 1999

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

ii) THE COMPANY

	Provided		Unprovided	
	1999	1998	**1999**	1998
	£	£	£	£
Capital allowances in excess of depreciation	-	17,843	(142)	-
Short term timing differences	-	(17,843)	(72,036)	(85,414)
Capital losses	-	-	(115,243)	(115,243)
	-	-	(187,421)	(200,657)

(b) Reinstatement and other provisions

THE GROUP	Reinstatement and remedial	Plant repairs	Total
	£	£	£
Movement in the year:			
At 1 November 1998	1,212,833	51,146	1,263,979
Transfer from creditors	158,000	-	158,000
Provided in the year	708,104	-	708,104
Utilised in the year	(697,307)	-	(697,307)
Released in the year	(683,912)	(51,146)	(735,058)
At 31 October 1999	697,718	-	697,718

(c) Regional development grant

GROUP AND COMPANY	£
Received during the year	28,375
Amortisation	(414)
At 31 October 1999	27,961

NOTES TO THE ACCOUNTS
31 October 1999

18. CALLED UP SHARE CAPITAL

Authorised, allotted and fully paid:	Ordinary shares of £1 each	"A"Ordinary shares of £1 each	Total
At 31 October 1999 and 1 November 1998	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.

19. RESERVES

	Revaluation reserve £	Profit and loss account £	Total £
(a) THE GROUP			
At 1 November 1998	345,748	20,813,923	21,159,671
Retained profit for the year	-	1,310,419	1,310,419
Transfer of amount equivalent to additional depreciation on revalued assets	(49,679)	49,679	-
At 31 October 1999	296,069	22,174,021	22,470,090
(b) THE COMPANY			
At 1 November 1998	345,748	2,657,361	3,003,109
Retained loss for the year	-	(2,524,066)	(2,524,066)
Transfer of amount equivalent to additional depreciation on revalued assets	(49,679)	49,679	-
At 31 October 1999	296,069	182,974	479,043

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

NOTES TO THE ACCOUNTS
31 October 1999

20. 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 £1,407,503 (1998 - £1,007,361).

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 £12,227,054 for the bank overdrafts of other group companies (1998 - £10,840,426).

21. 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.