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KENNEDY CONSTRUCTION GROUP LIMITED

and its subsidiaries

REPORT AND ACCOUNTS

2 November 1997

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

KENNEDY CONSTRUCTION GROUP LIMITED
and its subsidiaries

REPORT OF THE DIRECTORS

The directors submit their report and the accounts for the year ended 2 November 1997.

PRINCIPAL ACTIVITIES

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

REVIEW OF THE BUSINESS

During the year Vane Limited became the parent company of Bertrem Limited. In April 1997 Vane's interest in Kennedy Construction Limited was sold to its managing director. In August 1997 certain subsidiaries in non-core activities were sold to Vane. Following this five members of the Group's management acquired the shares of Bertrem from Vane. At the end of the financial year, the decision was made to discontinue the trade of Astley Self Drive Limited, the external hire company. No new business has been taken on, and existing contracts are being completed during the current year.

The new management team is pleased to report an increase in turnover and profits. In particular turnover on the businesses retained increased by over 22% to £68.6m, and operating profits increased by 22% to £5.9m.

All operating companies were profitable despite difficult market conditions in Roads and Surfacing. The increase in turnover and profit compared with last year are mainly attributable to the Clean Water business, where turnover rose by £9.2m, and operating profit by £900k to £1,600k.

As new contracts continue to be obtained, and market conditions improve, further growth in turnover and profits is anticipated.

FIXED ASSETS

Details of movements in fixed assets are included in notes 13 to 16 to the accounts.

RESULTS AND DIVIDENDS

The results of the group for the year are set out in detail on page 6.

Dividends of £1,524,600 were paid during the year (1996 - £1,012,770). The directors recommend that a final dividend of £1,500,000 be paid (1996 - £Nil). Details of dividends payable in relation to each class of share in issue are disclosed in note 12 to the accounts.

DIRECTORS

The directors who served during the year were as follows:

P J Kennedy	-	resigned 13 August 1997
J C Parsons	-	resigned 13 August 1997
R W Kirkin	-	resigned 29 May 1997
R S Boddington	-	resigned 29 May 1997
R E Hough	-	resigned 29 May 1997
J G Kennedy	-	resigned 29 May 1997
P V Carolan	-	appointed 29 May 1997
S E Atkinson	-	appointed 29 May 1997
P Carney	-	appointed 29 May 1997
S D B Carter	-	appointed 29 May 1997
J W Reid	-	appointed 29 May 1997

P V Carolan, S E Atkinson, P Carney, S D B Carter and J W Reid, who were appointed since the last annual general meeting, retire and, being eligible, offer themselves for re-election.

On 13 August 1997 the shares in Kennedy Construction Group's parent company were sold to Dream Offer Limited (which was subsequently renamed Proby Limited). The beneficial interests of the directors in the ordinary share capital of the ultimate parent company, Proby Limited, are shown in the accounts of the intermediate parent company, Bertrem Limited. No other director had an interest in the share capital of the company or the ultimate parent company at the year end.

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.

KENNEDY CONSTRUCTION GROUP LIMITED
and its subsidiaries

REPORT OF THE DIRECTORS continued

CHARITABLE CONTRIBUTIONS

Contributions during the year to United Kingdom charitable organisations amounted to £380,707 (1996 - £277,025).

AUDITORS

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

By order of the Board

RW Kirkin

R W Kirkin

26 February 1998

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 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

Chartered Accountants

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Manchester M60 2AT

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AUDITORS' REPORT TO THE MEMBERS OF KENNEDY CONSTRUCTION GROUP LIMITED

We have audited the financial statements on pages 6 to 29 which have been prepared under the accounting policies set out on pages 12 to 14.

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 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 2 November 1997 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

Chartered Accountants and Registered Auditors

26 February 1998

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 2 November 1997

	Note		53 weeks ended 2.11.97 £		52 weeks ended 27.10.96 (As restated see note 2) £
TURNOVER	1				
Continuing operations			68,569,750		55,846,748
Discontinued operations			9,593,194		16,892,179
			78,162,944		72,738,927
Cost of sales	2		(64,374,578)		(59,205,138)
GROSS PROFIT			13,788,366		13,533,789
Net operating expenses	2		(7,166,587)		(8,021,213)
OPERATING PROFIT	3				
Continuing operations		5,878,277		4,813,750	
Discontinued operations		743,502		698,826	
			6,621,779		5,512,576
Profit on disposal of discontinued operations			922,902		-
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST			7,544,681		5,512,576
Interest receivable and similar income	7	543,993		561,558	
Amounts written off investments	8	-		8,723	
Interest payable and similar charges	9	(50,295)		(36,071)	
			493,698		534,210
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			8,038,379		6,046,786
Tax on profit on ordinary activities	10		(2,695,019)		(1,974,637)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION			5,343,360		4,072,149
Equity minority interests			(71,680)		(114,551)
PROFIT FOR THE FINANCIAL YEAR	11		5,271,680		3,957,598
Dividends on equity shares	12		(3,024,600)		(1,012,770)
RETAINED PROFIT FOR THE YEAR	24		2,247,080		2,944,828

KENNEDY CONSTRUCTION GROUP LIMITED
and its subsidiaries

CONSOLIDATED BALANCE SHEET
2 November 1997

	Note		1997 £		1996 £
FIXED ASSETS					
Tangible assets	13		7,123,734		9,322,156
Investment properties	14		-		3,362,262
Goodwill	16		176,117		-
			7,299,851		12,684,418
CURRENT ASSETS					
Stock and long term contract balances	17	60,972		560,902	
Debtors - due within one year	18	12,660,043		12,737,317	
Debtors - due after more than one year	18	15,840,403		492,701	
Investments	19	-		115,118	
Cash at bank and in hand		4,777,391		16,107,490	
		33,338,809		30,013,528	
CREDITORS:AMOUNTS FALLING DUE WITHIN ONE YEAR	20	(16,815,375)		(20,217,791)	
NET CURRENT ASSETS			16,523,434		9,795,737
TOTAL ASSETS LESS CURRENT LIABILITIES			23,823,285		22,480,155
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	21		(82,995)		-
PROVISIONS FOR LIABILITIES AND CHARGES	22		(1,610,062)		(2,044,402)
			22,130,228		20,435,753
CAPITAL AND RESERVES					
CALLED UP SHARE CAPITAL	23		218,800		218,800
RESERVES					
Revaluation reserve	24	345,748		631,513	
Profit and loss account	24	21,565,680		18,687,087	
			21,911,428		19,318,600
Equity shareholders' funds		21,129,228		19,536,400	
Non-equity shareholders' funds		1,000		1,000	
TOTAL SHAREHOLDERS' FUNDS			22,130,228		19,537,400
MINORITY INTERESTS			-		898,353
TOTAL CAPITAL EMPLOYED			22,130,228		20,435,753

APPROVED BY THE BOARD OF DIRECTORS ON 26 FEBRUARY 1998

P V Carolan

S E Atkinson Sarah Atkinson

PARENT COMPANY BALANCE SHEET
2 November 1997

	Note		1997 £		1996 £
FIXED ASSETS					
Tangible assets	13		3,112,990		4,080,056
Investments	15		768,085		2,490,288
			3,881,075		6,570,344
CURRENT ASSETS					
Debtors - due within one year	18	1,764,039		2,326,998	
Debtors - due after more than one year	18	15,615,012		-	
Investments	19	-		115,118	
Cash at bank and in hand		-		13,107,901	
		17,379,051		15,550,017	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	20	(13,006,658)		(14,565,186)	
NET CURRENT ASSETS			4,372,393		984,831
			8,253,468		7,555,175
CAPITAL AND RESERVES					
CALLED UP SHARE CAPITAL	23		218,800		218,800
RESERVES					
Revaluation reserve	24	345,748		-	
Profit and loss account	24	7,688,920		7,336,375	
			8,034,668		7,336,375
TOTAL SHAREHOLDERS' FUNDS			8,253,468		7,555,175
Attributable to equity shareholders			8,252,468		7,554,175
Attributable to non-equity shareholders			1,000		1,000

APPROVED BY THE BOARD OF DIRECTORS

P V Carolan

S E Atkinson

26 February 1998

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 2 November 1997

	Note	1997 £	1996 £
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	(a)	(9,021,582)	9,717,279
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		543,993	531,558
Interest paid		(50,256)	(36,071)
Dividends paid to minority shareholders in subsidiary undertakings		(324,500)	(50,850)
Net cash inflow from returns on investments and servicing of finance		169,237	444,637
TAXATION			
Corporation tax paid		(1,872,261)	(1,403,188)
Tax paid		(1,872,261)	(1,403,188)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(1,261,532)	(3,423,680)
Payments to acquire and improve investment properties		(104,187)	(512,101)
Receipts from sale of tangible fixed assets		1,249,111	964,843
Receipts from sale of investments		50,000	-
Receipt from sale of investment property		-	350,000
Net cash outflow from investing activities		(66,608)	(2,620,938)
ACQUISITIONS AND DISPOSALS			
Investment in former associated company, now a subsidiary		-	500
Proceeds on sale of subsidiaries		4,520,001	-
Purchase of minority interests		(292,318)	-
Net cash inflow from investing activies		4,227,683	500
EQUITY DIVIDENDS PAID			
Dividends paid		(1,524,600)	(1,012,770)
		(1,524,600)	(1,012,770)
MANAGEMENT OF LIQUID RESOURCES			
Proceeds of sale of listed investment		65,118	-
		65,118	-
Net cash (outflow)/inflow before financing		(8,023,013)	5,125,520
FINANCING			
Repayment of finance leases		(4,822)	-
Net cash outflow from financing		(4,822)	-
(DECREASE)/INCREASE IN CASH		(8,027,835)	5,125,520

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT
for the year ended 2 November 1997

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

	1997	1996
	£	£
Operating profit	6,621,779	5,512,576
Depreciation charge	2,115,167	2,507,353
Deficit on revaluation of land and buildings	676,091	-
Amortisation of goodwill	16,623	-
Profit on sale of fixed assets	(413,924)	(671,938)
Exchange differences	-	23,003
Decrease in reinstatement and other provisions	(388,815)	(337,981)
Increase in stocks	(182,377)	(77,137)
(Increase)/decrease in debtors	(1,894,979)	261,544
Increase in creditors	43,865	2,499,859
Increase in amounts due from parent companies	(15,615,012)	-
Net cash (outflow)/inflow from operating activities	(9,021,582)	9,717,279

(b) RECONCILIATION TO NET FUNDS

	£
Decrease in cash in the period	(8,027,835)
Proceeeds of sale of listed investments	(65,118)
Repayment of finance leases	4,822
Change in net funds resulting from cash flows	(8,088,131)
New finance leases	(107,165)
Cash in subsidiaries disposed of	(3,302,264)
Net funds at 27 October 1996	16,172,608
Net funds at 2 November 1997	4,675,048

(c) ANALYSIS OF CHANGES IN NET FUNDS

	At 27 October 1996	Cash flows	Sale of subsidiaries	Other non cash changes	At 2 November 1997
Cash at bank and in hand	16,107,490	(8,027,835)	(3,302,264)	-	4,777,391
Finance leases	-	4,822	-	(107,165)	(102,343)
Current asset investments	65,118	(65,118)	-	-	-
	16,172,608	(8,088,131)	(3,302,264)	(107,165)	4,675,048

STATEMENT OF RECOGNISED GAINS AND LOSSES
for the year ended 2 November 1997

	1997 £	1996 £
Profit for the financial year	5,271,680	3,957,598
Surplus on revaluation of investment properties	345,748	-
Foreign exchange gain/(loss)	-	(1,374)
Total recognised gains relating to the year	5,617,428	3,956,224

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	1997 £	1996 £
Reported profit on ordinary activities before taxation	8,038,379	6,046,786
Realisation of property revaluation gains of earlier years	631,513	146,270
Difference between historical cost depreciation and the actual depreciation charge	5,346	-
Historical cost profit on ordinary activities before taxation	8,675,238	6,193,056
Historical cost profit for the year after taxation, minority interests and dividends	2,883,939	3,091,098

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
for the year ended 2 November 1997

	1997 £	1996 £
Profit for the financial year	5,271,680	3,957,598
Dividends	3,024,600	(1,012,770)
	2,247,080	2,944,828
Other recognised gains/(losses) relating to the year	345,748	(1,374)
Net addition to shareholders' funds	2,592,828	2,943,454
Opening shareholders' funds	19,537,400	16,593,946
Closing shareholders' funds	22,130,228	19,537,400

NOTES TO THE ACCOUNTS
2 November 1997

1. ACCOUNTING POLICIES

The financial statements have been prepared under the historic cost convention as modified by the revaluation of investment properties and in accordance with applicable accounting standards. Compliance with SSAP 19, "Accounting for Investment Properties" requires departure from the requirements of the Companies Act 1985 relating to depreciation and explanation of the departure is given below. The principal accounting policies adopted by the group are as follows:

BASIS OF CONSOLIDATION

The consolidated profit and loss account includes the results of subsidiaries purchased during the year from the date of acquisition and excludes the results of subsidiaries sold from the date of sale. The accounts of subsidiaries are made up to the same date as the parent company.

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 acount.

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%
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
2 November 1997

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, and current asset investments are stated at the lower of cost and net realisable 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
2 November 1997

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 benefit pension scheme which covers a large proportion of its permanent staff employees. The scheme funds are administered by trustees and are independent of the group's finances. Contributions are paid to the scheme in accordance with recommendations of independent actuaries whose reports are compiled every three years. The company's contributions are charged against profits so as to spread the cost over the service lives of employees in the scheme.

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
2 November 1997

2. COST OF SALES AND NET OPERATING EXPENSES

	53 weeks ended 2.11.97			52 weeks ended 27.10.96(As restated)		
	Continuing £	Discontinued £	Total £	Continuing £	Discontinued £	Total £
Cost of sales	56,527,389	7,847,189	64,374,578	44,646,184	14,558,954	59,205,138
Net operating expenses:						
Administrative expenses	5,493,517	1,002,503	6,496,020	6,396,024	1,634,399	8,030,423
Deficit on revaluation of properties	676,091	-	676,091	-	-	-
Other operating income	(5,524)	-	(5,524)	(9,210)	-	(9,210)
	6,164,084	1,002,503	7,166,587	6,386,814	1,634,399	8,021,213

Comparatives for 1996 have been restated in accordance with Financial Reporting Standard No.3 - Reporting Financial Performance to reflect the results of operations which discontinued during 1997.

3. OPERATING PROFIT

	53 weeks ended 2.11.97 £	52 weeks ended 27.10.96 £
Operating profit is arrived at after charging/(crediting):		
Depreciation - assets held under finance lease	4,952	-
- other	2,110,215	2,507,353
Amortisation of goodwill	16,623	-
Profit on sale of tangible assets	(413,924)	(671,938)
Auditors remuneration - audit fees	42,835	72,369
- non-audit fees	55,459	70,295

NOTES TO THE ACCOUNTS
2 November 1997

	53 weeks ended 2.11.97	52 weeks ended 27.10.96
4. **EMPLOYEES**		
The average number employed by the group, which includes directors, within each category of persons was:	No.	No.
Production staff	843	726
Administrative staff	120	163
	963	889
The costs incurred in respect of these employees were:	£	£
Wages and salaries	19,291,628	18,453,806
Social security costs	2,279,786	2,158,397
Other pension costs	302,283	497,736
	21,873,697	21,109,939

5. **DIRECTORS**

Emoluments of directors who served during the year included in employee costs were:		
Management remuneration	628,782	893,094

Seven of the directors were members of the company's deferred benefit pension scheme during the year (1996 - three).

The highest paid director received emoluments during the year of £284,152 (1996: £623,360). He was no longer a member of the pension scheme at 2 November 1997.

NOTES TO THE ACCOUNTS
2 November 1997

6. OTHER OPERATING INCOME

	53 weeks ended 2.11.97 £	52 weeks ended 27.10.96 £
Income from current asset investments	5,337	7,206
Profit on sale of current asset investments	187	2,004
	5,524	9,210

7. INTEREST RECEIVABLE AND SIMILAR INCOME

Interest receivable:		
Bank deposits	543,993	554,827
Other interest	-	6,731
	543,993	561,558

8. AMOUNTS WRITTEN OFF INVESTMENTS

Movement in provisions against investments	-	(8,723)

9. INTEREST PAYABLE AND SIMILAR CHARGES

On bank loans, overdrafts and other loans repayable within 5 years	44,959	7,929
On finance leases	2,990	-
Other interest	2,307	1,569
Exchange differences	39	26,573
	50,295	36,071

NOTES TO THE ACCOUNTS
2 November 1997

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

	53 weeks ended 2.11.97 £	52 weeks ended 27.10.96 £
Taxation is based on the profit for the year and comprises:		
Corporation tax at 31.83% (1996 - 33%) of taxable profit	2,695,082	2,063,563
Deferred taxation	-	(51,510)
Overseas taxation	-	16,123
Tax credits on UK dividends received	1,066	1,441
	2,696,148	2,029,617
Prior year adjustments:		
Corporation tax	(1,129)	(55,262)
Deferred taxation	-	1,984
Overseas taxation	-	(1,702)
	2,695,019	1,974,637

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

General disallowable expenditure	161,729	124,475
Depreciation on assets not qualifying for capital allowances	241,473	28,363
Deferred taxation not provided	45,966	(51,533)
Tax rate differences	1,067	-
Non taxable income	(312,488)	(68,567)
Tax on franked investment income	-	1,441
	137,747	34,179

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

Dealt with in the accounts of the parent Company	3,377,145	6,437,549

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
2 November 1997

12. DIVIDENDS ON EQUITY SHARES

	53 weeks ended 2.11.97 £	52 weeks ended 27.10.96 £
Ordinary shares:		
Paid - £7 per ordinary share (1996 - £4.65)	1,524,600	1,012,770
Payable - £6.89 per ordinary share (1996 - £Nil)	1,500,000	-
	3,024,600	1,012,770

13. TANGIBLE FIXED ASSETS

(a) THE GROUP

	Land and buildings £	Plant and machinery £	Total £
Cost:			
At 27 October 1996	4,317,588	16,498,574	20,816,162
Additions	12,960	1,355,737	1,368,697
Disposals	(532,519)	(1,706,698)	(2,239,217)
In subsidiaries disposed of	-	(3,066,220)	(3,066,220)
Adjustment on revaluation	(467,566)	-	(467,566)
Diminution in value	(330,342)	-	(330,342)
At 2 November 1997	3,000,121	13,081,393	16,081,514
Depreciation:			
At 27 October 1996	473,212	11,020,794	11,494,006
Charge for the year	91,862	2,023,305	2,115,167
On disposals	(73,011)	(1,315,295)	(1,388,306)
In subsidiaries disposed of	-	(2,795,521)	(2,795,521)
Adjustment on revaluation	(467,566)	-	(467,566)
At 2 November 1997	24,497	8,933,283	8,957,780
Balance sheet value:			
At 2 November 1997	2,975,624	4,148,110	7,123,734
At 27 October 1996	3,844,376	5,477,780	9,322,156

The net book value of plant and machinery includes £102,774 in respect of assets held under finance leases (1996 - £Nil).

NOTES TO THE ACCOUNTS
2 November 1997

13. TANGIBLE FIXED ASSETS continued

	Land and buildings £	Plant and machinery £	Total £
(b) THE COMPANY			
Cost:			
At 27 October 1996	4,309,467	945,973	5,255,440
Additions	12,960	82,945	95,905
Disposals	(529,519)	(389,912)	(919,431)
Adjustment on revaluation	(467,566)	-	(467,566)
Diminution in value	(330,342)	-	(330,342)
At 2 November 1997	2,995,000	639,006	3,634,006
Depreciation:			
At 27 October 1996	468,091	707,293	1,175,384
Charge for the year	91,862	115,361	207,223
Disposals	(73,011)	(321,014)	(394,025)
Adjustment on revaluation	(467,566)	-	(467,566)
At 2 November 1997	19,376	501,640	521,016
Balance sheet value:			
At 2 November 1997	2,975,624	137,366	3,112,990
At 27 October 1996	3,841,376	238,680	4,080,056

NOTES TO THE ACCOUNTS
2 November 1997

13. **TANGIBLE FIXED ASSETS** continued

(c) LAND AND BUILDINGS

	GROUP		COMPANY	
The balance sheet value of land and buildings comprises:	**1997** £	1996 £	**1997**	1996
Freehold	1,931,098	2,484,918	1,931,098	2,481,918
Long leasehold	1,044,526	1,359,458	1,044,526	1,359,458
	2,975,624	3,844,376	2,975,624	3,841,376
Land and buildings at cost or valuation are stated:				
At open market value with existing use	2,995,000	-	2,995,000	-
At cost	5,121	4,317,588	-	4,309,467
	3,000,121	4,317,588	2,995,000	4,309,467
If stated under historical cost principles the comparable amount for the total of land and buildings would be:				
Cost	2,810,924	4,317,588	2,805,803	4,309,467
Depreciation	(175,703)	(473,212)	(170,582)	(468,091)
Historical cost value	2,635,221	3,844,376	2,635,221	3,841,376

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	
	1997 £	1996 £	**1997** £	1996 £
Contracted for but not provided in the accounts	575,500	-	-	-

14. INVESTMENT PROPERTIES

THE GROUP

	Freehold land and buildings
	£
At 27 October 1996	3,362,262
Additions	104,187
In subsidiaries disposed of	(3,466,449)
At 2 November 1997	-

Investment properties are stated at open market valuation.

At 27 October 1996 the properties were valued by the directors and considered to have an open market value of £3,362,262. The historical cost of properties owned at 27 October 1996 was £2,520,358.

15. FIXED ASSET INVESTMENTS

(a) THE GROUP

	Subsidiaries
	£
Cost:	
At 27 October 1996 and 2 November 1997	156,685
Provisions:	
At 27 October 1996 and 2 November 1997	156,685
Balance sheet value:	
At 2 November 1997	-
At 27 October 1996	-

NOTES TO THE ACCOUNTS
2 November 1997

15. **FIXED ASSET INVESTMENTS** continued

(b) THE COMPANY

	Shares in Subsidiaries	Loans to Subsidiary company	Total
	£	£	£
Cost:			
At 27 October 1996	1,360,761	1,438,148	2,798,909
Loan capitalised	1,438,148	(1,438,148)	-
Transfer from debtors	156,020	-	156,020
Disposals	(2,186,844)	-	(2,186,844)
At 2 November 1997	768,085	-	768,085
Provisions:			
At 27 October 1996	308,621	-	308,621
Disposals	(308,621)	-	(308,621)
At 2 November 1997	-	-	-
Balance sheet value:			
At 2 November 1997	768,085	-	768,085
At 27 October 1996	1,052,140	1,438,148	2,490,288

(c) The subsidiary companies of which the company holds 100% of ordinary shares issued, being the only class of shares in issue, as at 2 November 1997 are:

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 £127,914 (1996 - £111,291).

15. **FIXED ASSET INVESTMENTS** continued

(d) The principal activities of subsidiary companies is public works contracting, property investment and management and other ancillary services.

16. **GOODWILL**

THE GROUP	£
Arising during the year	192,740
Amortisation charge for the year	(16,623)
At 2 November 1997	176,117

Goodwill arose on the acquisition of the minority interests in Kennedy Pipelining Services Limited and Astley Self Drive Limited.

17. **STOCK AND LONG TERM CONTRACT BALANCES**

THE GROUP	**1997** £	1996 £
Raw materials and consumables	60,972	560,902

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

NOTES TO THE ACCOUNTS
2 November 1997

18. DEBTORS

	GROUP		COMPANY	
	1997	1996	**1997**	1996
	£	£	£	£
Due within one year:				
Trade debtors	10,148,532	9,463,984	-	-
Amounts recoverable on long term contracts	1,487,162	1,689,763	-	-
Amounts owed by subsidiaries	-	-	927,795	1,752,730
Other debtors	537,400	404,745	395,469	108,666
Prepayments and accrued income	334,062	458,080	78,512	112,506
Dividends receivable	-	-	362,263	329,608
Corporation tax recoverable	152,887	720,745	-	23,488
	12,660,043	12,737,317	1,764,039	2,326,998
Due after more than one year:				
Trade debtors	225,391	127,980	-	-
Amounts owed by parent company	15,615,012	-	15,615,012	-
Amounts recoverable on long term contracts	-	364,721	-	-
	15,840,403	492,701	15,615,012	-

19. CURRENT ASSET INVESTMENTS

	GROUP 1997	GROUP 1996	COMPANY 1997	COMPANY 1996
At Cost:				
Listed on a recognised stock exchange	-	65,118	-	65,118
Unlisted shares	-	50,000	-	50,000
	-	115,118	-	115,118
Market value of listed shares	-	66,144	-	66,144

20. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	GROUP 1997	GROUP 1996	COMPANY 1997	COMPANY 1996
Bank overdraft	-	-	1,258,147	-
Finance leases (see note 21)	19,348	-	-	-
Trade creditors	8,186,869	10,519,808	-	-
Payments on account	-	36,597	-	-
Amounts owed to subsidiaries	-	-	8,390,824	11,138,690
Corporation tax	2,635,361	2,838,759	356,064	311,969
Other taxation and social security	1,628,928	2,066,071	550,293	977,044
Other creditors	1,197,327	1,549,291	274,801	848,043
Accruals and deferred income	1,647,542	3,207,265	676,529	1,289,440
Dividend payable	1,500,000	-	1,500,000	-
	16,815,375	20,217,791	13,006,658	14,565,186

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

NOTES TO THE ACCOUNTS
2 November 1997

21. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	GROUP		COMPANY	
	1997	1996	**1997**	1996
		£	£	£
Finance leases payable between one and five years. The amounts payable in the second year are £21,646	82,995	-		

The obligations under finance leases are secured on the assets financed.

22. PROVISION FOR LIABILITIES AND CHARGES

Reinstatement and other provisions	1,610,062	2,044,402	-	-

a) Deferred taxation

The source of the deferred taxation account and the amounts for which provision has not been made are as follows:

	Provided		Unprovided	
i) THE GROUP	**1997**	1996	**1997**	1996
	£	£	£	£
Capital allowances in excess of depreciation	-	86,966	(114,969)	(297,574)
Short term timing differences	-	(86,966)	(486,930)	(464,385)
Capital losses	-	-	(127,514)	(132,897)
	-	-	(729,413)	(894,856)

	Provided		Unprovided	
ii) THE COMPANY				
Capital allowances in excess of depreciation	-	(280)	(30,564)	(41,135)
Short term timing differences	-	280	(76,639)	-
Capital losses	-	-	(119,085)	(123,924)
	-	-		
		-	(226,288)	(165,059)

NOTES TO THE ACCOUNTS
2 November 1997

22. PROVISION FOR LIABILITIES AND CHARGES continued

(b) Reinstatement and other provisions

THE GROUP	Reinstatement and remedial £	Plant repairs £	Total £
Movement in the year:			
At 27 October 1996	1,774,456	269,946	2,044,402
Provided in the year	755,823	22,712	778,535
Utilised in the year	(641,324)	(150,517)	(791,841)
Released in the year	(375,509)	-	(375,509)
In subsidiaries disposed of	-	(45,525)	(45,525)
At 2 November 1997	1,513,446	96,616	1,610,062

23. CALLED UP SHARE CAPITAL

Authorised, allotted and fully paid:	Ordinary shares of £1 each	"A"Ordinary shares of £1 each	Total
At 2 November 1997 and 27 October 1996	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
2 November 1997

24. RESERVES

(a) THE GROUP

	Revaluation reserve £	Profit and loss account £	Total £
At 27 October 1996	631,513	18,687,087	19,318,600
Transfer on disposal of subsidiaries	(631,513)	631,513	-
On revaluation of land and buildings	345,748	-	345,748
Retained profit for the year	-	2,247,080	2,247,080
At 2 November 1997	345,748	21,565,680	21,911,428

(b) THE COMPANY

	Revaluation reserve £	Profit and loss account £	Total £
At 27 October 1996	-	7,336,375	7,336,375
On revaluation of land and buildings	345,748	-	345,748
Retained profit for the year	-	352,545	352,545
At 2 November 1997	345,748	7,688,920	8,034,668

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

25. 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 2 November 1997 amounted to £524,060 (1996 - £662,928).

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 2 November 1997 of £17,500,000 for the bank overdrafts of other group companies (1996 - £549,216).

NOTES TO THE ACCOUNTS
2 November 1997

26. PENSIONS

The Kennedy Construction Group operates a contributory defined benefit pension scheme which covers a large proportion of its permanent staff employees and directors. As a result of the reorganisation of the Group in connection with the management buyout, the pension scheme is to be split between the remaining Group and companies no longer part of the Group. This will be carried out at an appropriate time based on actuarial advice.

Pension costs are assessed in accordance with the advice of a professionally qualified actuary using the attained age method. Actuarial valuations of the pension scheme are performed triennially. The most recent such valuation was made as at 1 July 1995, and the assumptions which had the most significant effect on the results of the valuation were as follows:

	% per annum
Increase in present and future pensions	3
Excess of average rate of return on investments over average salary increases	1

The total market value of pension scheme assets was £8,386,910 and, based on the above method and assumptions, was sufficient to cover 111% of the benefits which had accrued to pension scheme members after allowing for future increases in earnings. This surplus is being eliminated for funding purposes by maintaining the contributions of the employees at 5% of earnings and by restricting the contributions of the group to 11.2%. Following the actuarial valuation a special contribution of £200,000 was made to fund agreed benefit improvements.

The total pension cost for the group was £302,283 (1996 - £497,736). £Nil (1996 - £5,847) is included within debtors, this being the excess of the cumulative amounts paid over the accumulated pension cost.

27. ULTIMATE PARENT COMPANY

The company's ultimate parent company is Proby Limited, a company incorporated in Great Britain and registered in England and Wales.

The company was incorporated on 14 July 1997 and therefore group financial statements of Proby Limited are not required to be prepared until 1 November 1998.

Copies of the group financial statements of the intermediate holding company, Bertrem Limited, are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.