

**KENNEDY CONSTRUCTION GROUP  
LIMITED**  
and its subsidiaries

**REPORT AND ACCOUNTS**

**29 October 2000**



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**KENNEDY CONSTRUCTION GROUP LIMITED**  
**and its subsidiaries**

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- **KENNEDY CONSTRUCTION GROUP LIMITED**  
**and its subsidiaries**

**CHAIRMAN'S STATEMENT**

I am delighted to report on another successful year for Kennedy Construction Group. Turnover grew by 27% to £131m and operating profit before exceptional items and goodwill of £6.2m was achieved representing a margin of 5.9%. this maintains the Group's position as one of the leading contractors in this sector.

Kennedy has continued in pursuit of it's strategy to secure long term partnering contracts and to be a service provider of choice and has been successful in negotiating further awards with Northumbrian Water, National Grid and Severn Trent Water, all of which provide long term workload at more secure margins.

The market remains fiercely competitive particularly in the telecoms sector, where barriers to entry are particularly low. Nevertheless we continue to secure major partnering contracts where the provision of service and reliability to professional standard are of greater importance than price alone.

Much of the increase in turnover this year has been as a result of developing the already excellent relationship with Transco yet further in Scotland and Yorkshire. Considerable additional volume of work has been carried out in resolving many of the utilities problems resulting from the deterioration in the standard of their assets. Being able to provide resources and backup during emergencies has been key to our success in this sector.

Throughout the year we have continued to roll out a geographically based structure giving accountability to each of the regions whilst underpinning their autonomy with a strong technical and functional base. The Midlands region has added water and telecoms to the pre-existing electricity function. Telecoms has also spread to the North and we are looking to obtain contracts in Scotland in the coming year. Each region is developing its capabilities to enable it to perform every service the Group can provide.

Whilst we have suffered particular problems regarding the monitoring and approval of subcontractor work on two of our contracts I am now confident that comprehensive control procedures are in place to avoid any future occurrences. During the year a new commercial department was established incorporating a site audit function and new software was introduced to capture daily site costs and valuations to enable the financial performance of each individual job be identified. This has become a prerequisite for most partnering contracts.

Our investment in Health & Safety continues to reap rewards with Kennedy Asphalt having received a Five Star award following an audit by the British Safety Council of its management systems. Asphalt was also recently awarded the Considerate Constructor Gold Award by Birmingham City Council.

The asphalt and roads divisions have continued to develop over the year maintaining a very strong position in both hard landscaping and the roads division. Our manufacturing plant still provides leverage in the market and ensures a good level of margin generation in a strongly competitive market generally dominated by larger players.

In overall terms the company has had an excellent year and I believe is now poised to take advantage of the moves in the market towards total service provision offered by fully integrated multi utility companies. Our new geographical structure reflects that change and I feel sure will provide considerable opportunities in future for yet further growth and margin generation.

I am confident the company can look forward and capitalise on the considerable cost and effort expended over the last three years in re-positioning the business.

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 29 October 2000.

**PRINCIPAL ACTIVITIES**

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

**REVIEW OF THE BUSINESS**

Turnover increased by 27% to £131m in 2000. This includes an increase in the Utility division of 30%. This is largely attributable to the doubling of turnover in the two partnering gas contracts to £43m due to the acceleration in Transco's mains replacement programme. The contract in Scotland has been extended for another year from September 2001. Further partnering contracts were obtained during the year with Northumbrian Water and National Grid. This style of contract now accounts for 50% of the company's turnover and gross profit. Typically they generate lower but more stable margins, and have the additional advantage of a longer secured workload.

Operating profit was adversely affected by exceptional remedial costs incurred on two contracts amounting to £1.3m. The operating profit margin excluding these costs is 5.9%. Whilst this represents a fall from the 7.5% achieved in 1999, this is still higher than the majority of the Group's competitors. The fall is mainly due to the impact of regulatory pressures on a couple of Electricity contracts which have now finished, together with poor margins achievable on certain Telecoms contracts where Kennedy was acting as a subcontractor. The Asphalt division also suffered a slight fall in margin due to a change in mix of work towards Roads from Surfacing which historically has generated higher margins. The Group has now established itself as a main contractor on all its telecoms work. This together with the cessation of the low margin Electricity contracts will result in an increase in margins in 2001.

A much lower increase in turnover is anticipated for the current year, with improved margins. 84% of turnover forecast for the current year is already in hand, together with 40% for the following year.

**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 £4,000,000 were paid during the year (1999 - £2,000,000). The directors recommend a final dividend of £3,000,000 be paid (1999 - £1,900,000). 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

J W Reid and S J Doughty 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 directors in the ordinary share capital of the ultimate parent company, Proby Limited, are shown in that company's accounts.

**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 £4,920 (1999 - £9,050).

**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



S E Atkinson

21 March 2001

Secretary

**KENNEDY CONSTRUCTION GROUP LIMITED**  
**and its subsidiaries**

**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 1985. 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.

## 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 which are prepared in accordance with applicable United Kingdom law with accounting standards. 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 United Kingdom 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 29 October 2000 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  
201 Deansgate  
Manchester  
M60 2AT

21 March 2001



**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
for the year ended 29 October 2000

	Note	2000 £	1999 £
TURNOVER	1	131,451,221	103,170,572
Cost of sales:			
Exceptional	2b	1,347,139	-
Other		<u>118,211,485</u>	<u>90,250,993</u>
		(119,558,624)	(90,250,993)
GROSS PROFIT		11,892,597	12,919,579
Administrative expenses		<u>(5,536,898)</u>	<u>(5,151,218)</u>
OPERATING PROFIT		6,355,699	7,768,361
Share of loss in joint venture	11	<u>(92,744)</u>	<u>(98,008)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		6,262,955	7,670,353
Interest receivable and similar income	5	93,320	171,020
Interest payable and similar charges	6	<u>(372,037)</u>	<u>(237,718)</u>
		<u>(278,717)</u>	<u>(66,698)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		5,984,238	7,603,655
Tax on profit on ordinary activities	7	<u>(2,001,348)</u>	<u>(2,393,236)</u>
PROFIT FOR THE FINANCIAL YEAR		3,982,890	5,210,419
Dividends on equity shares	9	<u>(7,000,000)</u>	<u>(3,900,000)</u>
RETAINED (LOSS)/PROFIT FOR THE YEAR	19	<u>(3,017,110)</u>	<u>1,310,419</u>

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

All activities relate to continuing operations.

**CONSOLIDATED BALANCE SHEET**

29 October 2000

	Note	2000 £	1999 £
<b>FIXED ASSETS</b>			
Tangible assets	10	5,360,909	6,001,170
Intangible assets	12	<u>149,366</u>	<u>158,283</u>
		5,510,275	6,159,453
<b>CURRENT ASSETS</b>			
Stock	13	733,192	965,134
Debtors - due within one year	14	30,968,129	24,962,007
Debtors - due after more than one year	14	9,972,513	13,392,912
Cash at bank and in hand		<u>6,897,717</u>	<u>5,575,381</u>
		48,571,551	44,895,434
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	15	<u>(33,306,904)</u>	<u>(26,634,222)</u>
<b>NET CURRENT ASSETS</b>		<u>15,264,647</u>	<u>18,261,212</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		20,774,922	24,420,665
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>	16	(243,760)	(941,853)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	17	<u>(859,382)</u>	<u>(789,922)</u>
		<u>19,671,780</u>	<u>22,688,890</u>
<b>CAPITAL AND RESERVES</b>			
<b>CALLED UP SHARE CAPITAL</b>	18	218,800	218,800
<b>RESERVES</b>			
Revaluation reserve	19	287,425	296,069
Profit and loss account	19	<u>19,165,555</u>	<u>22,174,021</u>
		<u>19,452,980</u>	<u>22,470,090</u>
Equity shareholders' funds		19,670,780	22,687,890
Non-equity shareholders' funds		<u>1,000</u>	<u>1,000</u>
<b>TOTAL SHAREHOLDERS' FUNDS</b>		<u>19,671,780</u>	<u>22,688,890</u>

APPROVED BY THE BOARD OF DIRECTORS ON 21 MARCH 2001

P V Carolan

S E Atkinson

*Same as above*

**KENNEDY CONSTRUCTION GROUP LIMITED**  
and its subsidiaries

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**PARENT COMPANY BALANCE SHEET**

29 October 2000

	Note	2000 £	1999 £
<b>FIXED ASSETS</b>			
Tangible assets	10	3,314,737	3,247,493
Investments	11	<u>725,478</u>	<u>768,085</u>
		4,040,215	4,015,578
<b>CURRENT ASSETS</b>			
Stock	13	28,186	-
Debtors - due within one year	14	9,929,917	318,725
Debtors - due after more than one year	14	<u>8,924,747</u>	<u>13,486,052</u>
		18,882,850	13,804,777
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	15	<u>(20,761,722)</u>	<u>(16,225,840)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(1,878,872)</u>	<u>(2,421,063)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		2,161,343	1,594,515
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>	16	(209,864)	(868,711)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	17	<u>(27,251)</u>	<u>(27,961)</u>
		<u>1,924,228</u>	<u>697,843</u>
<b>CAPITAL AND RESERVES</b>			
<b>CALLED UP SHARE CAPITAL</b>	18	218,800	218,800
<b>RESERVES</b>			
Revaluation reserve	19	287,425	296,069
Profit and loss account	19	<u>1,418,003</u>	<u>182,974</u>
		<u>1,705,428</u>	<u>479,043</u>
<b>TOTAL SHAREHOLDERS' FUNDS</b>		<u>1,924,228</u>	<u>697,843</u>
Attributable to equity shareholders		1,923,228	696,843
Attributable to non-equity shareholders		<u>1,000</u>	<u>1,000</u>

APPROVED BY THE BOARD OF DIRECTORS

P V Carolan

S E Atkinson

21 March 2001

**CONSOLIDATED CASH FLOW STATEMENT**  
for the year ended 29 October 2000

	Note	2000 £	1999 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	(a)	<u>10,362,370</u>	<u>10,236,237</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		93,320	171,020
Interest paid		(364,051)	(231,581)
Interest element on finance lease rental payments		<u>(7,986)</u>	<u>(6,137)</u>
Net cash outflow from returns on investments and servicing of finance		<u>(278,717)</u>	<u>(66,698)</u>
TAXATION			
Corporation tax paid		<u>(1,754,269)</u>	<u>(2,399,751)</u>
Tax paid		<u>(1,754,269)</u>	<u>(2,399,751)</u>
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(1,110,705)	(997,227)
Receipts from sale of tangible fixed assets		<u>523,832</u>	<u>496,413</u>
Net cash outflow from investing activities		<u>(586,873)</u>	<u>(500,814)</u>
ACQUISITIONS AND DISPOSALS			
Investment in joint venture		<u>-</u>	<u>(50,000)</u>
Net cash outflow from investing activities		<u>-</u>	<u>(50,000)</u>
EQUITY DIVIDENDS PAID			
Dividends paid		<u>(5,900,000)</u>	<u>(6,300,000)</u>
		<u>(5,900,000)</u>	<u>(6,300,000)</u>
Net cash inflow before financing		1,842,511	918,974
FINANCING			
New bank loans		559,782	2,000,000
Bank loan repayments		(1,044,224)	(153,810)
Repayment of finance leases		<u>(35,733)</u>	<u>(15,505)</u>
Net cash (outflow)/inflow from financing		<u>(520,175)</u>	<u>1,830,685</u>
INCREASE IN CASH	(c)	<u>1,322,336</u>	<u>2,749,659</u>

**NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**  
for the year ended 29 October 2000

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

	2000 £	1999 £
Operating profit	6,355,699	7,768,361
Depreciation charge	1,479,589	1,805,593
Regional development grant amortisation	(710)	(414)
Amortisation of goodwill	8,917	8,917
Profit on sale of fixed assets	(252,455)	(293,072)
Decrease in reinstatement and other provisions	(22,574)	(566,261)
Decrease/(increase) in stocks	231,942	(233,203)
Increase in debtors	(6,662,482)	(8,315,911)
Increase in creditors	5,135,980	5,855,269
Decrease in amounts due from parent companies	<u>4,088,464</u>	<u>4,206,958</u>
Net cash inflow from operating activities	<u>10,362,370</u>	<u>10,236,237</u>

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

	£
Increase in cash in the year	1,322,336
New bank loan	(559,782)
Repayment of bank loan and finance leases	<u>1,079,957</u>
Change in net funds resulting from cash flows	1,842,511
Net funds at 31 October 1999	<u>3,620,316</u>
Net funds at 29 October 2000	<u>5,462,827</u>

(c) ANALYSIS OF NET FUNDS

	At 31 October 1999	Cash flows	At 29 October 2000
Cash at bank and in hand	5,575,381	1,322,336	6,897,717
Bank loan	(1,846,190)	484,442	(1,361,748)
Finance leases	<u>(108,875)</u>	<u>35,733</u>	<u>(73,142)</u>
	<u>3,620,316</u>	<u>1,842,511</u>	<u>5,462,827</u>

	2000 £	1999 £
<b>NOTE OF HISTORICAL COST PROFITS AND LOSSES</b> for the year ended 29 October 2000		
Reported profit on ordinary activities before taxation	5,984,238	7,603,655
Difference between historical cost depreciation and the actual depreciation charge	<u>23,208</u>	<u>22,483</u>
Historical cost profit on ordinary activities before taxation	<u>6,007,446</u>	<u>7,626,138</u>
Historical cost (loss)/profit for the year after taxation and dividends	<u>(2,993,902)</u>	<u>1,332,902</u>

**RECONCILIATION OF MOVEMENTS  
IN SHAREHOLDERS' FUNDS**

for the year ended 29 October 2000

Profit for the financial year	3,982,890	5,210,419
Dividends	<u>(7,000,000)</u>	<u>(3,900,000)</u>
<b>Net movement in shareholders' funds</b>	(3,017,110)	1,310,410
Opening shareholders' funds	<u>22,688,890</u>	<u>21,378,471</u>
<b>Closing shareholders' funds</b>	<u>19,671,780</u>	<u>22,688,890</u>

**NOTES TO THE ACCOUNTS**  
29 October 2000

**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 joint venture company. The accounts of subsidiaries are made up to the same date as the parent company. The results of the joint venture company, which has a 31 December year end, are included based on management accounts as at the group's year end.

**GOODWILL ON CONSOLIDATION**

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

**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**

The transitional arrangements of FRS15 have been adopted in the case of land and buildings, where the valuation of £2,995,000 has not been updated since 13 August 1997. The group is not continuing the revaluations policy relating to these assets

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

The rates are as follows:

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

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

**NOTES TO THE ACCOUNTS**  
29 October 2000

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 a 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**  
29 October 2000

<b>2. OPERATING PROFIT</b>	<b>2000</b>	<b>1999</b>
	<b>£</b>	<b>£</b>
Operating profit is arrived at after charging/(crediting):		
a) Depreciation - assets held under finance lease	38,177	25,471
- other	1,441,412	1,780,120
Amortisation of regional development grant	(710)	(414)
Amortisation of goodwill	8,917	8,917
Profit on sale of tangible assets	(252,455)	(293,072)
Auditors remuneration - audit fees	74,550	38,380
- non audit fees	17,584	29,064
	<u>1,347,139</u>	<u>-</u>
<b>3. EMPLOYEES</b>	<b>No.</b>	<b>No.</b>
The average number employed by the group, which includes directors, within each category of persons was:		
Production staff	1,713	1,322
Administrative staff	<u>196</u>	<u>130</u>
	<u>1,909</u>	<u>1,452</u>
The costs incurred in respect of these employees were:		
Wages and salaries	37,945,427	31,180,635
Social security costs	4,623,955	3,812,444
Other pension costs	<u>386,766</u>	<u>335,347</u>
	<u>42,956,148</u>	<u>35,328,426</u>
<b>4. DIRECTORS</b>		
The remuneration of directors who served during the year included in employee costs were:		
Emoluments	473,607	443,091
Pension contributions	<u>43,954</u>	<u>43,198</u>
	<u>517,561</u>	<u>486,289</u>
Five of the directors were members of the group pension schemes during the year (1999 - five).		
The highest paid director received emoluments during the year of £115,982 (1999: £104,052) and pension of £12,338 (1999: £11,857).		
<b>5. INTEREST RECEIVABLE AND SIMILAR INCOME</b>		
Interest receivable:		
Bank deposits	89,571	171,020
Other interest	<u>3,749</u>	<u>-</u>
	<u>93,320</u>	<u>171,020</u>

**NOTES TO THE ACCOUNTS**  
29 October 2000

**6. INTEREST PAYABLE AND SIMILAR CHARGES**

	2000 £	1999 £
On bank loans, overdrafts and other loans repayable within 5 years	331,317	149,489
On finance leases	7,986	6,137
Other interest	41	8,603
Other costs of financing	<u>32,693</u>	<u>73,489</u>
	<u>372,037</u>	<u>237,718</u>

**7. TAX ON PROFIT ON ORDINARY ACTIVITIES**

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

Corporation tax at 30% (1999 - 30%) of taxable profit	1,570,923	2,025,692
Group relief	<u>431,588</u>	<u>472,842</u>
	2,002,511	2,498,534
Prior year adjustments:		
Corporation tax	(26,437)	(105,298)
Group relief	<u>25,274</u>	<u>-</u>
	<u>2,001,348</u>	<u>2,393,236</u>

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

General disallowable expenditure	100,750	111,270
Depreciation on assets not qualifying for capital allowances	23,967	3,507
Deferred taxation not provided	90,114	74,134
Non taxable income	(1,603)	(196)
Small companies tax rate difference	<u>(5,989)</u>	<u>(2,735)</u>
	<u>207,239</u>	<u>185,980</u>

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

Dealt with in the accounts of the parent company	<u>8,226,385</u>	<u>1,375,934</u>
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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**  
29 October 2000

**9. DIVIDENDS ON EQUITY SHARES**

	<b>2000</b>	1999
	£	£
Ordinary shares:		
Paid - £18.36 per ordinary share (1999 - £9.18)	4,000,000	2,000,000
Payable - £13.77 per ordinary share (1999 - £8.72)	<u>3,000,000</u>	<u>1,900,000</u>
	<u>7,000,000</u>	<u>3,900,000</u>

**10. TANGIBLE FIXED ASSETS**

	Land and buildings £	Plant and machinery £	Total £
(a) THE GROUP			
Cost/Valuation:			
At 31 October 1999	3,229,350	11,878,653	15,108,003
Additions	800	1,109,905	1,110,705
Disposals	<u>-</u>	<u>(1,889,437)</u>	<u>(1,889,437)</u>
At 29 October 2000	<u>3,230,150</u>	<u>11,099,121</u>	<u>14,329,271</u>
Depreciation:			
At 31 October 1999	184,710	8,922,123	9,106,833
Charge for the year	83,925	1,395,664	1,479,589
On disposals	<u>-</u>	<u>(1,618,060)</u>	<u>(1,618,060)</u>
At 29 October 2000	<u>268,635</u>	<u>8,699,727</u>	<u>8,968,362</u>
Balance sheet value:			
At 29 October 2000	<u>2,961,515</u>	<u>2,399,394</u>	<u>5,360,909</u>
At 31 October 1999	<u>3,044,640</u>	<u>2,956,530</u>	<u>6,001,170</u>

The net book value of plant and machinery includes £69,446 in respect of assets held under finance leases (1999 - £107,623).

NOTES TO THE ACCOUNTS

29 October 2000

10. TANGIBLE FIXED ASSETS continued	Land and buildings £	Plant and machinery £	Total £
(b) THE COMPANY			
Cost:			
At 31 October 1999	3,224,229	878,256	4,102,485
Additions	800	267,445	268,245
Disposals	-	(169,689)	(169,689)
At 29 October 2000	<u>3,225,029</u>	<u>976,012</u>	<u>4,201,041</u>
Depreciation:			
At 31 October 1999	179,589	675,403	854,992
Charge for the year	83,925	117,075	201,000
On disposals	-	(169,688)	(169,688)
At 29 October 2000	<u>263,514</u>	<u>622,790</u>	<u>886,304</u>
Balance sheet value:			
At 29 October 2000	<u>2,961,515</u>	<u>353,222</u>	<u>3,314,737</u>
At 31 October 1999	<u>3,044,640</u>	<u>202,853</u>	<u>3,247,493</u>

NOTES TO THE ACCOUNTS  
29 October 2000

10. TANGIBLE FIXED ASSETS continued

(c) LAND AND BUILDINGS

	<u>GROUP</u>		<u>COMPANY</u>	
	2000	1999	2000	1999
	£	£		
The balance sheet value of land and buildings comprises:				
Freehold	1,847,556	1,897,445	1,847,556	1,897,445
Long leasehold	<u>1,113,959</u>	<u>1,147,195</u>	<u>1,113,959</u>	<u>1,147,195</u>
	<u>2,961,515</u>	<u>3,044,640</u>	<u>2,961,515</u>	<u>3,044,640</u>
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	<u>235,150</u>	<u>234,350</u>	<u>230,029</u>	<u>229,229</u>
	<u>3,230,150</u>	<u>3,229,350</u>	<u>3,225,029</u>	<u>3,224,229</u>
If stated under historical cost principles the comparable amount for the total of land and buildings would be:				
Cost	3,036,634	3,040,155	3,035,834	3,035,034
Depreciation	<u>(351,776)</u>	<u>(291,059)</u>	<u>(346,655)</u>	<u>(285,938)</u>
Historical cost value	<u>2,684,858</u>	<u>2,749,096</u>	<u>2,689,179</u>	<u>2,749,096</u>

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. As stated in the accounting policies note 1, the valuation of land and buildings has not been updated since that date.

(d) FUTURE CAPITAL EXPENDITURE

	<u>GROUP</u>		<u>COMPANY</u>	
	2000	1999	2000	1999
	£	£	£	£
Contracted for but not provided in the accounts	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE ACCOUNTS  
29 October 2000

11. FIXED ASSET INVESTMENTS

(a) THE GROUP

(i) Investment in subsidiaries

Cost:	£
At 31 October 1999 and 29 October 2000	<u>156,685</u>
Provisions:	
At 31 October 1999 and 29 October 2000	<u>156,685</u>
Balance sheet value:	
At 29 October 2000	<u>-</u>
At 31 October 1999	<u>-</u>

(ii) Investment in joint venture

	Share of net liabilities	Loan	Total
	£	£	£
At 31 October 1999	(114,243)	50,000	(64,243)
Share of loss for the year	<u>(92,744)</u>	<u>-</u>	<u>(92,744)</u>
At 29 October 2000	<u>(206,987)</u>	<u>50,000</u>	<u>(156,987)</u>

Encore Environmental Aggregates Limited, which is incorporated in Great Britain, is a 50:50 joint venture with Transco Holdings Plc 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 29 October 2000 were £872,897 (1999 -£632,840) and £185,488 (1999 - £196,015 ) respectively, of which £436,448 (1999 - £316,420) and £92,744 (1999 - £98,008) are attributable to Kennedy Construction Group Limited.

The balance sheet of the joint venture at 29 October 2000 is summarised below:

	Total	Attributable to the group
	£	£
Fixed assets	183,138	91,569
Current assets	417,997	208,999
Current liabilities	<u>(1,015,110)</u>	<u>(507,555)</u>
	<u>(413,975)</u>	<u>(206,987)</u>

**NOTES TO THE ACCOUNTS**  
29 October 2000

**11. FIXED ASSET INVESTMENTS** continued

**(b) THE COMPANY**

	<u>Total</u> £
Shares in subsidiaries	
Cost:	
At 31 October 1999 and 29 October 2000	<u>768,085</u>
Provision:	
At 31 October 1999	-
Provided during the year	<u>42,607</u>
At 29 October 2000	<u>42,607</u>
Net book value:	
At 29 October 2000	<u>725,478</u>
At 31 October 1999	<u>768,085</u>

- (c) The subsidiary companies of which the company holds 100% of ordinary shares issued, being the only class of shares in issue, as at 29 October 2000 are:

Kennedy Utility Management Limited  
Kennedy Asphalt Limited  
Kennedy Pipelining Services Limited  
STH Plant Limited  
Hale Brooks 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 £154,665 (1999 - £145,748).

**NOTES TO THE ACCOUNTS**  
29 October 2000

**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 31 October 1999 and 29 October 2000	<u>192,740</u>
Amortisation:	
At 31 October 1999	34,457
Charge in the year	<u>8,917</u>
At 29 October 2000	<u>43,374</u>
Net book value:	
At 29 October 2000	<u>149,366</u>
At 31 October 1999	<u>158,283</u>

**13. STOCK**

	<u>GROUP</u>		<u>COMPANY</u>	
	2000 £	1999 £	2000 £	1999 £
Raw materials and consumables	<u>733,192</u>	<u>965,134</u>	<u>28,186</u>	<u>-</u>

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



NOTES TO THE ACCOUNTS  
29 October 2000

14. DEBTORS

	<u>GROUP</u>		<u>COMPANY</u>	
	2000	1999	2000	1999
	£	£	£	£
Due within one year:				
Trade debtors	28,786,262	23,683,131	51,704	6,897
Amounts owed by group companies	529,568	500,000	9,659,478	28,070
Other debtors	473,159	88,734	27,235	12,931
Prepayments and accrued income	1,167,435	690,142	191,500	270,827
Corporation tax recoverable	11,705	-	-	-
	<u>30,968,129</u>	<u>24,962,007</u>	<u>9,929,917</u>	<u>318,725</u>
Due after more than one year:				
Trade debtors	1,047,766	379,701	-	-
Amounts owed by parent companies	<u>8,924,747</u>	<u>13,013,211</u>	<u>8,924,747</u>	<u>13,486,052</u>
	<u>9,972,513</u>	<u>13,392,912</u>	<u>8,924,747</u>	<u>13,486,052</u>

15. CREDITORS: AMOUNTS FALLING  
DUE WITHIN ONE YEAR

Bank loan (see note 16a)	1,151,884	977,479	181,180	-
Bank overdraft	-	-	1,316,936	1,235,432
Finance leases (see note 16b)	39,246	35,733	-	-
Trade creditors	19,461,422	16,583,479	41,217	7,953
Amounts owed to group companies	-	-	11,765,041	10,653,299
Corporation tax	1,742,970	1,484,186	856,951	543,593
Other taxation and social security	4,267,344	2,885,106	2,015,050	501,933
Other creditors	2,813,586	1,795,993	1,345,989	1,022,843
Accruals and deferred income	830,452	972,246	239,358	360,787
Dividend payable	<u>3,000,000</u>	<u>1,900,000</u>	<u>3,000,000</u>	<u>1,900,000</u>
	<u>33,306,904</u>	<u>26,634,222</u>	<u>20,761,722</u>	<u>16,225,840</u>

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

NOTES TO THE ACCOUNTS  
29 October 2000

16. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR	<u>GROUP</u>		<u>COMPANY</u>	
	2000	1999	2000	1999
			£	£
Bank loan	209,864	868,711	169,784	868,711
Finance leases payable between one and five years	33,896	73,142	-	-
Amounts owed by group companies	-	-	40,080	-
	<u>243,760</u>	<u>941,853</u>	<u>209,864</u>	<u>868,711</u>

- 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 £33,896. The obligations under finance leases are secured on the assets financed.

17. PROVISION FOR LIABILITIES AND CHARGES	<u>GROUP</u>		<u>COMPANY</u>	
	2000	1999	2000	1999
Reinstatement and other provisions	675,144	697,718	-	-
Provision for losses in associated company (see note 13)	156,987	64,243	-	-
Regional development grant	<u>27,251</u>	<u>27,961</u>	<u>27,251</u>	<u>27,961</u>
	<u>859,382</u>	<u>789,922</u>	<u>27,251</u>	<u>27,961</u>

- a) Deferred taxation

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

i) THE GROUP	<u>Provided</u>		<u>Unprovided</u>	
	2000 £	1999 £	2000 £	1999 £
Capital allowances in excess of depreciation	12,764	-	(222,804)	(174,229)
Short term timing differences	(12,764)	-	(300,732)	(334,393)
Capital losses	<u>-</u>	<u>-</u>	<u>(123,401)</u>	<u>(123,401)</u>
	<u>-</u>	<u>-</u>	<u>(646,937)</u>	<u>(632,023)</u>

**NOTES TO THE ACCOUNTS**  
29 October 2000

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

ii) THE COMPANY	<u>Provided</u>		<u>Unprovided</u>	
	2000	1999	2000	1999
	£	£	£	£
Capital allowances in excess of depreciation	12,764	-	-	(142)
Short term timing differences	(12,764)	-	(11,236)	(72,036)
Capital losses	-	-	(115,243)	(115,243)
	<u>-</u>	<u>-</u>	<u>(126,479)</u>	<u>(187,421)</u>

(b) Reinstatement and other provisions

THE GROUP

Movement in the year:

At 31 October 1999	697,718
Provided in the year	358,907
Utilised in the year	(376,981)
Released in the year	<u>(4,500)</u>
At 29 October 2000	<u>675,144</u>

(c) Regional development grant

GROUP AND COMPANY

At 31 October 1999	27,961
Amortisation	<u>(710)</u>
At 29 October 2000	<u>27,251</u>

**NOTES TO THE ACCOUNTS**  
29 October 2000

**18. CALLED UP SHARE CAPITAL**

Authorised, allotted and fully paid:	Ordinary shares of £1 each	"A" Ordinary shares of £1 each	Total
At 29 October 2000 and at 31 October 1999	<u>217,800</u>	<u>1,000</u>	<u>218,800</u>

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 31 October 1999	296,069	22,174,021	22,470,090
Retained loss for the year	-	(3,017,110)	(3,017,110)
Transfer of amount equivalent to additional depreciation on revalued assets	<u>(8,644)</u>	<u>8,644</u>	<u>-</u>
At 29 October 2000	<u>287,425</u>	<u>19,165,555</u>	<u>19,452,980</u>
(b) THE COMPANY			
At 31 October 1999	296,069	182,974	479,043
Retained profit for the year	-	1,226,385	1,226,385
Transfer of amount equivalent to additional depreciation on revalued assets	<u>(8,644)</u>	<u>8,644</u>	<u>-</u>
At 29 October 2000	<u>287,425</u>	<u>1,418,003</u>	<u>1,705,428</u>

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

**NOTES TO THE ACCOUNTS**

29 October 2000

**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 29 October 2000 amounted to £1,329,411 (1999 - £1,407,503).

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 29 October 2000 of £11,272,193 for the bank overdrafts of other group companies (1999 - £12,227,054).

**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.

The group and company have taken advantage of the exemptions provided by FRS8 not to disclose transactions with entities that are part of the same group.