KENNEDY PIPELINING SERVICES

LIMITED

REPORT AND ACCOUNTS

1 November 1998

Registered Office: 78 Ashley Road, Hale, Altrincham, WA14 2UN. Registered No: 1714140

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

The principal activity of the company is that of relining water mains.

REVIEW OF THE BUSINESS

Turnover having grown in 1997 to three times that of previous years, a small increase was anticipated for 1998. Although turnover rose more than expected, profits were adversely affected by a substantial contract which contributed disappointing results. The increase in management and administrative support required to control the enlarged business continued, resulting in an increase in overheads. The poor performing contract ends in 1999, following which profits are anticipated to revert to those of 1997, although following the group reorganisation referred to below, these results will in future be reflected in the accounts of Kennedy Utility Management Limited.

POST BALANCE SHEET EVENTS

On 2 November 1998 the company's assets and liabilities were transferred to a fellow subsidiary, Kennedy Utility Management Limited (formerly Joseph Kennedy & Co (Manchester) Limited), at net book value. The company's operations are now performed as a division of Kennedy Utility Management Limited.

FIXED ASSETS

Details of movements in fixed assets are set out in note 6 to the accounts.

RESULTS AND DIVIDENDS

The results of the company for the year are set out on page 5. No dividend was paid during the year (1997 - £Nil). The directors recommend that no final dividend be paid (1997 - £Nil).

DIRECTORS

The directors who served during the year were as follows:

J W Reid
M J Beirne
P V Carolan
S E Atkinson - resigned 5 January 1998

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

REPORT OF THE DIRECTORS continued

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 £580 (1997 - £735).

YEAR 2000

Consideration of the impact of the change in dates at the commencement of the year 2000 is the responsibility of the group finance director. Minor upgrades are required to certain items of computer hardware, operating systems and software which are virtually complete. The impact of other items of plant and equipment is assessed to be minor, with no significant costs required to rectify or replace problematic equipment. Whilst it is the group's current assessment that it is adequately prepared it cannot be certain, and continues to monitor the situation. Furthermore, we are not in a position to assess the preparedness of the major utility companies which represent our customers.

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
Secretary

23 February 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

* select suitable accounting policies and then apply them consistently;
* make judgements and estimates that are reasonable and prudent;
* state whether applicable accounting standards have been followed;
* prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Deloitte & Touche

Chartered Accountants

Deloitte & Touche
(P.O. Box 500)
201 Deansgate
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 PIPELINING SERVICES LIMITED

We have audited the financial statements on pages 5 to 12 which have been prepared under the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

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

Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 1 November 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors

23 February 1999

PROFIT AND LOSS ACCOUNT
for the year ended 1 November 1998

	Note	**52 weeks ended 1.11.98 £**	53 weeks ended 2.11.97 £
TURNOVER	1	16,197,306	14,092,273
Cost of sales		(14,528,739)	(11,971,079)
GROSS PROFIT		1,668,567	2,121,194
Administrative expenses		(743,242)	(520,478)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	925,325	1,600,716
Tax on profit on ordinary activities	5	(292,091)	(522,612)
RETAINED PROFIT FOR THE FINANCIAL YEAR	12	633,234	1,078,104

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

As stated in note 17 to the accounts, the operations previously performed by this company are to be performed by Kennedy Utility Management Limited from 2 November 1998. As such the company's operations are discontinued within the meaning of Financial Reporting Standard No. 3 - Reporting Financial Performance.

BALANCE SHEET
1 November 1998

	Note		1998 £		1997 £
FIXED ASSETS					
Tangible assets	6		104,565		191,208
CURRENT ASSETS					
Stock	7	419,548		-	
Debtors - due within one year	8	3,836,967		2,977,237	
Debtors - due after more than one year	8	117,018		45,914	
Cash at bank and in hand		965,614		1,231,874	
		5,339,147		4,255,025	
CREDITORS:AMOUNTS FALLING DUE WITHIN ONE YEAR	9	(2,863,480)		(2,453,765)	
NET CURRENT ASSETS			2,475,667		1,801,260
TOTAL ASSETS LESS CURRENT LIABILITIES			2,580,232		1,992,468
PROVISIONS FOR LIABILITIES AND CHARGES	10		(51,146)		(96,616)
			2,529,086		1,895,852
CAPITAL AND RESERVES					
CALLED UP SHARE CAPITAL	11		92,619		92,619
RESERVES					
Capital redemption reserve	12	7,381		7,381	
Profit and loss account	12	2,429,086		1,795,852	
			2,436,467		1,803,233
Equity Shareholders' Funds			2,529,086		1,895,852

APPROVED BY THE BOARD OF DIRECTORS

P V Carolan

J W Reid John W Reid

23 February 1999

NOTES TO THE ACCOUNTS
1 November 1998

1. ACCOUNTING POLICIES

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

TURNOVER

Turnover represents the value of work carried out.

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.

TANGIBLE FIXED ASSETS AND DEPRECIATION

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

Plant and machinery - 10% to 33⅓% per annum on cost

STOCK

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

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.

PENSIONS

The group operates a contributory defined contribution pension 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.

CASH FLOW STATEMENT

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

NOTES TO THE ACCOUNTS
1 November 1998

	52 weeks ended 1.11.98	53 weeks ended 2.11.97
2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	£	£
Profit on ordinary activities before taxation is arrived at after charging/(crediting):		
Depreciation - owned assets	86,643	116,988
Profit on disposal of fixed assets	-	(29,248)
Auditors remuneration - audit fees	4,200	4,800
- non-audit fees	11,325	1,415

3. EMPLOYEES

The average number employed by the company, which includes directors, within each category of persons was:	No.	No.
Production staff	181	139
Administrative staff	21	12
	202	151

The costs incurred in respect of these employees were:	£	£
Wages and salaries	4,905,261	3,299,404
Social security costs	490,526	329,940
Other pension costs	23,159	14,618
	5,418,946	3,643,962

4. DIRECTORS

The remuneration of directors included in employee costs were:

Emoluments	122,140	176,872
Pension contributions	10,843	6,186
	132,983	183,058

The directors serving during the year were members of the Group's pension schemes.

NOTES TO THE ACCOUNTS
1 November 1998

5. TAX ON PROFIT ON ORDINARY ACTIVITIES	52 weeks ended 1.11.98 £	53 weeks ended 2.11.97 £
Taxation is based on the profit for the year and comprises:		
Corporation tax at 31% (1997 - 31.83%) of taxable profit	290,432	522,612
Group relief	1,659	-
	292,091	522,612
The tax charge for the year has been increased/(decreased) by the following amounts as a result of:		
General disallowable expenditure	10,087	9,618
Deferred taxation benefit not recognised	(6,219)	3,527
Rate differences on unprovided deferred taxation	1,371	-
	5,239	13,145

6. TANGIBLE FIXED ASSETS	Plant and machinery £
Cost:	
At 1 November 1998 and 2 November 1997	797,942
Depreciation:	
At 2 November 1997	606,734
Charge for the year	86,643
At 1 November 1998	693,377
Net book value:	
At 1 November 1998	104,565
At 2 November 1997	191,208

NOTES TO THE ACCOUNTS
1 November 1998

7. STOCK

	1998 £	1997 £
Raw materials and consumables	419,548	-

8. DEBTORS

	1998 £	1997 £
Due within one year:		
Trade debtors	349,217	513,041
Amounts recoverable on long term contracts	2,214,288	1,441,248
Amounts owed by group companies	1,180,760	987,306
Other debtors	4,487	11,930
Prepayments and accrued income	52,995	23,712
Corporation tax recoverable	35,220	-
	3,836,967	2,977,237
Due after more than one year:		
Trade debtors	117,018	-
Amounts recoverable on long term contracts	-	45,914
	117,018	45,914

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £	1997 £
Trade creditors	2,094,554	1,519,839
Corporation tax	290,432	521,987
Other taxation and social security	169,299	144,869
Other creditors	88,323	64,846
Accruals and deferred income	220,872	202,224
	2,863,480	2,453,765

10. PROVISIONS FOR LIABILITIES AND CHARGES

	1998 £	1997 £
(a) Provision for plant repairs	51,146	96,616

Movement in the year:

At 2 November 1997	96,616
Provided in the year	83,730
Utilised during the year	(129,200)
At 1 November 1998	51,146

NOTES TO THE ACCOUNTS
1 November 1998

10. **PROVISIONS FOR LIABILITIES AND CHARGES** continued	**1998** £	1997 £
(b) Deferred taxation		
The balance on the deferred taxation account for which benefit has not been recognised is as follows:		
Depreciation in excess of capital allowances	(25,791)	(17,403)
Other timing differences	(15,344)	(29,951)
	(41,135)	(47,354)

11. CALLED UP SHARE CAPITAL

Ordinary shares of £1 each:		
Authorised	100,000	100,000
Allotted and fully paid	92,619	92,619

12. RESERVES

	Capital redemption reserve £	**Profit and loss account** £	**Total** £
At 2 November 1997	7,381	1,795,852	1,803,233
Retained profit for the year	-	633,234	633,234
At 1 November 1998	7,381	2,429,086	2,436,467

All of the profit and loss account reserves are available for distribution.

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998	1997
Profit attributable to members of the company	633,234	1,078,104
Share buy-back	-	(148,379)
Net additon to shareholders' funds	633,234	929,725
Opening shareholders' funds	1,895,852	966,127
Closing shareholders' funds	2,529,086	1,895,852

NOTES TO THE ACCOUNTS
1 November 1998

14. CONTINGENT LIABILITIES

The company is liable under the group election scheme for the value added tax liabilities of other group companies. The contingent liability at 1 November 1998 amounted to £1,438,663 (1997 - £929,771).

Under the terms of a cross guarantee set up between Kennedy Construction Group Limited, its parent companies and its subsidiaries, the company has a contingent liability at 1 November 1998 of £12,812,044 for the bank borrowings of other group companies (1997 - £18,758,880).

15. PENSIONS

During the year, the defined benefit scheme previously operated by the Kennedy Construction Group was replaced by a defined contribution scheme. The scheme covers a large proportion of the company's permanent salaried staff.

Contributions to the new scheme are charged to profit and loss when they become payable. The pension cost for the company was £23,159 (1997 - £14,618).

16. ULTIMATE PARENT COMPANY

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

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

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

17. POST BALANCE SHEET EVENTS

On 2 November 1998 the company's assets and liabilities were transferred to a fellow subsidiary, Kennedy Utility Management Limited (formerly Joseph Kennedy & Co (Manchester) Limited), at net book value. The company's operations are now performed as a division of Kennedy Utility Management Limited.