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KENNEDY CONSTRUCTION

LIMITED

REPORT AND ACCOUNTS

27 October 1996

Registered Office: 78 Ashley Road, Hale, Altrincham, WA14 2UN. Registered No: 1809458

REPORT OF THE DIRECTORS

The directors submit their report and the accounts for the year ended 27 October 1996.

PRINCIPAL ACTIVITIES

The principal activities of the company are civil engineering and tunnelling.

REVIEW OF THE BUSINESS

The anticipated increase in operating levels has seen turnover advance to £15 million in 1996 but with only a slight increase in profits. The improvement in market conditions at the beginning of the year has not been sustained resulting in a tailing off in contract awards. The prospects for 1997 remain somewhat uncertain.

FIXED ASSETS

Details of movements in fixed assets are included in note 7 to the accounts.

RESULTS AND DIVIDENDS

The results of the company for the year are set out on page 5. The company paid a dividend of £70,000 (1995 - £Nil) during the year and the directors recommend that no final dividend be paid (1995 - £Nil).

DIRECTORS

The directors who served during the year were as follows:

P J Kennedy
P J Byrne
J C Parsons
N F Hayes
D R Forrest

Details of the directors' interests in shares are shown in note 4 to the 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.

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

RW Kirkin

R W Kirkin
Secretary

18 February 1997

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for keeping proper accounting records, 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
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AUDITORS' REPORT TO THE MEMBERS OF KENNEDY CONSTRUCTION LIMITED

We have audited the financial statements on pages 5 to 14 which have been prepared under the accounting policies set out on page 9.

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 27 October 1996 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

18 February 1997

Deloitte Touche Tohmatsu International

PROFIT AND LOSS ACCOUNT
for the year ended 27 October 1996

	Note	**1996** £	1995 £
TURNOVER	1	15,013,144	10,137,604
Cost of sales		(13,759,278)	(9,131,254)
GROSS PROFIT		1,253,866	1,006,350
Administrative expenses		(1,045,084)	(942,120)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	208,782	64,230
Tax on profit on ordinary activities	5	(54,212)	(57,114)
PROFIT FOR THE FINANCIAL YEAR		154,570	7,116
Dividends on equity shares	6	(70,000)	-
RETAINED PROFIT FOR THE YEAR	14	84,570	7,116

There are no recognised gains and losses and no movements on shareholders' funds other than the retained profit for the year and the preceding year.

All the activities relate to continuing operations.

BALANCE SHEET
27 October 1996

	Note		**1996** £		1995 £
FIXED ASSETS					
Tangible assets	7		245,955		110,628
Investments	8		10,000		10,000
			255,955		120,628
CURRENT ASSETS					
Stocks	9	27,355		24,980	
Debtors	10	5,214,912		2,928,341	
Cash at bank and in hand		278,756		533,674	
		5,521,023		3,486,995	
CREDITORS:AMOUNTS FALLING DUE WITHIN ONE YEAR	11	(3,597,356)		(1,611,243)	
NET CURRENT ASSETS			1,923,667		1,875,752
TOTAL ASSETS LESS CURRENT LIABILITIES			2,179,622		1,996,380
PROVISION FOR LIABILITIES AND CHARGES	12		(144,820)		(46,148)
			2,034,802		1,950,232
CAPITAL AND RESERVES					
Called up share capital	13		50,000		50,000
Profit and loss account	14		1,984,802		1,900,232
Equity Shareholders' Funds			2,034,802		1,950,232

APPROVED BY THE BOARD OF DIRECTORS

J C Parsons

P J Byrne

18 February 1997

CASH FLOW STATEMENT
for the year ended 27 October 1996

	Note	1996 £	1995 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	(a)	67,380	181,262
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(70,000)	-
Net cash outflow from returns on investments and servicing of finance		(70,000)	-
TAXATION			
Corporation tax paid		(6,739)	(75,540)
Tax paid		(6,739)	(75,540)
INVESTING ACTIVITIES			
Payments to acquire tangible fixed assets		(262,459)	(24,738)
Receipts from sale of fixed assets		16,900	24,200
Net cash outflow from investing activities		(245,559)	(538)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(b)	(254,918)	105,184

NOTES TO THE CASH FLOW STATEMENT
for the year ended 27 October 1996

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

	1996	1995
	£	£
Profit on ordinary activities before taxation	168,782	64,230
Depreciation charge	127,125	275,079
Profit on sale of fixed assets	(16,893)	(21,039)
Decrease in amounts recoverable on long term contract balances	148,224	76,712
Increase in debtors	(79,239)	(55,034)
Increase/(decrease) in creditors and provisions	2,078,158	(861,953)
(Increase)/decrease in stocks	(2,375)	216,432
(Increase)/decrease in amounts owed by group companies	(2,356,402)	486,835
Net cash inflow from operating activities	67,380	181,262

(b) ANALYSIS OF CASH AND CASH EQUIVALENTS

At 29 October 1995	533,674	428,490
Cash (outflow)/inflow	(254,918)	105,184
At 27 October 1996	278,756	533,674

The balance of cash and cash equivalents at 27 October 1996 and 29 October 1995 is represented solely by cash at bank and in hand.

NOTES TO THE ACCOUNTS
27 October 1996

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.

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 - 20% to 33⅓% per annum on cost

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.

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.

NOTES TO THE ACCOUNTS
27 October 1996

		1996	1995
2.	**PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**	£	£
	Profit on ordinary activities before taxation is arrived at after charging/(crediting):		
	Depreciation	127,125	275,079
	Profit on sale of tangible fixed assets	(16,893)	(21,039)
	Auditors remuneration - audit fees	7,700	6,000
	- non-audit fees	1,800	3,927

3. **EMPLOYEES**

	1996	1995
The average number employed by the group, which includes directors, within each category of persons was:	No.	No.
Production staff	72	65
Administrative staff	44	43
	116	108
The costs incurred in respect of these employees were:	£	£
Wages and salaries	2,676,314	2,076,963
Social security costs	252,230	197,130
Other pension costs	77,632	76,127
	3,006,176	2,350,220

4. **DIRECTORS**

(a) Emoluments of directors included in employee costs were:

	1996	1995
Management remuneration	172,727	148,856
The number of directors whose emoluments (excluding pension contributions) fell into the following ranges was:	No.	No.
Not more than £5,000	two	two
£40,001 - £45,000	none	two
£45,001 - £50,000	one	none
£50,001 - £55,000	one	one
£55,001 - £60,000	one	none

The chairman received no emoluments during the year (1995: £nil) and the highest paid director £55,526 (1995: £51,415).

NOTES TO THE ACCOUNTS
27 October 1996

4. **DIRECTORS** continued

(b) Directors' interests

At 27 October 1996 and at 29 October 1995 Mr P J Byrne owned 11,500 ordinary shares in the company. No other director had an interest in the shares of the company during the year.

The interests of Mr P J Kennedy in the ultimate parent company are shown in note 17. No other director had an interest in the shares of the ultimate parent company.

5. **TAX ON PROFIT ON ORDINARY ACTIVITIES**	**1996** £	1995 £
Taxation is based on the profit for the year and comprises:		
Corporation tax at 33% (1995 - 25%) of taxable profit	53,359	5,357
Group relief	-	51,762
	53,359	57,119
Prior year adjustments:		
Corporation tax	7	(5)
Group relief	846	-
	54,212	57,114
The tax for the year has been (decreased)/increased by the following amounts as a result of:		
General disallowable expenditure	9,831	2,325
Deferred taxation not provided	(25,370)	35,309
Tax rate differences	-	(1,715)
	(15,539)	35,919

6. **DIVIDENDS ON EQUITY SHARES**

	1996 £	1995 £
Paid - Ordinary shares	70,000	-

NOTES TO THE ACCOUNTS
27 October 1996

7. TANGIBLE ASSETS

	Plant and machinery
	£
Cost:	
At 29 October 1995	2,774,045
Additions	262,459
Disposals	(87,576)
At 27 October 1996	2,948,928
Depreciation:	
At 29 October 1995	2,663,417
Charge for the year	127,125
On disposals	(87,569)
At 27 October 1996	2,702,973
Balance sheet value:	
At 27 October 1996	245,955
At 29 October 1995	110,628

8. INVESTMENTS

The company owns the whole of the issued share capital of Kennedy Construction (Scotland) Ltd, a company incorporated in Great Britain, which does not trade. Its results are therefore not material and consolidated accounts have not been prepared.

9. STOCKS

	1996	1995
	£	£
Raw materials and consumables	27,355	24,980

10. DEBTORS

Trade debtors	157,907	62,830
Amounts recoverable on long term contracts	994,464	1,142,688
Amounts owed by group companies	4,041,859	1,686,303
Other debtors	4,498	24,460
Prepayments and accrued income	16,184	12,060
	5,214,912	2,928,341
The following amounts which are included above are due after more than one year:		
Amounts recoverable on long term contracts	336,729	140,888

NOTES TO THE ACCOUNTS
27 October 1996

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	1996 £	1995 £
Trade creditors	2,885,514	1,157,763
Payments on account of long term contracts	36,597	69,443
Corporation tax	53,356	6,729
Other taxation and social security	439,414	238,216
Other creditors	44,765	85,022
Accruals and deferred income	137,710	54,070
	3,597,356	1,611,243

12. PROVISIONS FOR LIABILITIES AND CHARGES

(a) Provision for plant repairs	144,820	46,148
Movement in the year:		
At 29 October 1995	46,148	
Created during the year	807,037	
Utilised during the year	(708,365)	
At 27 October 1996	144,820	

(b) Deferred taxation:

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

	1996 £	1995 £
Capital allowances in excess of depreciation	(148,606)	(186,738)
Other timing differences	(47,791)	(35,029)
	(196,397)	(221,767)

13. CALLED UP SHARE CAPITAL

Ordinary shares of £1 each:

	1996	1995
Authorised, allotted and fully paid	50,000	50,000

NOTES TO THE ACCOUNTS
279 October 1996

14. PROFIT AND LOSS ACCOUNT

	1996
	£
At 29 October 1995	1,900,232
Retained profit for the year	84,570
At 27 October 1996	1,984,802

All of the reserves are available for distribution.

15. 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 27 October 1996 amounted to £1,075,644 (1995 - £463,187).

Under the terms of a cross guarantee set up between Kennedy Construction Group Limited and its subsidiaries, the company has a contingent liability at 27 October 1996 of £549,216 (1995 - £437,261) for the bank overdrafts of other group companies.

16. PENSIONS

The Kennedy Construction Group operates a contributory defined benefit pension scheme which covers a large proportion of the company's permanent staff employees.

The full regular cost of providing benefits for company employees within the scheme is charged in these accounts. In the opinion of the directors, variations to regular costs cannot be accurately allocated on a company by company basis, and accordingly the group's variations are dealt with on a group basis in the accounts of Kennedy Construction Group Limited.

Details of the actuarial valuation of the group scheme and the treatment of the actuarial surplus are given in the accounts of Kennedy Construction Group Limited.

17. ULTIMATE PARENT COMPANY

The company's parent company is Kennedy Construction Group Limited which is incorporated in Great Britain. The ultimate parent company is Bertrem Limited which is incorporated and registered in the Isle of Man.

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

The issued share capital of Bertrem Limited is held in trusts for the benefit of members of the family of Mr P J Kennedy and Mrs K Kennedy.