

**Watson Hawksley Group Limited**  
**(Registered Number 2438136 )**

**Report and Financial Statements**

**Year Ended 31 December 1997**



# **Watson Hawksley Group Limited**

## **Report And Financial Statements Year Ended 31 December 1997**

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# **Watson Hawksley Group Limited**

## **Directors' Report Year Ended 31 December 1997**

The directors present their annual report together with the audited financial statements for the year ended 31 December 1997.

### **Review of the business**

Watson Hawksley Group Limited is the holding company of a group of consultant engineering companies engaged in the areas of water supply, pollution control, waste disposal and environmental management.

The company recorded an improvement in its operating performance during 1997 but a loss on the sale of its investment in Spain plus interest charges resulted in a loss before taxation. The directors are confident that the company will progress satisfactorily in 1998.

### **Results and dividends**

The company made a loss before taxation of £498,000 (three months ended 31 December 1996 : £157,000). The directors do not recommend the payment of a dividend.

### **Directors and their interests**

The directors who served during the period as follows:

R R Trussell  
M A Tolaney  
R G Cole  
J P Miscoll  
W H Carroll  
J J L Cochrane Jnr  
M A Biggers  
R S Holmgren Jnr  
D Evenson  
R Uhler

All of the above directors are also directors of the ultimate parent undertaking, Montgomery Watson Inc.

No directors had any interest in the ordinary shares of the company at any time during the year.

### **Year 2000 Compliance**

The company has ongoing programmes to ensure its internal systems are Year 2000 compliant. These programmes are staffed by Montgomery Watson Limited employees and it is anticipated that the additional 3<sup>rd</sup> party costs incurred by the company will be relatively small.

### **Euro**

The company is considering the implications of the change over to the Euro on all aspects of its business.

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# **Watson Hawksley Group Limited**

## **Directors' Report for the Year Ended 31 December 1997 (Continued)**

### **Statement of Directors' Responsibilities**

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 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, 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 will continue in business.

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 position of the company and 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Employee's Involvement**

The company organises staff communications by means of meetings, an in-house magazine and information circulars.

### **Health and Safety at Work**

The company has continued to follow the requirements of the Health and Safety at Work Act 1974 and associated legislation with the utmost concern for the welfare of its employees.

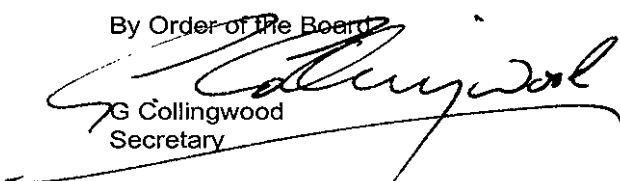
### **Disabled Employees**

The policy of the company is to offer the same opportunity to disabled people as to all others in respect of recruitment and career enhancement provided their disability does not prevent them from carrying out their required duties. Employees who become disabled will, wherever possible, be retained, rehabilitated and retrained.

### **Auditors**

PricewaterhouseCoopers were appointed to fill a casual vacancy covered by the resignation of Hays Allan, Chartered Accountants. A resolution to appoint PricewaterhouseCoopers as auditors will be presented to the members at the General Meeting in accordance with the Companies Act 1985.

By Order of the Board

  
G Collingwood  
Secretary

3 March 1999

## **Auditors' Report to the Members of Watson Hawksley Group Limited**

### **AUDITORS' REPORT TO THE MEMBERS OF WATSON HAWKSLEY GROUP LIMITED**

We have audited the financial statements on pages 5 to 21 which have been prepared under the historical cost convention and the accounting policies set out on pages 10 and 11.

#### **Respective Responsibilities of Directors and Auditors**

As described on page 2 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and report our opinion to you.

#### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board except that the scope of our work was limited as explained below. 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 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 misstatement, 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. However, as explained in the following paragraph the information available to us was limited.

We were not appointed auditors of the company and its subsidiaries until 1 January 1998 and we did not report on the financial statements for the previous three month period ended 31 December 1996. The accounts for the period ended 31 December 1996 were qualified by the previous auditors based on a limitation of scope because the financial statements of the Group's principal overseas subsidiary undertakings did not contain all necessary information and were unaudited. It was not practicable for us to carry out the auditing procedures necessary to obtain assurance as to the state of the company's and group's affairs at 31 December 1996. As a consequence there remain unexplained movements in investments and shareholders' funds as set out in notes 9 and 16 respectively and the balance sheet at 31 December 1996 may not be comparable with the balance sheet at 31 December 1997. In addition there could be an impact on the loss for the year ended 31 December 1997.

**Opinion: disclaimer on view given on the loss for the year**

Because of the significance of the matters referred to in the preceding paragraphs:

- (1) we are unable to form an opinion as to whether the profit and loss gives a true and fair view of the loss of the group for the year ended 31 December 1997; and
- (2) we are unable to form an opinion as to whether the financial statements have been properly prepared in all respects in accordance with the Companies Act for the year ended 31 December 1997.

**Opinion on closing balance sheet**

In our opinion the balance sheet gives a true and fair view of the state of affairs of the Company and Group as at 31 December 1997 and in all other respects the financial statements have been properly prepared in accordance with the Companies Act 1985:

In respect alone of the limitation on our work relating to prior year overseas subsidiary undertakings:

- we have not obtained all the information and explanations that are considered necessary for the purpose of our audit; and
- we were unable to determine whether proper accounting records had been maintained.



PricewaterhouseCoopers  
Chartered Accountants and  
Registered Auditors

3 March 1999

# Watson Hawksley Group Limited

## Profit And Loss Account For The Year Ended 31 December 1997

|                                                                          |      | Year ended<br>31 December<br>1997<br>£'000 | Three months<br>ended<br>31 December<br>1996<br>£'000 |
|--------------------------------------------------------------------------|------|--------------------------------------------|-------------------------------------------------------|
|                                                                          | Note |                                            |                                                       |
| Turnover                                                                 | 2    | 70,000                                     | 15,892                                                |
| Cost of sales                                                            |      | (53,655)                                   | (11,774)                                              |
| <b>Gross profit</b>                                                      |      | <b>16,345</b>                              | <b>4,118</b>                                          |
| Administrative expenses                                                  |      | (16,823)                                   | (3,755)                                               |
| Income from participating interests                                      |      | 94                                         | (40)                                                  |
| <b>Operating (loss)/profit</b>                                           |      | <b>(384)</b>                               | <b>323</b>                                            |
| Loss on sale of investment                                               |      | (332)                                      | -                                                     |
| <b>(Loss)/Profit on ordinary activities before interest and taxation</b> |      | <b>(716)</b>                               | <b>323</b>                                            |
| Interest receivable                                                      | 5    | 1,311                                      | 95                                                    |
| Interest payable                                                         | 6    | (1,093)                                    | (261)                                                 |
| <b>(Loss)/Profit on ordinary activities before taxation</b>              | 3    | <b>(498)</b>                               | <b>157</b>                                            |
| Taxation on loss on ordinary activities                                  | 7    | (104)                                      | (58)                                                  |
| <b>(Loss)/Profit on ordinary activities after taxation</b>               |      | <b>(602)</b>                               | <b>99</b>                                             |
| Minority interests                                                       |      | (2)                                        | 2                                                     |
| <b>Retained (loss)/profit for the financial year</b>                     |      | <b>(604)</b>                               | <b>101</b>                                            |

All turnover and operating profit/(loss) is derived from continuing operations.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

The notes on pages 10 to 21 form part of these accounts.

## **Watson Hawksley Group Limited**

### **Statement of Total Recognised Gains and Losses for the Period Ended 31 December 1997**

|                                          |             | <b>Year ended<br/>31 December<br/>1997<br/>£'000</b> | <b>Three months<br/>ended<br/>31 December<br/>1996<br/>£'000</b> |
|------------------------------------------|-------------|------------------------------------------------------|------------------------------------------------------------------|
|                                          | <b>Note</b> |                                                      |                                                                  |
| <b>Profit for financial year/period</b>  | 16          | (604)                                                | 101                                                              |
| <b>Exchange movements</b>                |             | (182)                                                | (222)                                                            |
| <b>Total recognised gains and losses</b> |             | <b>(786)</b>                                         | <b>(121)</b>                                                     |

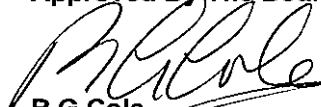
In accordance with the exemption allowed under S230 of the Companies Act 1985 the company's profit and loss account is not separately presented.

# Watson Hawksley Group Limited

## Consolidated Balance Sheet As At 31 December 1997

|                                                                 | Note | 31 December 1997<br>£000 | 31 December 1996<br>£000 |
|-----------------------------------------------------------------|------|--------------------------|--------------------------|
| <b>Fixed assets</b>                                             |      |                          |                          |
| Tangible fixed assets                                           | 8    | 4,402                    | 3,719                    |
| Investments                                                     | 9    | 602                      | 1,515                    |
|                                                                 |      | 5,004                    | 5,234                    |
| <b>Current assets</b>                                           |      |                          |                          |
| Stocks                                                          | 10   | -                        | 11,122                   |
| Debtors                                                         | 11   | 28,800                   | 17,849                   |
| Cash at bank                                                    |      | 5,058                    | 3,632                    |
|                                                                 |      | 33,858                   | 32,603                   |
| <b>Creditors - amounts falling due within one year</b>          | 12   | (22,961)                 | (28,303)                 |
| <b>Net current assets</b>                                       |      | 10,897                   | 4,300                    |
| <b>Total assets less current liabilities</b>                    |      | 15,901                   | 9,534                    |
| <b>Creditors - amounts falling due after more than one year</b> | 13   | (9,129)                  | (5,764)                  |
| Provisions for liabilities and charges                          |      | -                        | (21)                     |
| <b>Total net assets</b>                                         |      | 6,772                    | 3,749                    |
| <b>Capital and reserves</b>                                     |      |                          |                          |
| Called up share capital                                         | 15   | 8,000                    | 4,000                    |
| Profit and loss account                                         | 16   | (1,226)                  | (231)                    |
| <b>Total Shareholders' Equity</b>                               |      |                          |                          |
| Interests                                                       |      | 6,774                    | 3,769                    |
| Minority Equity Interests                                       |      | (2)                      | (20)                     |
| <b>Equity Shareholders' funds</b>                               |      | 6,772                    | 3,749                    |

Approved By The Board On 3 March 1999

  
R G Cole  
Director

The notes on pages 10 to 21 form part of these accounts.

# Watson Hawksley Group Limited

## Company Balance Sheet –At 31 December 1997

|                                                          | Note | 31 December 1997<br>£ | 31 December 1996<br>£ |
|----------------------------------------------------------|------|-----------------------|-----------------------|
| <b>Fixed assets</b>                                      |      |                       |                       |
| Investments in Group undertakings                        | 9    | 8,000                 | 4,000                 |
| <b>Current assets</b>                                    |      |                       |                       |
| Debtors                                                  |      | -                     | -                     |
| Creditors - amounts falling due within one year          |      | -                     | -                     |
| <b>Net current assets</b>                                |      | 8,000                 | 4,000                 |
| <b>Total assets less current liabilities</b>             |      | 8,000                 | 4,000                 |
| Creditors - amounts falling due after more than one year |      | -                     | -                     |
| Provisions for liabilities and charges                   |      | -                     | -                     |
| <b>Net assets</b>                                        |      | 8,000                 | 4,000                 |
| <b>Capital and reserves</b>                              |      |                       |                       |
| Called up share capital                                  | 15   | 8,000                 | 4,000                 |
| <b>Equity shareholders' funds</b>                        |      | 8,000                 | 4,000                 |

Approved By The Board On 3 March 1999

  
R G Cole  
Director

The notes on pages 10 to 21 form part of these accounts.

## **Watson Hawksley Group Limited**

### **Statement Of Movements In Shareholders Funds Year Ended 31 December 1997**

|                                     | <b>31 December 1997</b> | <b>31 December 1996</b> |
|-------------------------------------|-------------------------|-------------------------|
|                                     | <b>£'000</b>            | <b>£'000</b>            |
| (Loss)/Profit after taxation        | (604)                   | 101                     |
| Other recognised gains and losses   | (182)                   | (222)                   |
|                                     | (786)                   | (121)                   |
| Issue of shares                     | 4,000                   | 700                     |
| Goodwill                            | (382)                   | (232)                   |
| Other                               | 171                     | -                       |
|                                     |                         |                         |
| Net additions to shareholders funds | 3,003                   | 347                     |
| Share holders funds brought forward | 3,769                   | 3,422                   |
|                                     |                         |                         |
|                                     | <b>6,772</b>            | <b>3,769</b>            |

During the year the parent company, Montgomery Watson BV subscribed additional share capital in Watson Hawksley Group Limited of £4,000,000. These funds represented the capitalisation of loans due to the ultimate parent company.

# **Watson Hawksley Group Limited**

## **Notes To The Financial Statements Year Ended 31 December 1997**

### **1 Accounting Policies**

#### **(1) Accounting Basis**

The financial statements are prepared on the historical cost basis and in accordance with applicable accounting standards

For the year ended 31 December 1996 no audited accounts were available for a significant group of subsidiaries, Montgomery Watson (Asia) Limited, and all necessary information was not provided from these entities to prepare group accounts which comply with the Companies Act 1985. The directors therefore, estimated amounts for inclusion in the group financial statements at 31 December 1996. At 31 December 1997 the directors of the Company have received appropriate information from its subsidiaries to prepare a balance sheet which complies with the Companies Act 1985. Because of the limitation of evidence available at 31 December 1996 certain of the movements in the year ended 31 December 1997 cannot be explained.

#### **(2) Foreign Currency Translation**

Assets and liabilities denominated in foreign currencies are translated into sterling at the rate prevailing at the balance sheet date. Transactions during the year are translated at the rate prevailing at the date of transaction.

#### **(3) Depreciation of Fixed Assets**

Depreciation is provided to write down the cost of fixed assets over their estimated useful economic life. The following rates are used:

|                                         |                                                                                    |
|-----------------------------------------|------------------------------------------------------------------------------------|
| Freehold building:                      | straight line over 50 years on original building and over 10 years on improvements |
| Freehold land                           | not depreciated                                                                    |
| Fixtures, fittings, tools and equipment | straight line over 3 years                                                         |
| Motor vehicles                          | straight line over 4 years                                                         |
| Goodwill                                | straight line over 10 years                                                        |

#### **(4) Work in progress**

Where it is considered that the outcome of a long term contract can be assessed with reasonable certainty before its conclusion, the attributable profit is calculated as that part of the total profit currently estimated to arise over the duration of the contract that fairly reflects the profit attributable to that part of the work performed at the accounting date. Where losses on contracts are expected, full provision is made for the estimated losses to the end of contracts in question.

#### **(5) Cash flow statement**

The company is a wholly owned subsidiary of Montgomery Watson Inc and is included in the consolidated financial statements of Montgomery Watson Inc. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Report Standard 1.

# Watson Hawksley Group Limited

## Notes To The Financial Statements Year Ended 31 December 1997

### (6) Leasing and finance lease obligations

Assets held under finance and related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The excess of the lease payments over the recorded lease obligations is treated as finance charges which are amortised over each lease term on a straight line basis. Rentals paid under operating leases are charged to the profit and loss account as incurred.

### (7) Pensions

The Group provides pensions to its employees through a funded defined benefit pension scheme. The assets of the funded scheme are held independently of the Group by trustees. The amount charged to the profit and loss account is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so as to spread the cost of pensions over the estimated average remaining working life of scheme members. Variations from regular costs are charged or credited to the profit and loss account as a constant percentage of pensionable payroll over the estimated average remaining working life of scheme members. Any difference between amounts charged to the profit and loss account and contributions paid to the schemes is shown as a separately identified liability or asset in the balance sheet.

## 2 Turnover

Turnover represents the value of services rendered during the period, stated net of value added tax, after eliminating sales between group companies. All turnover for the period of 31 December 1997 is attributable to the main activity of the company and is split geographically as follows:

|                | Year ended<br>31 December 1997 |        | 3 months ended<br>31 December 1996 |       |
|----------------|--------------------------------|--------|------------------------------------|-------|
|                | %                              | £'000  | %                                  | £'000 |
| United Kingdom | 44                             | 30,938 | 71                                 | 3,970 |
| Europe         | 7                              | 4,895  | 15                                 | 865   |
| Other          | 49                             | 34,167 | 14                                 | 783   |
|                | 100                            | 70,000 | 100                                | 5,618 |

## 3 Loss On Ordinary Activities Before Taxation

|                                                                       | Year ended<br>31 December<br>1997<br>£'000 | 3 months ended<br>31 December<br>1996<br>£'000 |
|-----------------------------------------------------------------------|--------------------------------------------|------------------------------------------------|
| The loss for the year is stated after charging:                       |                                            |                                                |
| Depreciation                                                          | 712                                        | 59                                             |
| Auditors' remuneration (of which £20k relates to the holding company) | 136                                        | 15                                             |
| Operating lease rentals - land and buildings                          | 1,080                                      | 44                                             |
| - motor vehicles                                                      | 328                                        | 67                                             |
| Foreign exchange losses                                               | 468                                        | 6                                              |
| Exceptional item - provision for loss on investments                  | 230                                        | -                                              |
| Loss on sale of investment                                            | 332                                        | -                                              |

# Watson Hawksley Group Limited

## Notes To The Financial Statements Year Ended 31 December 1997

### (4) Staff Costs And Analysis

|                       | Year ended<br>31 December<br>1997<br>£'000 | 3 months<br>ended<br>31 December<br>1996<br>£'000 |
|-----------------------|--------------------------------------------|---------------------------------------------------|
| <b>All employees</b>  |                                            |                                                   |
| Wages and salaries    | 32,844                                     | 1,998                                             |
| Social security costs | 1,296                                      | 157                                               |
| Pension contributions | 876                                        | 123                                               |
|                       | <hr/> 35,016                               | <hr/> 2,278                                       |

The 1996 comparative numbers on staff costs and analysis does not include information from the Asian subsidiaries as this was not available.

The average number of employees during the period was:

|                | Year ended<br>31 December<br>1997<br>£'000 | 3 months<br>ended<br>31 December<br>1996<br>£'000 |
|----------------|--------------------------------------------|---------------------------------------------------|
| Engineering    | 901                                        | 317                                               |
| Marketing      | 10                                         | 3                                                 |
| Administration | 158                                        | 85                                                |
|                | <hr/> 1,069                                | <hr/> 405                                         |

### Directors remuneration

|                                         | Year ended<br>31 December<br>1997<br>£'000 | 3 months<br>ended<br>31 December<br>1996<br>£'000 |
|-----------------------------------------|--------------------------------------------|---------------------------------------------------|
| Emoluments                              | 136                                        | 150                                               |
| Pension                                 | 14                                         | -                                                 |
| Estimated money value of benefits       | 5                                          | 7                                                 |
|                                         | <hr/> 155                                  | <hr/> 157                                         |
| Emoluments of the highest paid director | 155                                        | 58                                                |

# **Watson Hawksley Group Limited**

## **Notes To The Financial Statements Year Ended 31 December 1997**

### **(5) Interest Receivable**

|                | Year ended<br>31 December<br>1997<br>£'000 | 3 months<br>ended<br>31 December<br>1996<br>£'000 |
|----------------|--------------------------------------------|---------------------------------------------------|
| Bank interest  | 158                                        | 95                                                |
| Other interest | 1,153                                      | -                                                 |
|                | <b>1,311</b>                               | <b>95</b>                                         |

Other comprises £920k which relates to a gain as a result of a debt forgiveness by a third party during the year. The remaining amount of £391k relates to interest income charged to customers on long outstanding balances.

### **(6) Interest Payable**

|                                     | Year ended<br>31 December<br>1997<br>£'000 | 3 months<br>ended<br>31 December<br>1996<br>£'000 |
|-------------------------------------|--------------------------------------------|---------------------------------------------------|
| Bank interest                       | 160                                        | 113                                               |
| Loan interest                       | 64                                         | 94                                                |
| Interest paid to group undertakings | 864                                        | -                                                 |
| Finance lease interest              | 5                                          | -                                                 |
| Other interest                      | -                                          | 54                                                |
|                                     | <b>1,093</b>                               | <b>261</b>                                        |

### **(7) Taxation On Profit/Loss On Ordinary Activities**

|                    | Year ended<br>31 December<br>1997<br>£'000 | 3 months<br>ended<br>31 December<br>1996<br>£'000 |
|--------------------|--------------------------------------------|---------------------------------------------------|
| UK Corporation tax | 117                                        | 3                                                 |
| Overseas tax       | (13)                                       | 55                                                |
| Deferred tax       | -                                          | -                                                 |
|                    | <b>104</b>                                 | <b>58</b>                                         |

# Watson Hawksley Group Limited

## Notes To The Financial Statements Year Ended 31 December 1997

### (8) Tangible Fixed Assets

|                         | Freehold land<br>and buildings<br>£'000 | Fixtures &<br>fittings tools<br>and<br>equipment<br>£'000 | Motor<br>vehicles<br>£'000 | Total<br>£'000 |
|-------------------------|-----------------------------------------|-----------------------------------------------------------|----------------------------|----------------|
| <b>Cost</b>             |                                         |                                                           |                            |                |
| At 31 December 1996     | 2,770                                   | 2,396                                                     | 497                        | 5,663          |
| Additions               | 516                                     | 1,075                                                     | 47                         | 1,638          |
| Disposals               | (114)                                   | (442)                                                     | (161)                      | (717)          |
| At 31 December 1997     | 3,172                                   | 3,029                                                     | 383                        | 6,584          |
| <b>Depreciation</b>     |                                         |                                                           |                            |                |
| At 31 December 1996     | 309                                     | 1,334                                                     | 300                        | 1,943          |
| Charge for the period   | 94                                      | 547                                                       | 71                         | 712            |
| Eliminated on disposals | (122)                                   | (242)                                                     | (109)                      | (473)          |
| At 31 December 1997     | 281                                     | 1,639                                                     | 262                        | 2,182          |
| <b>Net book value</b>   |                                         |                                                           |                            |                |
| At 31 December 1997     | 2,891                                   | 1,390                                                     | 121                        | 4,402          |
| At 31 December 1996     | 2,462                                   | 1,062                                                     | 195                        | 3,719          |

# Watson Hawksley Group Limited

## Notes To The Financial Statements Year Ended 31 December 1997

### (9) Investments

|                                                  | 31 December<br>1997<br>£'000 | 31 December<br>1996<br>£'000 |
|--------------------------------------------------|------------------------------|------------------------------|
| <b>A Group</b>                                   |                              |                              |
| At cost                                          | 55                           | 46                           |
| Share of retained profits                        | 929                          | 1,469                        |
| Goodwill written off to reserves                 | (382)                        | -                            |
|                                                  | 602                          | 1,515                        |
| Balance at 1 January 1997                        |                              | 1,515                        |
| Additions                                        |                              | 17                           |
| Less disposals during the year                   |                              | (464)                        |
| Other charges/writedowns                         |                              | (152)                        |
| Goodwill (note 16)                               |                              | (382)                        |
| Share of joint venture profits                   |                              | 94                           |
| Exchange adjustments                             |                              | 74                           |
| Adjustment to opening balance (refer Note 1 (1)) |                              | (100)                        |
| Balance at 31 December 1997                      |                              | 602                          |

|                                     | Share<br>holding<br>% | Country of<br>incorporation | Principal activity   |
|-------------------------------------|-----------------------|-----------------------------|----------------------|
| Associated undertakings             |                       |                             |                      |
| MontgomeryWatson IOANNOU            | 49                    | Cyprus                      | Consultant Engineers |
| Watson Khonji                       | 49                    | Bahrain                     | Consultant Engineers |
| Gulf Consult                        | 50                    | Kuwait                      | Consultant Engineers |
| Montgomery Watson Arabtech-Jardaneh | 50                    | Jordan                      | Consultant Engineers |
| Sindhu Montgomery Sdn Bhg           | 49                    | Thailand                    | Consultant Engineers |
| Watson Haswell                      | 100                   | Hong Kong                   | Consultant Engineers |

### B Company

The company's investments cover the cost of shares in its subsidiaries Montgomery Watson Limited (£7,300,000) and Montgomery Watson Asia Limited (£700,000) which in turn own the shares in the subsidiary and associated undertakings.

### (10) Stock

|                            | 31 December<br>1997<br>£'000 | 31 December<br>1996<br>£'000 |
|----------------------------|------------------------------|------------------------------|
| Work in progress           | -                            | 11,122                       |
| Excess payments on account | -                            | -                            |
|                            | -                            | 11,122                       |

# Watson Hawksley Group Limited

## Notes To The Financial Statements Year Ended 31 December 1997

### (11) Debtors

#### Debtors due after one year

|                                    | 31 December<br>1997<br>£'000 | 31 December<br>1996<br>£'000 |
|------------------------------------|------------------------------|------------------------------|
| Amounts owed by group undertakings | 395                          | -                            |

#### Debtors within one year

|                                         |        |        |
|-----------------------------------------|--------|--------|
| Amounts recoverable on contracts        | 12,964 | 1,393  |
| Trade debtors net of provisions         | 12,099 | 12,758 |
| Amounts owed by group undertakings      | 455    | 599    |
| Amounts owed by associated undertakings | 352    | -      |
| Other debtors                           | 1,275  | 1,451  |
| Taxation recoverable                    | 3      | 99     |
| Prepayments and accrued income          | 1,115  | 1,549  |
| Loans and advances                      | 142    | -      |
|                                         | 28,405 | 17,849 |
|                                         | 28,800 | 17,849 |

### (12) Creditors amounts falling due within one year

|                                          | 31 December<br>1997<br>£'000 | 31 December<br>1996<br>£'000 |
|------------------------------------------|------------------------------|------------------------------|
| Bank loans                               | 200                          | 1,980                        |
| Bank overdrafts                          | 2,158                        | 8,218                        |
| Trade creditors                          | 3,712                        | 6,314                        |
| Amounts owed to group undertakings       | 5,908                        | 4,665                        |
| Liability to vendor of MW Spa (Tradital) | 1,820                        | -                            |
| Amounts owed to associated undertakings  | 35                           | -                            |
| Contract retention's payable             | 136                          | 2,367                        |
| Fees in advance                          | 3,475                        | 110                          |
| Obligations under finance lease          | 10                           | 197                          |
| Other creditors                          | 3,205                        | 2,323                        |
| Other taxes and social security          | 995                          | 1,077                        |
| Accruals and deferred income             | 800                          | 761                          |
| Provisions for losses                    | 184                          | 60                           |
| Corporate taxation                       | 323                          | 231                          |
|                                          | 22,961                       | 28,303                       |

The bank loans and overdrafts are secured by charges over freehold property and by letters of credit from the ultimate parent undertakings banker.

# Watson Hawksley Group Limited

## Notes To The Financial Statements Year Ended 31 December 1997

### (13) Creditors amount falling due after one year

|                                    | 31 December<br>1997<br>£'000 | 31 December<br>1996<br>£'000 |
|------------------------------------|------------------------------|------------------------------|
| Bank loans                         | 400                          | 3,737                        |
| Amounts owed to group undertakings | 8,486                        | 1,993                        |
| Capitalised leases                 | 26                           | 34                           |
| Liability to debt factor           | 215                          | -                            |
| Minority interest                  | 2                            | -                            |
|                                    | <hr/> 9,129                  | <hr/> 5,764                  |

### (14) Bank Loans

|                                          | 31 December<br>1997<br>£'000 | 31 December<br>1996<br>£'000 |
|------------------------------------------|------------------------------|------------------------------|
| <b>Payable by instalments</b>            |                              |                              |
| Within one year                          | 200                          | 200                          |
| Between one and two years                | 200                          | 200                          |
| Between two and five years               | 200                          | 400                          |
|                                          | <hr/> 600                    | <hr/> 800                    |
| <b>Payable other than by instalments</b> |                              |                              |
| Within one year                          | -                            | 1,780                        |
| <b>Total loans</b>                       | <hr/> 600                    | <hr/> 2,580                  |

Interest is charged at between 7.5% and 9.5% per annum. The loans are secured by charges over freehold property and by letters of credit from the ultimate parent Company's banker.

The intercompany loans have no fixed repayment terms and bear interest at 8% per annum.

# Watson Hawksley Group Limited

## Notes To The Financial Statements Year Ended 31 December 1997

### (15) Called Up Share Capital

|                                                                                        | 31 December<br>1997<br>£'000 | 31 December<br>1996<br>£'000 |
|----------------------------------------------------------------------------------------|------------------------------|------------------------------|
| <b>Authorised</b>                                                                      |                              |                              |
| 20,000 Ordinary shares of £1 each (1996: 15,000 shares @ £1 each)                      | 20,000                       | 15,000                       |
| <b>Allotted, issued and fully paid</b>                                                 |                              |                              |
| 8,000 Ordinary shares of £1 each (1996: 4,000 shares @ £1 each)                        | 8,000                        | 4,000                        |
| During the year 4,000 ordinary shares were issued at £1 each as a debt for equity swap |                              |                              |

### (16) Profit and Loss Account

|                          | Total<br>£'000 |
|--------------------------|----------------|
| 1 January 1998           | (231)          |
| Goodwill                 | (382)          |
| Exchange movement        | (182)          |
| Retained profit for year | (604)          |
| Other                    | 173            |
|                          | (1,226)        |

Goodwill represents goodwill on acquisition of associated undertakings which should have been written off to reserve in previous years in accordance with the groups' accounting policy. In view of its relative size it has been written off directly to current year reserves movement rather than as a prior period adjustment.

Other, represents an unexplained movement between opening and closing reserves which the directors have been unable to support for the reasons set out in Note 1(1).

### (17) Operating Lease Commitments

|                               | Land and Buildings  |                     | Motor vehicles      |                     |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|
|                               | 31 December<br>1997 | 31 December<br>1996 | 31 December<br>1997 | 31 December<br>1996 |
| Operating leases with expire: |                     |                     |                     |                     |
| Within one year               | 47                  | 40                  | 12                  | 33                  |
| Between two and five years    | 56                  | 49                  | 277                 | 156                 |
| After five years              | 186                 | 111                 | -                   | -                   |
|                               | 289                 | 200                 | 289                 | 189                 |

## **Watson Hawksley Group Limited**

### **Notes To The Financial Statements Year Ended 31 December 1997**

#### **(18) Pension Scheme**

The group operates a defined benefit pension scheme. The assets of the scheme are held separately from those of the company in an independent fund administered by Clerical Medical Investment Group Limited (CMIG).

The actuarial valuation by CMIG at 1 April 1996 indicated that there was a surplus (i.e. the scheme's assets existing on the effective date fully cover its liabilities at that date). The result of the valuation is based on:

**Method of funding:** The accrued liabilities are only based on service completed to date and present pensionable services, whilst members' entitlements at retirement will be based on total service and salary at that time

**Assumption used:** Rate of interest of 9.5% per annum coupled with an allowance for increases in members' earnings of 8% per annum

The market value of scheme assets at 1 April 1996 was £7,571,000 and there was an actuarial surplus of less than 5%. The company's contributions are at 10.5 % per annum with effect from 1 April 1996.

#### **(19) Contingent Liabilities**

At 31 December 1997, the group had contingent liabilities in respect of normal trading guarantees given to its bankers amounting to £1.9 million (31 December 1996: £2.7 million). The group had a contingent liability in respect of amount payable by subsidiaries to third parties of £nil (1996 £1.5 million). The company had no capital expenditure commitments approved but not contracted for as at 31 December 1997 (1996: nil).

#### **(20) Ultimate Parent Undertaking**

The company's ultimate parent undertaking is Montgomery Watson Inc, a company incorporated in the United States of America.

The company's parent undertaking is Montgomery Watson BV, a company incorporated in the Netherlands which produced consolidated financial statements which are available to the public on payment of the appropriate fee from the Chamber of Commerce, Rotterdam.

## Watson Hawksley Group Limited

### Notes To The Financial Statements Year Ended 31 December 1997

#### (21) Principal Subsidiary Undertakings

| Company                                                           | Main Activities                                                                                                                                                      | Country of | % of Equity Owned |
|-------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-------------------|
| Montgomery Watson Limited                                         | Consultants in civil engineering concerned with public health, chiefly in areas of water supply, pollution control, waste disposal and management of the environment | England    | 100%              |
| Montgomery Watson SPA                                             | Consultants in civil engineering concerned with public health, chiefly in areas of water supply, pollution control, waste disposal and management of the environment | Italy      | 100%              |
| Montgomery Watson AIC                                             | Consultants in civil engineering concerned with public health, chiefly in areas of water supply, pollution control, waste disposal and management of the environment | India      | 100%              |
| Montgomery Watson Projects Limited                                | Design and Construction of engineering work concerned with public health                                                                                             | England    | 100%              |
| Montgomery Watson (Asia) Limited                                  | Consultancy services relating to the protection of the environment from pollution with particular emphasis on the supply of water                                    | Hong Kong  | 100%              |
| Montgomery Watson (Hong Kong) Limited                             | Consultancy services relating to the protection of the environment from pollution with particular emphasis on the supply of water                                    | Hong Kong  | 91.7%             |
| Montgomery Watson Engineering Consultants (Singapore) Pte Limited | Consultancy services relating to the protection of the environment from pollution with particular emphasis on the supply of water                                    | Singapore  | 100%              |

The shares in Montgomery Watson Limited are owned by the company and the shares in Montgomery Watson SPA and Montgomery Watson Projects Limited are owned indirectly through Montgomery Watson Limited.

The shares in Montgomery Watson (Asia) Limited are owned by the company and the shares in Montgomery Watson (Hong Kong) Limited and Montgomery Watson Engineering Consultants (Singapore) Pte Limited are owned indirectly through Montgomery Watson (Asia) Limited.

All companies trade mainly in their country of registration.

## **Watson Hawksley Group Limited**

### **Notes To The Financial Statements Year Ended 31 December 1997**

#### **(22) Related Party Transactions**

During the year the company purchased goods and services to the value of £230,000 (3 months ended 31 December 1996: £16,000).

The company sold services to the value of £16,000 (3 months ended 31 December 1996: £33,000) to associated companies.

The amounts due to and from its associated undertakings at 31 December 1997 and 31 December 1996 are shown in note 12 and 13 respectively.

The company has taken advantage of the exemption from disclosing related party transactions with subsidiary undertakings with 90% or more of whose voting rights are controlled within the group headed by its parent company; the largest group for which consolidated financial statements are publicly available.