

Aquatic Engineering & Construction Limited

Directors' report and financial statements

31 July 1996

Registered number 123734



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Aquatic Engineering & Construction Limited

Directors' report and financial statements

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Aquatic Engineering & Construction Limited

Directors' report

The directors present their annual report and audited financial statements for the year ended 31 July 1996.

Principal activity

The principal activity of the company and the group is the provision of equipment and consultancy services to the offshore oil and gas industry.

Business review

The company produced excellent trading results during the year ended 31 July 1996 and it is expected that this level of trading will be sustained during 1997.

In recognition of market needs substantial investment was made during the year in the procurement of additional flexible and retrieval equipment which in turn led to increased profitability from a sustainable enhanced market share.

A Middle East trading office was established in Qatar in January 1996, to take advantage of the developing market in that area. It is intended to continue to expand overseas in a controlled manner and thus guard against fluctuations in the North Sea market together with further local growth by strategic acquisition.

Proposed dividend and transfer to reserves

The directors recommend that a final dividend of £2,099 (1995: £3,940) be paid on the 12% preference shares making with the interim a total of £7,608 (1995: £11,500). The directors also recommend that final dividends be paid on the A Ordinary Shares of £5,130 (1995: £14,560) and on the ordinary shares of £12,140 (1995: £33,977).

After deducting total dividends, the profit for the year retained by the group is £53,087.

Directors and directors' interests

The directors who held office during the year were as follows:

Derek Ian Edgley
Michael John Arnell
Frederick Edgley
Douglas Craigie
James Thomas
Suzanne Morrison

The directors who held office at the end of the financial year had the following interests in the ordinary share capital of the company as recorded in the register of directors' share interests:

	31 July 1996 No	31 July 1995 No
Derek Ian Edgley	30,000	30,000
Michael John Arnell	20,000	20,000
Frederick Edgley	30,000	30,000
Douglas Craigie	25,000	25,000
James Thomas	1,500	-

On 17 November 1994 options under a share option scheme were granted to James Thomas in respect of 7,500 ordinary shares, such options, in certain circumstances, being exercisable between 1 November 1995 and 1 November 1999 at a price of £3.00 per share.

Aquatic Engineering & Construction Limited

Directors' report (*continued*)

Share capital

In accordance with the company's articles of association 42,000 preference shares of £1 each were redeemed during the year at par value.

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Ledingham Chalmers
Secretaries

Palmerston Centre
29/31 Palmerston Road
Aberdeen

18 December 1996

Aquatic Engineering & Construction Limited

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 group and of the profit or loss 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 group 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 the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



37 Albyn Place
Aberdeen AB10 1JB

Report of the auditors to the members of Aquatic Engineering & Construction Limited

We have audited the financial statements on pages 5 to 20.

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 group'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 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.

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 31 July 1996 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

20 December 1996

Chartered Accountants
Registered Auditors

Aquatic Engineering & Construction Limited

Consolidated profit and loss account for the year ended 31 July 1996

	<i>Note</i>	1996 £	1995 £
Turnover			
Cost of sales	2	6,582,489 (5,372,453)	6,754,071 (5,724,466)
Gross profit			
Administrative expenses		1,210,036 (862,660)	1,029,605 (816,052)
Operating profit			
Interest receivable and similar income	3-5	347,376	213,553
Interest payable and similar charges	6	2,721 (63,098)	2,240 (70,180)
Profit on ordinary activities before taxation			
Tax on profit on ordinary activities	7	286,999 (85,628)	145,613 (60,771)
Profit for the financial year			
Dividends paid and proposed	8 9	201,371 (148,284)	84,842 (60,037)
Retained profit for the financial year		53,087	24,805

A statement of movements on reserves is given in note 20.

Turnover and profit on ordinary activities arise wholly from continuing operations.

There are no recognised gains or losses other than the profit for the year.

Aquatic Engineering & Construction Limited

Consolidated balance sheet at 31 July 1996

	Note	£	1996 £	£	1995 £
Fixed assets					
Intangible assets	10		45,339		45,339
Tangible assets	11		739,370		423,521
			784,709		468,860
Current assets					
Debtors	14	1,504,289		1,937,814	
Cash at bank and in hand		72,750		85,253	
		1,577,039		2,023,067	
Creditors: amounts falling due within one year	15	(1,448,250)		(1,672,198)	
Net current assets			128,789		350,869
Total assets less current liabilities			913,498		819,729
Creditors: amounts falling due after more than one year	16		(351,791)		(297,417)
Provisions for liabilities and charges	17		(23,808)		
			537,899		522,312
Capital and reserves					
Called up share capital	18		193,500		234,000
Share premium	20		3,000		-
Capital redemption reserve	20		168,000		126,000
Capital reserve	20		92,724		104,019
Profit and loss account	20		80,675		58,293
Shareholders' funds			537,899		522,312

Shareholders' funds comprise £495,899 (1995: £438,312) relating to equity shareholders and £42,000 (1995: £84,000) relating to non-equity shareholders.

Aquatic Engineering & Construction Limited

Balance sheet at 31 July 1996

	Note	£	1996	£	£	1995	£
Fixed assets							
Intangible assets	10		45,339			45,339	
Tangible assets	12		721,380			423,521	
Investments	13		12,016			12,016	
			778,735			480,876	
Current assets							
Debtors	14	1,159,767		1,547,950			
Cash at bank and in hand		17,699		999			
			1,177,466		1,548,949		
Creditors: amounts falling due within one year	15	(1,062,165)		(1,249,717)			
Net current assets			115,301			299,232	
Total assets less current liabilities							
			894,036			780,108	
Creditors: amounts falling due after more than one year	16		(351,791)			(297,417)	
Provision for liabilities and charges	17		(23,808)			-	
			518,437			482,691	
Capital and reserves							
Called up share capital	18		193,500			234,000	
Share premium	20		3,000			-	
Capital redemption reserve	20		168,000			126,000	
Capital reserve	20		67,022			75,461	
Profit and loss account	20		86,915			47,230	
Shareholders' funds			518,437			482,691	

Shareholders' funds comprise £476,437 (1995: £398,691) relating to equity shareholders and £42,000 (1995: £84,000) relating to non-equity shareholders.

These financial statements were approved by the board of directors on 18 December 1996 and were signed on its behalf by:

David Paul Edgley

DI Edgley
Director

Aquatic Engineering & Construction Limited

Consolidated cash flow statement for the year ended 31 July 1996

	Note	£	1996 £	£	1995 £
Net cash inflow (outflow) from operating activities	22		1,092,353		(156,808)
Returns on investments and servicing of finance					
Interest received		2,721		2,240	
Interest paid		(63,098)		(70,180)	
Dividends paid		(181,760)		(15,121)	
Net cash outflow from returns on investments and servicing of finance			(242,137)		(83,061)
Taxation					
UK corporation tax received (paid) (including advance corporation tax)		81,311		(5,646)	
Overseas tax paid		(95,007)		(29,219)	
Tax paid			(13,696)		(34,865)
Investing activities					
Purchase of tangible fixed assets		(521,720)		(278,002)	
Proceeds from disposal of fixed assets	-	74,450		16,073	
Net cash outflow from investing activities			(447,270)		(261,929)
Net cash inflow (outflow) before financing			389,250		(536,663)
Financing					
Hire purchase finance received	16	269,469		86,682	
Issue of shares		4,500		-	
Repayment of preference shares	18	(42,000)		(42,000)	
Repayment of bank loan	16	(31,390)		(22,351)	
Repayment of hire purchase finance	16	(196,369)		(98,965)	
Net cash inflow (outflow) from financing			4,210		(76,634)
Increase (decrease) in cash and cash equivalents	23		393,460		(613,297)

Aquatic Engineering & Construction Limited

Notes (forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Consolidation

The consolidated financial statements consolidate the financial statements of the company and its subsidiary Aquatic Engineering & Construction BV.

In accordance with s230 of the Companies Act 1985, a separate profit and loss account of Aquatic Engineering & Construction Limited is not presented as the results for the company are disclosed in note 8.

Capital reserves arising on acquisition (less goodwill arising on acquisition) are credited directly to reserves and transferred to the profit and loss account over a period of 15 years.

Fixed assets and depreciation

Depreciation or amortisation is provided to write off the cost less the estimated residual value of tangible and intangible fixed assets by equal instalments over their estimated useful economic lives. The rates are as follows:

Plant and equipment	-	3-10 years
Motor vehicles	-	4 years
Patents	-	5 years

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred taxation only to the extent that it is probable that an actual liability will crystallise.

Finance leases and hire purchase agreements

Assets purchased under finance leases or hire purchase agreements are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the contract on a straight-line basis. Rentals paid under operating leases are charged to income over the terms of the lease.

Pensions

The parent company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Aquatic Engineering & Construction Limited

Notes (continued)

1 Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities other than investments denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Investments, not supported by foreign loans, are translated at the rate of exchange ruling at the time when the investment was made. All differences are taken to the profit and loss account.

Turnover

Turnover represents the total invoiced value of services provided excluding Value Added Tax.

2 Analysis of turnover

All turnover is derived from the provision of equipment and consultancy services to the offshore oil and gas industry to the following geographical locations:

	1996 £	1995 £
United Kingdom	3,607,645	5,193,325
Rest of Europe	1,533,726	689,879
Africa	640,394	870,867
Rest of World	800,724	-
	6,582,489	6,754,071

3 Operating profit

Operating profit is stated

after charging

	1996 £	1995 £
Hire of plant, machinery and vessels	165,824	983,777
Depreciation and amortisation	138,508	213,737
Auditors' remuneration	8,500	8,000

and after crediting

	1996 £	1995 £
Gain on disposal of fixed asset	7,087	3,257
Exchange gain	13,537	37,708

Aquatic Engineering & Construction Limited

Notes (continued)

4 Staff numbers and costs

	1996 £	1995 £
Wages and salaries	1,635,103	1,541,220
Social security costs	104,366	115,604
Other pension costs (see note 21)	33,984	23,178
	1,773,453	1,680,002

Number of employees

The average number of persons, including the directors, employed during the year was

1996	1995
71	83

5 Remuneration of directors

	1996 £	1995 £
<i>Directors' emoluments</i>		
As executives	308,745	302,273

The emoluments, excluding pension contributions, of the chairman were £63,941 (1995: £56,943) and those of the highest paid director were £68,786 (1995: £58,664).

The emoluments, excluding pension contributions, of all the directors were within the following ranges:

	Number of directors 1996	1995
£15,001 - £20,000	-	1
£25,001 - £30,000	1	-
£35,001 - £40,000	2	-
£40,001 - £45,000	-	1
£50,001 - £55,000	-	1
£55,001 - £60,000	1	3
£60,001 - £65,000	1	-
£65,001 - £70,000	1	-

6 Interest payable and similar charges

	1996 £	1995 £
On bank loans, overdrafts and other loans wholly repayable within five years	32,295	35,957
On bank loans repayable outwith five years	27,424	31,361
Finance charges on hire purchase contracts	3,379	2,862
	63,098	70,180

Aquatic Engineering & Construction Limited

Notes (continued)

7 Taxation

	1996 £	1995 £
UK corporation tax at 33%	80,250	41,115
Less: Double tax relief	(8,160)	(5,467)
	72,090	35,648
Overseas taxation	(10,270)	25,123
Deferred taxation at 33%	23,808	-
	85,628	60,771

8 Profit for the financial year

The profit dealt with in the accounts of the parent company was £221,530 (1995: £66,827).

9 Dividends

	1996 £	1995 £
Equity		
Ordinary shares:		
Interim paid	94,756	-
Final proposed	12,140	33,977
A ordinary shares:		
Interim paid	28,650	-
Final proposed	5,130	14,560
Non Equity		
Preference shares:		
Interim paid	5,509	7,560
Final proposed	2,099	3,940
	148,284	60,037

Aquatic Engineering & Construction Limited

Notes (continued)

10 Intangible fixed assets

Group and company		Patents £
<i>Cost</i>		
At beginning and end of year		184,000
<i>Amortisation</i>		
At beginning and end of year		138,661
<i>Net book amount</i>		
At 31 July 1996		45,339
At 31 July 1995		45,339

11 Tangible fixed assets

Group	Plant and equipment £	Motor vehicles £	Total £
<i>Cost</i>			
At beginning of year	1,053,860	106,089	1,159,949
Additions	399,855	121,865	521,720
Disposals	-	(99,226)	(99,226)
At end of year	1,453,715	128,728	1,582,443
<i>Depreciation</i>			
At beginning of year	686,048	50,380	736,428
Charge for year	99,818	38,690	138,508
On disposals	-	(31,863)	(31,863)
At end of year	785,866	57,207	843,073
<i>Net book value</i>			
At 31 July 1996	667,849	71,521	739,370
At 31 July 1995	367,812	55,709	423,521

Aquatic Engineering & Construction Limited

Notes (continued)

12 Tangible fixed assets

Company	Plant and equipment £	Motor vehicles £	Total £
Cost			
At beginning of year	1,053,860	106,089	1,159,949
Additions	372,870	111,231	484,101
Disposals	-	(88,592)	(88,592)
At end of year	1,426,730	128,728	1,555,458
Depreciation			
At beginning of year	686,048	50,380	736,428
Charge for year	90,823	37,361	128,184
On disposals	-	(30,534)	(30,534)
At end of year	776,871	57,207	834,078
Net book value			
At 31 July 1996	649,859	71,521	721,380
At 31 July 1995	367,812	55,709	423,521

Included in the total net book value is £143,798 (1995: £194,225) in respect of assets held under hire purchase contracts, the depreciation charge thereon being £81,165 (1995: £56,706).

Aquatic Engineering & Construction Limited

Notes (continued)

13 Fixed asset investments

Shares in subsidiary undertaking (unlisted)

£

Cost

At beginning and end of year

12,016

The company's subsidiary undertaking is as follows:

	Country of registration	Percentage of ordinary shares held	Principal activity		
	Aquatic Engineering and Construction BV	Netherlands	100%	Offshore Oilfield Services	
14	Debtors				
		Group		Company	
	1996 £	1995 £	1996 £	1995 £	
	Trade debtors	1,228,825	1,742,461	703,614	1,235,879
	Other debtors	275,464	157,537	239,487	121,840
	Corporation tax recoverable	-	37,816	-	37,816
	Amounts owed by subsidiary undertaking	-	-	216,666	152,415
		1,504,289	1,937,814	1,159,767	1,547,950

All debtors are considered recoverable within one year.

15 Creditors: amounts falling due within one year

	1996 £	Group 1995 £	1996 £	Company 1995 £
Bank loan (note 16)	32,427	28,476	32,427	28,476
Bank overdrafts (note 16)	395,846	801,809	309,488	534,303
Trade creditors	644,495	424,753	402,585	327,208
Obligations under hire purchase contracts	60,412	77,026	60,412	77,026
Other creditors including taxation and social security:				
Corporation tax	24,703	-	24,703	-
Other taxation and social security	91,381	86,051	50,664	64,952
Other creditors	164,363	188,027	147,263	151,696
Dividends proposed	19,369	52,845	19,369	52,845
ACT payable	15,254	13,211	15,254	13,211
	1,448,250	1,672,198	1,062,165	1,249,717

Aquatic Engineering & Construction Limited

Notes (continued)

16 Creditors: amounts falling due after more than one year

	Group and company	
	1996	1995
	£	£
Bank loan:		
Amounts due in the second to fifth years	184,419	146,244
Amounts due outwith five years	46,105	119,620
	230,524	265,864
Obligations under hire purchase contracts:		
Amounts due in the second to fifth years	121,267	31,553
	351,791	297,417

The bank loan and overdrafts are secured by a bond and floating charge over the assets of the parent company.

The bank loan is repayable quarterly over a period of 10 years and bears interest at rates which vary with bank base lending rates.

Movements during the year have been as follows:

Group and company	Bank loan		Obligations under hire purchase contracts	
	1996	1995	1996	1995
	£	£	£	£
At beginning of year	294,341	316,692	108,579	120,862
Amounts received	-	-	269,469	86,682
Amounts repaid	(31,390)	(22,351)	(196,369)	(98,965)
At end of year	262,951	294,341	181,679	108,579
Of which:				
Falling due within one year	32,427	28,477	60,412	77,026
Falling due after more than one year	230,524	265,864	121,267	31,553
	262,951	294,341	181,679	108,579

Aquatic Engineering & Construction Limited

Notes (continued)

17 Provision for liabilities and charges

	Group and Company 1996 £	1995 £
<i>Deferred taxation</i>		
Total potential liability relating to:		
Accelerated capital allowances	18,940	-
Other timing differences	4,868	-
	23,808	-

18 Called up share capital

	1996 £	1995 £
<i>Authorised</i>		
Ordinary shares of £1 each	106,500	105,000
A Ordinary shares of £1 each	45,000	45,000
Cumulative redeemable preference shares of £1 each	255,000	255,000
	406,500	405,000
<i>Allotted, called up and fully paid</i>		
<i>Equity</i>		
Ordinary shares of £1 each	106,500	105,000
A Ordinary shares of £1 each	45,000	45,000
<i>Non-Equity</i>		
Cumulative redeemable preference shares of £1 each	42,000	84,000
	193,500	234,000

Rights attaching to the various classes of shares are as follows:

(i) Cumulative redeemable preference shares

The cumulative redeemable preference shares carry a fixed cumulative dividend of 12% per annum, net of advance corporation tax. They are redeemable at par as follows:

	£
31 January 1997	42,000

The holders of these shares are not entitled to vote in general meeting.

The preference shareholders would rank before the 'A' ordinary shareholders and ordinary shareholders on a winding up of the company. In such circumstances they are entitled to the subscription price paid for the shares together with any dividend arrears.

Aquatic Engineering & Construction Limited

Notes (continued)

18 Called up share capital (continued)

(ii) 'A' ordinary shares

The 'A' ordinary shares are entitled to a participating dividend based on adjusted profit on ordinary activities before taxation and amounts payable to ordinary shareholders.

The 'A' ordinary shares may be converted to a like number of ordinary shares at any time.

The holders of these shares are entitled to attend and vote at general meetings and are entitled to the same voting rights as the ordinary shareholders.

The 'A' ordinary shareholders would rank before the ordinary shareholders on a winding up of the company. In such circumstances they are entitled to the subscription price paid for the shares plus all dividend arrears. Any capital surplus remaining after distribution to ordinary shareholders is payable to both 'A' ordinary and ordinary classes of shares as if all shares were of the same class.

Options under a share option scheme have been granted in respect of 7,500 ordinary shares, such options, in certain circumstances, being exercisable between 1 November 1995 and 1 November 1999. Options in respect of 1,500 ordinary shares were exercised at 1 November 1995 at £3.00 per share.

19 Reconciliation of movements in shareholders' funds

	Group		Company	
	1996 £	1995 £	1996 £	1995 £
Profit for the financial year	201,371	84,842	221,530	66,827
Dividends to equity shareholders	(140,676)	(48,537)	(140,676)	(48,537)
Dividends to non-equity shareholders	(7,608)	(11,500)	(7,608)	(11,500)
Issue of equity shares	4,500	-	4,500	-
Redemption of share capital	(42,000)	(42,000)	(42,000)	(42,000)
Goodwill netted against capital reserves	-	(33,478)	-	(33,478)
Net increase / (reduction) in shareholders' funds	15,587	(50,673)	35,746	(68,688)
At beginning of year	522,312	572,985	482,691	551,379
At end of year	537,899	522,312	518,437	482,691

Aquatic Engineering & Construction Limited

Notes (continued)

20 Reserves

	Share premium £	Capital redemption reserve £	Capital reserve £	Profit and loss account £
Group				
At beginning of year	-	126,000	104,019	58,293
Retained profit for year	-	-	-	53,087
Transfer	-	-	(11,295)	11,295
Arising on redemption of shares	-	42,000	-	(42,000)
Arising on issue of shares	3,000	-	-	-
At end of year	3,000	168,000	92,724	80,675
Company				
At beginning of year	-	126,000	75,461	47,230
Retained profit for year	-	-	-	73,246
Transfer	-	-	(8,439)	8,439
Arising on redemption of shares	-	42,000	-	(42,000)
Arising on issue of shares	3,000	-	-	-
At end of year	3,000	168,000	67,022	86,915

21 Pension scheme

The parent company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the fund and amounted to £33,984 (1995: £23,178).

22 Reconciliation of operating profit to net cash inflow (outflow) from operating activities

	1996 £	1995 £
Operating profit	347,376	213,553
Depreciation and amortisation	138,508	213,737
Gain on sale of tangible fixed assets	(7,087)	(3,257)
Goodwill	-	(33,478)
Decrease (increase) in debtors	389,230	(433,920)
Increase (decrease) in creditors	224,326	(113,443)
Net cash inflow (outflow) from operating activities	1,092,353	(156,808)

Aquatic Engineering & Construction Limited

Notes (continued)

23 Analysis of changes in cash and cash equivalents

	1996 £	Change in year £	1995 £	Change in year £	1994 £
Cash at bank and in hand	72,750	(12,503)	85,253	74,905	10,348
Bank overdraft	(395,846)	405,963	(801,809)	(688,202)	(113,607)
	<u>(323,096)</u>	<u>393,460</u>	<u>(716,556)</u>	<u>(613,297)</u>	<u>(103,259)</u>

24 Commitments

At the end of the financial year the group had annual commitments under non-cancellable operating leases as follows:

	1996		1995	
	Land and buildings £	Other £	Land and buildings £	Other £
<i>Operating leases which expire:</i>				
Within 1 year	-	6,069	-	1,830
Within 2-5 years	32,422	-	41,164	-
	<u>32,422</u>	<u>6,069</u>	<u>41,164</u>	<u>1,830</u>