

Aquatic Engineering & Construction Limited

Directors' report and financial statements

31 July 1997

Registered number 123734



Directors' report and financial statements

Contents

Directors' report	1-2
Statement of directors' responsibilities	3
Report of the auditors to the members of Aquatic Engineering & Construction Limited	4
Consolidated profit and loss account	5
Consolidated balance sheet	6
Company balance sheet	7
Consolidated cash flow statement	8
Notes	9-20

Directors' report

The directors present their annual report and audited financial statements for the year ended 31 July 1997.

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 1997 and it is expected that this level of trading will be sustained during 1998.

In recognition of market needs, the company continued to make substantial investment in the procurement of flexible and retrievable equipment. Increased profitability has therefore continued from an enhanced market share.

The company has continued to develop the Middle East trading office in Qatar in order 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 £Nil (1996: £2,099) be paid on the 12% preference shares making with the interim a total of £2,522 (1996: £7,608). The directors also recommend that final dividends be paid on the A Ordinary Shares of £18,067 (1996: £5,130) and on the ordinary shares of £42,612 (1996: £12,140).

After deducting total dividends, the profit for the year retained by the group is £133,253.

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
Kenneth James Thomas
Suzanne Morrison

Kenneth James Thomas resigned as a director on 31 August 1997. 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 1997 No	31 July 1996 No
Derek Ian Edgley	30,300	30,000
Michael John Arnell	20,200	20,000
Frederick Edgley	30,300	30,000
Douglas Craigie	25,250	25,000
Kenneth James Thomas	-	1,500

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

22 December 1997

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
United Kingdom

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 1997 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

KPMG
*Chartered Accountants
Registered Auditors*

24 December 1997

Consolidated profit and loss account

for the year ended 31 July 1997

	<i>Note</i>	1997 £	1996 £
Turnover	2	9,014,545	6,582,489
Cost of sales		(7,271,180)	(5,372,453)
Gross profit		1,743,365	1,210,036
Administrative expenses		(1,212,623)	(862,660)
Operating profit	3-5	530,742	347,376
Interest receivable and similar income		220	2,721
Interest payable and similar charges	6	(62,908)	(63,098)
Profit on ordinary activities before taxation		468,054	286,999
Tax on profit on ordinary activities	7	(174,702)	(85,628)
Profit for the financial year	8	293,352	201,371
Dividends on equity and non-equity shares	9	(160,099)	(148,284)
Retained profit for the financial year		133,253	53,087

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.

Consolidated balance sheet
at 31 July 1997

	Note	1997		1996	
		£	£	£	£
Fixed assets					
Intangible assets	10		45,339		45,339
Tangible assets	11		696,935		739,370
			742,274		784,709
Current assets					
Debtors	14	2,351,641		1,504,289	
Cash at bank and in hand		33,466		72,750	
		2,385,107		1,577,039	
Creditors: amounts falling due within one year	15	(2,136,190)		(1,448,250)	
Net current assets			248,917		128,789
Total assets less current liabilities			991,191		913,498
Creditors: amounts falling due after more than one year	16		(327,753)		(351,791)
Provisions for liabilities and charges	17		(34,286)		(23,808)
			629,152		537,899
Capital and reserves					
Called up share capital	18		151,500		193,500
Share premium	20		3,000		3,000
Capital redemption reserve	20		210,000		168,000
Capital reserve	20		81,429		92,724
Profit and loss account	20		183,223		80,675
Shareholders' funds			629,152		537,899

Shareholders' funds comprise £629,152 (1996: £495,899) relating to equity shareholders and £nil (1996: £42,000) relating to non-equity shareholders.

Company balance sheet

at 31 July 1997

	Note	£	1997	£	£	1996	£
Fixed assets							
Intangible assets	10		45,339			45,339	
Tangible assets	12		684,337			721,380	
Investments	13		12,016			12,016	
			741,692			778,735	
Current assets							
Debtors	14	1,750,121		1,159,767			
Cash at bank and in hand		9,640		17,699			
			1,759,761			1,177,466	
Creditors: amounts falling due within one year	15	(1,432,067)		(1,062,165)			
Net current assets			327,694			115,301	
Total assets less current liabilities			1,069,386			894,036	
Creditors: amounts falling due after more than one year	16		(327,753)			(351,791)	
Provision for liabilities and charges	17		(34,286)			(23,808)	
			707,347			518,437	
Capital and reserves							
Called up share capital	18		151,500			193,500	
Share premium	20		3,000			3,000	
Capital redemption reserve	20		210,000			168,000	
Capital reserve	20		58,583			67,022	
Profit and loss account	20		284,264			86,915	
Shareholders' funds			707,347			518,437	

Shareholders' funds comprise £707,347 (1996: £476,437) relating to equity shareholders and £nil (1996: £42,000) relating to non-equity shareholders.

These financial statements were approved by the board of directors on 22 December 1997 and were signed on its behalf by:

Siranne Morrison.

S Morrison
Director

Consolidated cash flow statement

for the year ended 31 July 1997

	Note	1997	1996
		£	£
Net cash inflow from operating activities	22	249,203	1,092,353
Returns on investments and servicing of finance			
Interest received		220	2,721
Interest paid		(62,908)	(63,098)
Dividends paid on non-equity shares		(4,621)	(9,817)
Net cash outflow from returns on investments and servicing of finance		(67,309)	(70,194)
Taxation			
UK corporation tax paid (including advance corporation tax)		(63,953)	(1,049)
Overseas tax recovered (paid)		21,979	(12,647)
Tax paid		(41,974)	(13,696)
Capital expenditure			
Purchase of tangible fixed assets		(13,226)	(252,251)
Sale of tangible fixed assets		11,692	74,450
Net cash outflow for capital expenditure		(1,534)	(177,801)
Equity dividends paid		(17,270)	(171,943)
Net cash inflow before financing		121,116	658,719
Financing			
Issue of shares		-	4,500
Repayment of preference shares		(42,000)	(42,000)
Repayment of bank loan		(38,329)	(31,390)
Capital element of finance lease and hire purchase rental payments		(81,832)	(196,369)
Net cash outflow from financing		(162,161)	(265,259)
(Decrease) increase in cash	24	(41,045)	393,460

Notes

(forming part of the financial statements)

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 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

Intangible assets are valued at net realisable value.

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.

Advance corporation tax recoverable by deduction from future corporation tax is carried forward within deferred taxation or as ACT recoverable within debtors as appropriate.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period 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.

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:

	1997 £	1996 £
United Kingdom	4,265,530	3,607,645
Rest of Europe	1,182,307	1,533,726
Africa	693,329	640,394
Rest of World	2,873,379	800,724
	9,014,545	6,582,489

3 Operating profit

*Operating profit is stated
 after charging*

	1997 £	1996 £
Hire of plant, machinery and vessels	470,840	165,824
Depreciation and amortisation	164,590	138,508
Auditors' remuneration	9,000	8,500
Exchange loss	37,176	-

and after crediting

Gain on disposal of fixed assets	5,718	7,087
Exchange gain	-	13,537

Notes (continued)

4 Remuneration of directors

	1997 £	1996 £
Directors' emoluments	329,030	288,851
Company contributions to money purchase pension schemes	18,792	19,894

The emoluments of the highest paid director were £81,924 (1996: £68,786) and company pension contributions of £7,508 (1996: £6,924) were made to a money purchase pension scheme on his behalf.

Retirement benefits are accruing to five (1996: six) directors under money purchase pension schemes.

5 Staff numbers and costs

	1997 £	1996 £
Wages and salaries	3,062,422	1,635,103
Social security costs	128,404	104,366
Other pension costs (see note 21)	26,228	33,984
	3,217,054	1,773,453

	Number of employees 1997	1996
The average number of persons, including directors, employed during the year was	65	33

6 Interest payable and similar charges

	1997 £	1996 £
On bank loans and overdrafts	59,852	59,719
Finance charges payable in respect of finance leases and hire purchase contracts	3,056	3,379
	62,908	63,098

Notes (continued)

7 Taxation

	1997 £	1996 £
UK corporation tax	186,715	80,250
Less: Double tax relief	(512)	(8,160)
	186,203	72,090
Overseas taxation	(21,979)	(10,270)
Deferred taxation	10,478	23,808
	174,702	85,628

Corporation tax was charged at a rate of 33% for the period from 1 August 1996 to 31 March 1997 and then at a rate of 31% to 31 July 1997 (1996: 33%).

8 Profit for the financial year

The profit dealt with in the accounts of the parent company was £391,009 (1996: £221,530).

9 Dividends

	1997 £	1996 £
Equity		
Ordinary shares:		
Interim	68,160	94,756
Final proposed	42,612	12,140
A ordinary shares:		
Interim	28,738	28,650
Final proposed	18,067	5,130
Non Equity		
Preference shares:		
Interim	2,522	5,509
Final proposed	-	2,099
	160,099	148,284

Notes (continued)

10	Intangible fixed assets			Patents
	Group and company			£
	<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 1997			45,339
	At 31 July 1996			45,339
11	Tangible fixed assets			
	Group	Plant and equipment £	Motor vehicles £	Total £
	<i>Cost</i>			
	At beginning of year	1,453,715	128,728	1,582,443
	Additions	102,279	25,850	128,129
	Disposals	-	(19,215)	(19,215)
	At end of year	1,555,994	135,363	1,691,357
	<i>Depreciation</i>			
	At beginning of year	785,866	57,207	843,073
	Charge for year	132,470	32,120	164,590
	On disposals	-	(13,241)	(13,241)
	At end of year	918,336	76,086	994,422
	<i>Net book value</i>			
	At 31 July 1997	637,658	59,277	696,935
	At 31 July 1996	667,849	71,521	739,370

Notes (continued)

12 Tangible fixed assets

Company	Plant and equipment £	Motor vehicles £	Total £
Cost			
At beginning of year	1,426,730	128,728	1,555,458
Additions	97,006	25,850	122,856
Disposals	-	(19,215)	(19,215)
At end of year	1,523,736	135,363	1,659,099
Depreciation			
At beginning of year	776,871	57,207	834,078
Charge for year	121,805	32,120	153,925
On disposals	-	(13,241)	(13,241)
At end of year	898,676	76,086	974,762
Net book value			
At 31 July 1997	625,060	59,277	684,337
At 31 July 1996	649,859	71,521	721,380

Included in the total net book value is £295,503 (1996: £324,468) in respect of assets held under hire purchase contracts, the depreciation charge thereon being £66,431 (1996: £81,165).

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

Notes (continued)

14 Debtors

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Trade debtors	2,152,994	1,228,825	1,159,912	703,614
Other debtors	198,647	275,464	70,887	239,487
Amounts owed by subsidiary undertaking	-	-	519,322	216,666
	<u>2,351,641</u>	<u>1,504,289</u>	<u>1,750,121</u>	<u>1,159,767</u>

All debtors are considered recoverable within one year.

15 Creditors: amounts falling due within one year

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Bank loan (note 16)	36,764	32,427	36,764	32,427
Bank overdrafts (note 16)	397,607	395,846	266,159	309,488
Trade creditors	909,553	644,495	442,010	402,585
Obligations under hire purchase contracts	74,855	60,412	74,855	60,412
Other creditors including taxation and social security:				
Corporation tax	157,365	24,703	157,365	24,703
Other taxation and social security	90,834	91,381	69,437	50,664
Other creditors	296,465	164,363	212,730	147,263
Dividends proposed	157,577	19,369	157,577	19,369
ACT payable	15,170	15,254	15,170	15,254
	<u>2,136,190</u>	<u>1,448,250</u>	<u>1,432,067</u>	<u>1,062,165</u>

Notes (continued)

16 Creditors: amounts falling due after more than one year

	Group and company	
	1997	1996
	£	£
Bank loan:		
Amounts due in the second to fifth years	187,858	184,419
Amounts due outwith five years	-	46,105
	187,858	230,524
Obligations under hire purchase contracts:		
Amounts due in the second to fifth years	139,895	121,267
	327,753	351,791

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.

17 Provision for liabilities and charges

	Group and Company	
	1997	1996
	£	£
<i>Deferred taxation</i>		
Total potential liability relating to:		
Accelerated capital allowances	34,286	18,940
Other timing differences	-	4,868
	34,286	23,808

Notes (continued)

18 Called up share capital

	1997 £	1996 £
<i>Authorised</i>		
Ordinary shares of £1 each	106,500	106,500
'A' Ordinary shares of £1 each	45,000	45,000
Cumulative redeemable preference shares of £1 each	255,000	255,000
	406,500	406,500
<i>Allotted, called up and fully paid</i>		
<i>Equity</i>		
Ordinary shares of £1 each	106,500	106,500
'A' Ordinary shares of £1 each	45,000	45,000
<i>Non-Equity</i>		
Cumulative redeemable preference shares of £1 each	-	42,000
	151,500	193,500

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

(i) Cumulative redeemable preference shares

The preference shares in issue at 31 July 1996 were redeemed on 31 January 1997 at par value.

(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 were 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. Rights to exercise share options in the future were relinquished by the holder on 30 July 1997.

Notes (continued)

19 Reconciliation of movements in shareholders' funds

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Profit for the financial year	293,352	201,371	391,009	221,530
Dividends to equity shareholders	(157,577)	(140,676)	(157,577)	(140,676)
Dividends to non-equity shareholders	(2,522)	(7,608)	(2,522)	(7,608)
Issue of equity shares	-	4,500	-	4,500
Redemption of share capital	(42,000)	(42,000)	(42,000)	(42,000)
Net increase in shareholders' funds	91,253	15,587	188,910	35,746
At beginning of year	537,899	522,312	518,437	482,691
At end of year	629,152	537,899	707,347	518,437

20 Reserves

	Share premium	Capital redemption reserve	Capital reserve	Profit and loss account
	£	£	£	£
Group				
At beginning of year	3,000	168,000	92,724	80,675
Retained profit for year	-	-	-	133,253
Transfer	-	-	(11,295)	11,295
Arising on redemption of shares	-	42,000	-	(42,000)
At end of year	3,000	210,000	81,429	183,223
Company				
At beginning of year	3,000	168,000	67,022	86,915
Retained profit for year	-	-	-	230,910
Amortise capital reserve	-	-	(10,671)	10,671
Arising on redemption of shares	-	42,000	-	(42,000)
Amortise goodwill	-	-	2,232	(2,232)
At end of year	3,000	210,000	58,583	284,264

Notes (continued)

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 £26,228(1996: £33,984).

22 Reconciliation of operating profit to net cash inflow from operating activities

	1997 £	1996 £
Operating profit	530,742	347,376
Depreciation and amortisation	164,590	138,508
Gain on sale of tangible fixed assets	(5,718)	(7,087)
(Increase) decrease in debtors	(837,024)	389,230
Increase in creditors	396,613	224,326
Net cash inflow from operating activities	249,203	1,092,353

23 Analysis of net debt

	At 31 July 1996 £	Cash flow £	Other non cash changes £	At 31 July 1997 £
Cash in hand and at bank	72,750	(39,284)	-	33,466
Overdrafts	(395,846)	(1,761)	-	(397,607)
	(323,096)	(41,045)	-	(364,141)
Debt due after one year	(230,524)	5,902	36,764	(187,858)
Debt due within one year	(32,427)	32,427	(36,764)	(36,764)
Finance lease and hire purchase liabilities	(181,679)	81,832	(114,903)	(214,750)
	(444,630)	120,161	(114,903)	(439,372)
Total	(767,726)	79,116	(114,903)	(803,513)

Notes (continued)

24 Reconciliation of net cash flow to movement in net debt

	1997 £	1996 £
(Decrease) increase in cash in period	(41,045)	393,460
Cash outflow from decrease in net debt	120,161	227,758
Change in net debt resulting from cash flows	79,116	621,218
New finance leases and similar hire purchase contracts	(114,903)	(269,469)
Movement in net debt in period	(35,787)	351,749
Net debt at beginning of period	(767,726)	(1,119,475)
Net debt at end of period	(803,513)	(767,726)

25 Commitments

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

	1997		1996	
	Land and buildings £	Other £	Land and buildings £	Other £
<i>Operating leases which expire:</i>				
Within 1 year	-	1,580	-	6,069
Within 2-5 years	66,648	-	32,422	-
	66,648	1,580	32,422	6,069