

Aquatic Engineering & Construction Limited

Directors' report and financial statements

31 July 1998

Registered number 123734

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Directors' report and financial statements

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Directors' report

The directors present their annual report and audited financial statements for the year ended 31 July 1998.

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 good trading results during the year ended 31 July 1998 and it is expected that similar results will be achieved during 1999.

The decrease in turnover and gross profit is attributable to the local recession in the oil and gas industry together with the strength of sterling in Europe. However, thanks to overseas buoyancy the company is optimistic that it will continue to trade successfully.

Proposed dividend and transfer to reserves

The directors recommend that a final dividend be paid on the A Ordinary Shares of £31,815 (1997: £18,067) and on the ordinary shares of £74,270 (1997: £42,612).

After deducting total dividends, the profit for the year retained by the group is £137,809.

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 (resigned 31 August 1997)
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 1998 No	31 July 1997 No
Derek Ian Edgley	30,300	30,300
Michael John Arnell	20,200	20,200
Frederick Edgley	30,300	30,300
Douglas Craigie	25,250	25,250

Millennium compliance

Computer and electronic systems which could be affected by the millennium bug are those which express dates in a six digit format (dd/mm/yy), as opposed to an eight digit format (dd/mm/yyyy). Such systems will be susceptible to problems which may arise as a result of date calculations.

These systems will have to be either replaced or repaired in order to avoid malfunction and commercial disruption.

This problem has been addressed and the Group has fully coordinated project plans in place to ensure both our own and our supply chain's compliance. Estimated costs of these plans are not considered significant.

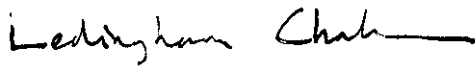
No organisation can guarantee it will not be affected by any year 2000 issues, however the directors believe the Group will achieve an acceptable state of readiness to deal promptly with any issues which may arise.

Directors' report *(continued)*

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

23 February 1999

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 1998 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*

5 March 1999

Consolidated profit and loss account
for the year ended 31 July 1998

	<i>Note</i>	1998 £	1997 £
Turnover	2	8,780,920	9,014,545
Cost of sales		(7,476,121)	(7,271,180)
Gross profit		1,304,799	1,743,365
Administrative expenses		(912,741)	(1,212,623)
Operating profit	3-5	392,058	530,742
Interest receivable and similar income		-	220
Interest payable and similar charges	6	(74,926)	(62,908)
Profit on ordinary activities before taxation		317,132	468,054
Tax on profit on ordinary activities	7	(73,238)	(174,702)
Profit for the financial year	8	243,894	293,352
Dividends on equity and non-equity shares	9	(106,085)	(160,099)
Retained profit for the financial year		137,809	133,253

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 1998

	Note	1998		1997	
		£	£	£	£
Fixed assets					
Intangible assets	10		-		45,339
Tangible assets	11		732,891		696,935
			<u>732,891</u>		<u>742,274</u>
Current assets					
Stocks	13	81,956		-	
Debtors	14	2,664,377		2,351,641	
Cash at bank and in hand		33,253		33,466	
		<u>2,779,586</u>		<u>2,385,107</u>	
Creditors: amounts falling due within one year	15	(2,404,394)		(2,136,190)	
Net current assets			<u>375,192</u>		<u>248,917</u>
Total assets less current liabilities			<u>1,108,083</u>		<u>991,191</u>
Creditors: amounts falling due after more than one year	16		(314,851)		(327,753)
Provisions for liabilities and charges	17		(26,271)		(34,286)
Net assets			<u>766,961</u>		<u>629,152</u>
Capital and reserves					
Called up share capital	18		151,500		151,500
Share premium	20		3,000		3,000
Capital redemption reserve	20		210,000		210,000
Capital reserve	20		72,990		81,429
Profit and loss account	20		329,471		183,223
Equity shareholders' funds			<u>766,961</u>		<u>629,152</u>

Company balance sheet

at 31 July 1998

	Note	£	1998	£	£	1997	£
Fixed assets							
Intangible assets	10		-			45,339	
Tangible assets	11		731,133			684,337	
Investments	12		12,016			12,016	
			<u>743,149</u>			<u>741,692</u>	
Current assets							
Debtors	14	1,552,241		1,750,121			
Cash at bank and in hand		3,734		9,640			
		<u>1,555,975</u>		<u>1,759,761</u>			
Creditors: amounts falling due within one year	15	(1,183,219)		(1,432,067)			
Net current assets			<u>372,756</u>			<u>327,694</u>	
Total assets less current liabilities			<u>1,115,905</u>			<u>1,069,386</u>	
Creditors: amounts falling due after more than one year	16		(314,851)			(327,753)	
Provisions for liabilities and charges	17		(26,271)			(34,286)	
Net assets			<u>774,783</u>			<u>707,347</u>	
Capital and reserves							
Called up share capital	18		151,500			151,500	
Share premium	20		3,000			3,000	
Capital redemption reserve	20		210,000			210,000	
Capital reserve	20		50,144			58,583	
Profit and loss account	20		360,139			284,264	
Equity shareholders' funds			<u>774,783</u>			<u>707,347</u>	

These financial statements were approved by the board of directors on 23 February 1999 and were signed on its behalf by:

Suzanne Morrison

S Morrison
Director

Consolidated cash flow statement
for the year ended 31 July 1998

	<i>Note</i>	1998	1997
		£	£
Net cash inflow from operating activities	22	168,983	249,203
Returns on investments and servicing of finance			
Interest received		-	220
Interest paid		(74,926)	(62,908)
Dividends paid on non-equity shares		-	(4,621)
Net cash outflow from returns on investments and servicing of finance		(74,926)	(67,309)
Taxation			
UK corporation tax paid (including advance corporation tax)		(120,001)	(63,953)
Overseas tax (paid) recovered		(1,760)	21,979
Tax paid		(121,761)	(41,974)
Capital expenditure			
Purchase of tangible fixed assets		(51,439)	(13,226)
Sale of tangible fixed assets		90,232	11,692
Net cash inflow (outflow) for capital expenditure		38,793	(1,534)
Equity dividends paid		(157,577)	(17,270)
Net cash (outflow) inflow before financing		(146,488)	121,116
Financing			
Repayment of preference shares		-	(42,000)
Repayment of bank loan		(37,071)	(38,329)
Capital element of finance lease and hire purchase rental payments		(175,015)	(81,832)
Net cash outflow from financing		(212,086)	(162,161)
Decrease in cash	24	(358,574)	(41,045)

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 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.

Stocks

Work in progress is stated at the lower of cost and net realisable value. In determining the cost of goods purchased for resale, the purchase price is used.

Notes (continued)

1 Accounting policies (continued)

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.

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 exchange differences are taken to the profit and loss account.

Turnover

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

2 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:

	1998	1997
	£	£
United Kingdom	5,428,435	4,265,530
Rest of Europe	938,953	1,182,307
Africa	707,823	693,329
Rest of World	1,705,709	2,873,379
	8,780,920	9,014,545

3 Operating profit

	1998	1997
	£	£
<i>Operating profit is stated after charging:</i>		
Hire of plant, machinery and vessels	158,510	470,840
Depreciation and amortisation	201,041	164,590
Auditors' remuneration	9,225	9,000
Exchange loss	1,522	37,176
<i>after crediting:</i>		
Gain on disposal of fixed assets	22,826	5,718

Notes *(continued)*

4 Remuneration of directors

	1998 £	1997 £
Directors' emoluments	318,741	329,030
Company contributions to money purchase pension schemes	20,268	18,792

The emoluments of the highest paid director were £77,437 (1997: £81,924) and company pension contributions of £7,465 (1997: £7,508) were made to a money purchase pension scheme on his behalf.

Retirement benefits are accruing to five (1997: five) directors under money purchase pension schemes.

5 Staff numbers and costs

	1998 £	1997 £
Wages and salaries	3,261,544	3,062,422
Social security costs	96,814	128,404
Other pension costs (see note 21)	37,947	26,228
	3,396,305	3,217,054

Number of employees
1998 1997

The average number of persons, including directors, employed during the year was	37	33
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6 Interest payable and similar charges

	1998 £	1997 £
On bank loans and overdrafts	72,794	59,852
Finance charges payable in respect of finance leases and hire purchase contracts	2,132	3,056
	74,926	62,908

Notes (continued)

7 Taxation

	1998 £	1997 £
UK corporation tax at 31%	52,970	186,715
Less: Double tax relief	-	(512)
	52,970	186,203
Overseas taxation	1,760	(21,979)
Deferred taxation	18,508	10,478
	73,238	174,702

8 Profit for the financial year

The profit dealt with in the accounts of the parent company is £173,521 (1997: £391,009).

9 Dividends

	1998 £	1997 £
Equity		
Ordinary shares:		
Interim	-	68,160
Final proposed	74,270	42,612
 A ordinary shares:		
Interim	-	28,738
Final proposed	31,815	18,067
 Non Equity		
Preference shares:		
Interim	-	2,522
	106,085	160,099

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 of year	138,661
Provided in year	45,339
At end of year	184,000
<i>Net book value</i>	
At 31 July 1998	-
At 31 July 1997	45,339

11 Tangible fixed assets

Group	Plant and equipment £	Motor vehicles £	Total £
<i>Cost</i>			
At beginning of year	1,555,994	135,363	1,691,357
Additions	148,689	110,375	259,064
Disposals	-	(136,531)	(136,531)
At end of year	1,704,683	109,207	1,813,890
<i>Depreciation</i>			
At beginning of year	918,336	76,086	994,422
Charge for year	122,482	33,220	155,702
On disposals	-	(69,125)	(69,125)
At end of year	1,040,818	40,181	1,080,999
<i>Net book value</i>			
At 31 July 1998	663,865	69,026	732,891
At 31 July 1997	637,658	59,277	696,935

Notes (continued)

11 Tangible fixed assets (continued)

Company	Plant and equipment £	Motor vehicles £	Total £
<i>Cost</i>			
At beginning of year	1,523,736	135,363	1,659,099
Additions	148,689	110,375	259,064
Disposals	-	(136,531)	(136,531)
At end of year	1,672,425	109,207	1,781,632
<i>Depreciation</i>			
At beginning of year	898,676	76,086	974,762
Charge for year	111,643	33,219	144,862
On disposals	-	(69,125)	(69,125)
At end of year	1,010,319	40,180	1,050,499
<i>Net book value</i>			
At 31 July 1998	662,106	69,027	731,133
At 31 July 1997	625,060	59,277	684,337

Included in the total net book value of plant and equipment and motor vehicles is £366,227 (1997: £295,503) in respect of assets held under finance leases and hire purchase contracts, the depreciation charge thereon being £69,515 (1997: £66,431).

12 Fixed asset investments

	£
Shares in subsidiary undertaking (unlisted)	
<i>Cost</i>	
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)

13 Stock

	1998 £	1997 £
Work in progress	81,956	-
	<u>81,956</u>	<u>-</u>

14 Debtors

	Group		Company	
	1998 £	1997 £	1998 £	1997 £
Trade debtors	2,555,971	2,152,994	1,237,088	1,159,912
Other debtors	108,406	198,647	58,058	70,887
Amounts owed by subsidiary undertaking	-	-	257,095	519,322
	<u>2,664,377</u>	<u>2,351,641</u>	<u>1,552,241</u>	<u>1,750,121</u>

15 Creditors: amounts falling due within one year

	Group		Company	
	1998 £	1997 £	1998 £	1997 £
Bank loan (note 16)	40,438	36,764	40,438	36,764
Bank overdrafts (note 16)	755,968	397,607	227,525	266,159
Trade creditors	776,670	909,553	384,432	442,010
Obligations under finance lease and hire purchase contracts	79,622	74,855	79,622	74,855
Corporation tax	74,929	157,365	74,929	157,365
Other taxation and social security	250,310	90,834	81,859	69,437
Other creditors	278,444	296,465	146,401	212,730
Dividends proposed	106,085	157,577	106,085	157,577
ACT payable	41,928	15,170	41,928	15,170
	<u>2,404,394</u>	<u>2,136,190</u>	<u>1,183,219</u>	<u>1,432,067</u>

Notes *(continued)*

16 Creditors: amounts falling due after more than one year

	Group and company	
	1998	1997
	£	£
Bank loan:		
Amounts due in the second to fifth years	147,113	187,858
Obligations under hire purchase contracts:		
Amounts due in the second to fifth years	167,738	139,895
	<u>314,851</u>	<u>327,753</u>

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 Provisions for liabilities and charges

	Group and Company	
	1998	1997
	£	£
<i>Deferred taxation</i>		
Total potential liability relating to:		
Accelerated capital allowances	<u>26,271</u>	<u>34,286</u>

Notes (continued)

18 Called up share capital

	1998 £	1997 £
<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
	151,500	151,500

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

(i) 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.

Notes (continued)

19 Reconciliation of movements in shareholders' funds

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Profit for the financial year	243,894	293,352	173,521	391,009
Dividends on equity shares	(106,085)	(157,577)	(106,085)	(157,577)
Dividends on non-equity shares	-	(2,522)	-	(2,522)
Redemption of share capital	-	(42,000)	-	(42,000)
Net increase in shareholders' funds	137,809	91,253	67,436	188,910
At beginning of year	629,152	537,899	707,347	518,437
At end of year	766,961	629,152	774,783	707,347

20 Reserves

	Share premium	Capital redemption reserve	Capital reserve	Profit and loss account
	£	£	£	£
Group				
At beginning of year	3,000	210,000	81,429	183,223
Retained profit for year	-	-	-	137,809
Transfer	-	-	(8,439)	8,439
At end of year	3,000	210,000	72,990	329,471
Company				
At beginning of year	3,000	210,000	58,583	284,264
Retained profit for year	-	-	-	67,436
Amortise capital reserve	-	-	(10,671)	10,671
Amortise goodwill	-	-	2,232	(2,232)
At end of year	3,000	210,000	50,144	360,139

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 £37,947 (1997: £26,228).

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

	1998 £	1997 £
Operating profit	392,058	530,742
Depreciation and amortisation	201,041	164,590
Gain on sale of tangible fixed assets	(22,826)	(5,718)
Increase in debtors	(327,906)	(837,024)
Increase in creditors	8,572	396,613
Increase in stocks	(81,956)	-
Net cash inflow from operating activities	168,983	249,203

23 Analysis of net debt

	At 31 July 1997 £	Cash flow £	Other non cash changes £	At 31 July 1998 £
Cash at bank and in hand	33,466	(213)	-	33,253
Bank overdrafts	(397,607)	(358,361)	-	(755,968)
	(364,141)	(358,574)	-	(722,715)
Debt due after one year	(187,858)	307	40,438	(147,113)
Debt due within one year	(36,764)	36,764	(40,438)	(40,438)
Finance lease and hire purchase liabilities	(214,750)	175,015	(207,625)	(247,360)
	(439,372)	212,086	(207,625)	(434,911)
Total	(803,513)	(146,488)	(207,625)	(1,157,626)

Notes (continued)

24 Reconciliation of net cash flow to movement in net debt

	1998 £	1997 £
Decrease in cash in year	(358,574)	(41,045)
Cash outflow from decrease in net debt	212,086	120,161
Change in net debt resulting from cash flows	(146,488)	79,116
New finance leases and similar hire purchase contracts	(207,625)	(114,903)
Movement in net debt in year	(354,113)	(35,787)
Net debt at beginning of year	(803,513)	(767,726)
Net debt at end of year	1,157,626	(803,513)

25 Commitments

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

	1998		1997	
	Land and buildings £	Other £	Land and buildings £	Other £
<i>Operating leases which expire:</i>				
Within 1 year	-	200	-	1,580
Within 2-5 years	66,648	-	66,648	-
	66,648	200	66,648	1,580