

Aquatic Engineering & Construction Limited

**Directors' report and consolidated
financial statements**

Registered number 123734

31 July 1999

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Directors' report

The directors present their annual report and audited financial statements for the year ended 31 July 1999.

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 Group produced strong trading results during the year ended 31 July 1999 and the directors' remain optimistic about the Group's prospects in the forthcoming year.

The increase in turnover and gross profit can be attributed both to the strength of the management team and staff and the encouraging levels of overseas trading.

Proposed dividend

The directors recommend that a final dividend be paid on the A Ordinary Shares of £63,501 (1998: £31,815) and on the ordinary shares of £150,165 (1998: £74,270).

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
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 1999 No	31 July 1998 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

15 December 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 1999 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to read 'KPMG'.

KPMG
Chartered Accountants
Registered Auditors

15 December 1999

Consolidated profit and loss account
for the year ended 31 July 1999

	<i>Note</i>	1999 £	1998 £
Turnover	2	9,382,173	8,780,920
Cost of sales		(7,656,901)	(7,476,121)
Gross profit		1,725,272	1,304,799
Administrative expenses		(1,024,047)	(912,741)
Operating profit	3-5	701,225	392,058
Interest payable and similar charges	6	(66,210)	(74,926)
Profit on ordinary activities before taxation		635,015	317,132
Tax on profit on ordinary activities	7	(208,562)	(73,238)
Profit for the financial year		426,453	243,894
Dividends on equity shares	8	(213,666)	(106,085)
Retained profit for the financial year		212,787	137,809

A statement of movements on reserves is given in note 18.

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 1999

	<i>Note</i>	1999	1998
		£	£
Fixed assets			
Intangible assets	9	-	-
Tangible assets	10	670,668	732,891
		<u>670,668</u>	<u>732,891</u>
Current assets			
Stocks	12	81,956	81,956
Debtors	13	2,302,167	2,664,377
Cash at bank and in hand		168,678	33,253
		<u>2,552,801</u>	<u>2,779,586</u>
Creditors: amounts falling due within one year	14	(1,963,373)	(2,404,394)
		<u>589,428</u>	<u>375,192</u>
Net current assets			
		<u>589,428</u>	<u>375,192</u>
Total assets less current liabilities		1,260,096	1,108,083
Creditors: amounts falling due after more than one year	15	(214,372)	(314,851)
Provisions for liabilities and charges	16	(65,976)	(26,271)
		<u>979,748</u>	<u>766,961</u>
Net assets			
		<u>979,748</u>	<u>766,961</u>
Capital and reserves			
Called up share capital	17	151,500	151,500
Share premium	18	3,000	3,000
Capital redemption reserve	18	210,000	210,000
Capital reserve	18	64,551	72,990
Profit and loss account	18	550,697	329,471
		<u>979,748</u>	<u>766,961</u>
Equity shareholders' funds	19		
		<u>979,748</u>	<u>766,961</u>

Balance sheet

at 31 July 1999

	Note	£	1999	£	£	1998	£
Fixed assets							
Intangible assets	9		-			-	
Tangible assets	10		670,668			731,133	
Investments	11		12,016			12,016	
			<u>682,684</u>			<u>743,149</u>	
Current assets							
Debtors	13	1,685,551		1,552,241			
Cash at bank and in hand		163,592		3,734			
		<u>1,849,143</u>		<u>1,555,975</u>			
Creditors: amounts falling due within one year	14	(1,325,741)		(1,183,219)			
Net current assets			<u>523,402</u>			<u>372,756</u>	
Total assets less current liabilities			<u>1,206,086</u>			<u>1,115,905</u>	
Creditors: amounts falling due after more than one year	15		(214,372)			(314,851)	
Provisions for liabilities and charges	16		(65,976)			(26,271)	
Net assets			<u>925,738</u>			<u>774,783</u>	
Capital and reserves							
Called up share capital	17		151,500			151,500	
Share premium	18		3,000			3,000	
Capital redemption reserve	18		210,000			210,000	
Capital reserve	18		41,705			50,144	
Profit and loss account	18		519,533			360,139	
Equity shareholders' funds	19		<u>925,738</u>			<u>774,783</u>	

These financial statements were approved by the board of directors on 15 December 1999 and were signed on its behalf by:



S Morrison
Director

Consolidated cash flow statement

for the year ended 31 July 1999

	Note	1999	1998
		£	£
Net cash inflow from operating activities	22	931,397	168,983
Returns on investments and servicing of finance			
Interest paid		(66,210)	(74,926)
Net cash outflow from returns on investments and servicing of finance		(66,210)	(74,926)
Taxation			
UK corporation tax paid (including advance corporation tax)		(87,825)	(120,001)
Overseas tax repaid (paid)		16,716	(1,760)
Net tax paid		(71,109)	(121,761)
Capital expenditure			
Purchase of tangible fixed assets		(74,190)	(51,439)
Sale of tangible fixed assets		55,290	90,232
Net cash (outflow) inflow for capital expenditure		(18,900)	38,793
Equity dividends paid		(106,085)	(157,577)
Net cash inflow (outflow) before financing		669,093	(146,488)
Financing			
Repayment of bank loan		(43,565)	(37,071)
Capital element of finance lease and hire purchase rental payments		(110,598)	(175,015)
Net cash outflow from financing		(154,163)	(212,086)
Increase (decrease) in cash	23	514,930	(358,574)

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.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertaking made up to 31 July 1999. The acquisition method of accounting has been adopted.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Capital reserves arising on acquisition (less goodwill arising on acquisition) before 1 January 1998, when FRS 10 *Goodwill and intangible assets* was adopted, were credited directly to reserves and transferred to the profit and loss account over a period of 15 years.

Fixed assets and depreciation

Depreciation 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 as follows:

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

Intangible assets are valued at net realisable value.

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.

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.

Pension costs

The parent company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company 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)

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.

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.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers during the year.

2 Turnover

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

	1999 £	1998 £
United Kingdom	4,260,261	5,428,435
Rest of Europe	869,340	938,953
Africa	1,328,334	707,823
Rest of World	2,924,238	1,705,709
	9,382,173	8,780,920

3 Profit on ordinary activities before taxation

	1999 £	1998 £
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Hire of plant, machinery and vessels	143,446	158,510
Depreciation and amortisation	141,910	201,041
Auditors' remuneration:		
Group - audit	18,400	18,300
- other services	4,150	6,350
Company - audit	11,775	11,775
Exchange losses	-	1,522
<i>after crediting:</i>		
Gain on disposal of fixed assets	6,022	22,826
Exchange gain	38,998	-

Notes (continued)

4 Remuneration of directors

	1999 £	1998 £
Directors' emoluments	464,952	318,741
Company contributions to money purchase pension schemes	27,630	20,268

The emoluments of the highest paid director were £125,285 (1998: £77,437) and company pension contributions of £8,499 (1998: £7,465) were made to a money purchase pension scheme on his behalf.

Retirement benefits are accruing to five (1998: five) directors under money purchase pension schemes.

5 Staff numbers and costs

	1999 £	1998 £
Wages and salaries	3,427,341	3,261,544
Social security costs	138,633	96,814
Other pension costs (see note 21)	51,877	37,947
	3,617,851	3,396,305

	Number of employees 1999	1998
The average number of persons, including directors, employed by the Group during the year was:	53	52

6 Interest payable and similar charges

	1999 £	1998 £
On bank loans and overdrafts	60,715	72,794
Finance charges payable in respect of finance leases and hire purchase contracts	986	2,132
Other interest payable	4,509	-
	66,210	74,926

Notes *(continued)*

7 Taxation

	1999 £	1998 £
UK corporation tax at 30%	114,672	52,970
Overseas taxation	80,708	1,760
Deferred taxation	13,182	18,508
	208,562	73,238

8 Dividends

	1999 £	1998 £
Equity		
Ordinary shares:		
Final proposed	150,165	74,270
 A ordinary shares:		
Final proposed	63,501	31,815
	213,666	106,085

Notes (continued)

9 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	184,000
<i>Net book value</i>	
At 31 July 1999	-
At 31 July 1998	-

10 Tangible fixed assets

Group	Plant and equipment £	Motor vehicles £	Total £
<i>Cost</i>			
At beginning of year	1,704,683	109,207	1,813,890
Additions	118,295	10,660	128,955
Disposals	-	(85,081)	(85,081)
At end of year	1,822,978	34,786	1,857,764
<i>Depreciation</i>			
At beginning of year	1,040,818	40,181	1,080,999
Charge for year	124,958	16,952	141,910
On disposals	-	(35,813)	(35,813)
At end of year	1,165,776	21,320	1,187,096
<i>Net book value</i>			
At 31 July 1999	657,202	13,466	670,668
At 31 July 1998	663,865	69,026	732,891

Notes *(continued)*

10 Tangible fixed assets *(continued)*

Company	Plant and equipment £	Motor vehicles £	Total £
Cost			
At beginning of year	1,672,425	109,207	1,781,632
Additions	118,295	10,660	128,955
Disposals	-	(85,081)	(85,081)
At end of year	1,790,720	34,786	1,825,506
Depreciation			
At beginning of year	1,010,319	40,180	1,050,499
Charge for year	123,200	16,952	140,152
On disposals	-	(35,813)	(35,813)
At end of year	1,133,519	21,319	1,154,838
Net book value			
At 31 July 1999	657,201	13,467	670,668
At 31 July 1998	662,106	69,027	731,133

Included in the total net book value of plant and equipment and motor vehicles is £315,169 (1998: £366,277) in respect of assets held under finance leases and hire purchase contracts. Depreciation for the year on these assets was £58,902 (1998: £69,515).

11 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)*

12 Stock

	Group	
	1999	1998
	£	£
Goods for resale	81,956	81,956
	<u><u>81,956</u></u>	<u><u>81,956</u></u>

13 Debtors

	Group		Company	
	1999	1998	1999	1998
	£	£	£	£
Trade debtors	2,225,149	2,555,971	1,344,415	1,237,088
Other debtors	77,018	108,406	57,435	58,058
Amounts owed by subsidiary undertaking	-	-	283,701	257,095
	<u><u>2,302,167</u></u>	<u><u>2,664,377</u></u>	<u><u>1,685,551</u></u>	<u><u>1,552,241</u></u>

14 Creditors: amounts falling due within one year

	Group		Company	
	1999	1998	1999	1998
	£	£	£	£
Bank loan (note 15)	44,141	40,438	44,141	40,438
Bank overdrafts (note 15)	376,463	755,968	294,662	227,525
Trade creditors	486,934	776,670	377,010	384,432
Obligations under finance lease and hire purchase contracts	77,000	79,622	77,000	79,622
Corporation tax	117,181	74,929	117,181	74,929
Other taxation and social security	410,748	250,310	81,411	81,859
Other creditors	237,240	278,444	120,670	146,401
Dividends proposed	213,666	106,085	213,666	106,085
ACT payable	-	41,928	-	41,928
	<u><u>1,963,373</u></u>	<u><u>2,404,394</u></u>	<u><u>1,325,741</u></u>	<u><u>1,183,219</u></u>

Notes *(continued)*

15 Creditors: amounts falling due after more than one year

	Group and company	
	1999	1998
	£	£
Bank loan:		
Amounts due in the second to fifth years	99,845	147,113
Obligations under hire purchase contracts:		
Amounts due in the second to fifth years	114,527	167,738
	<u>214,372</u>	<u>314,851</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.

16 Provisions for liabilities and charges

Group and company	Deferred taxation
	£
At beginning of year	26,271
Charge for the year	13,182
Movement in advance corporation tax recoverable	26,523
	<u>65,976</u>
At end of year	<u>65,976</u>

The amounts provided for deferred taxation are set out below:

Group and Company	1999	1998
	£	£
Difference between accumulated depreciation and capital allowances	65,976	52,794
Advance corporation tax recoverable	-	(26,523)
	<u>65,976</u>	<u>26,271</u>

Notes *(continued)*

17 Called up share capital

	1999 £	1998 £
<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)

18 Reserves

	Share premium	Capital redemption reserve	Capital reserve	Profit and loss account
	£	£	£	£
Group				
At beginning of year	3,000	210,000	72,990	329,471
Retained profit for year	-	-	-	212,787
Transfer	-	-	(8,439)	8,439
	<u>3,000</u>	<u>210,000</u>	<u>64,551</u>	<u>550,697</u>
At end of year	<u>3,000</u>	<u>210,000</u>	<u>64,551</u>	<u>550,697</u>
Company				
At beginning of year	3,000	210,000	50,144	360,139
Retained profit for year	-	-	-	150,955
Amortise capital reserve	-	-	(10,671)	10,671
Amortise goodwill	-	-	2,232	(2,232)
	<u>3,000</u>	<u>210,000</u>	<u>41,705</u>	<u>519,533</u>
At end of year	<u>3,000</u>	<u>210,000</u>	<u>41,705</u>	<u>519,533</u>

19 Reconciliation of movements in shareholders' funds

	Group		Company	
	1999	1998	1999	1998
	£	£	£	£
Profit for the financial year	426,453	243,894	364,621	173,521
Dividends on equity shares	(213,666)	(106,085)	(213,666)	(106,085)
	<u>212,787</u>	<u>137,809</u>	<u>150,955</u>	<u>67,436</u>
Net increase in shareholders' funds	212,787	137,809	150,955	67,436
At beginning of year	766,961	629,152	774,783	707,347
	<u>979,748</u>	<u>766,961</u>	<u>925,738</u>	<u>774,783</u>
At end of year	<u>979,748</u>	<u>766,961</u>	<u>925,738</u>	<u>774,783</u>

Notes *(continued)*

20 Commitments

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

	1999	1998
	Land and	Land and
	buildings	buildings
	£	£
<i>Operating leases which expire:</i>		
Within 1 year	27,025	-
Within 2-5 years	48,998	66,648
	76,023	66,648

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 £51,877 (1998: £37,947).

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

	1999	1998
	£	£
Operating profit	701,225	392,058
Depreciation and amortisation	141,910	201,041
Gain on sale of tangible fixed assets	(6,022)	(22,826)
Decrease (increase) in debtors	345,964	(327,906)
(Decrease) increase in creditors	(251,680)	8,572
Increase in stocks	-	(81,956)
Net cash inflow from operating activities	931,397	168,983

Notes *(continued)*

23 Analysis of net debt

	At 31 July 1998 £	Cash flow £	Other non cash changes £	At 31 July 1999 £
Cash at bank and in hand	33,253	135,425	-	168,678
Bank overdrafts	(755,968)	379,505	-	(376,463)
	<u>(722,715)</u>	<u>514,930</u>	<u>-</u>	<u>(207,785)</u>
Debt due after one year	(147,113)	3,127	44,141	(99,845)
Debt due within one year	(40,438)	40,438	(44,141)	(44,141)
Finance lease and hire purchase liabilities	(247,360)	110,598	(54,765)	(191,527)
	<u>(434,911)</u>	<u>154,163</u>	<u>(54,765)</u>	<u>(335,513)</u>
Total	<u>(1,157,626)</u>	<u>669,093</u>	<u>(54,765)</u>	<u>(543,298)</u>

24 Reconciliation of net cash flow to movement in net debt

	1999 £	1998 £
Increase (decrease) in cash in year	514,930	(358,574)
Cash outflow from decrease in net debt	154,163	212,086
	<u>669,093</u>	<u>(146,488)</u>
Change in net debt resulting from cash flows	669,093	(146,488)
New finance leases and similar hire purchase contracts	(54,765)	(207,625)
	<u>614,328</u>	<u>(354,113)</u>
Movement in net debt in year	614,328	(354,113)
Net debt at beginning of year	(1,157,626)	(803,513)
	<u>(543,298)</u>	<u>(1,157,626)</u>
Net debt at end of year	<u>(543,298)</u>	<u>(1,157,626)</u>