

KCC Process Equipment Limited

Directors' report and financial statements

for the year ended 31 March 1999
Registered number 1862795



Directors' report and financial statements

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Directors' report

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

Principal activities

The company's principal activity is the provision of process engineering services and supplies for oil and gas plant installations.

Business review

During the year, KCC continued to build on foundations laid in previous years, establishing a leading position in the market measured in terms of sales, profitability and customer satisfaction.

Our commitment to FPAL (First Point Assessment Limited), the UK's system of measuring customer feedback, resulted in a steady increase in customer satisfaction - a trend we are determined to continue into the future. Our results were almost up to expectations despite being faced with a declining market due to the oil price collapse in the last quarter of 1998 and the consequent industry cut-backs on investment.

Major contracts were executed and delivered on time by our London teams to customers in China, Brazil & Abu Dhabi whilst new orders secured from the UK & Norway & India have provided a good starting point for the 1999/2000 order book.

Dividend

The directors' recommend of total dividend of £576,500 for the year.

Year 2000 issue

The directors have considered the impact of Year 2000 issues on the business, and are in the process of addressing these as appropriate. The directors do not anticipate the costs involved in ensuring the company becomes Year 2000 compliant to be significant.

Directors

The directors who held office at the end of the financial year had the following interests in the ordinary shares of group companies as recorded in the register of directors' share and debenture interests:


	Company	Class of share	Interest at end of year	Interest at beginning of year
M E Kirk	KCC Group Ltd	£1 ordinary	134,090	-
	KCC Process Equipment Ltd	£1 ordinary	-	134,090
S R Cordon	KCC Group Ltd	£1 ordinary	51,497	-
	KCC Process Equipment Ltd	£1 ordinary	-	51,497

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



S R Cordon
Secretary

91-93 Windmill Road
Sunbury on Thames
Middlesex
TW16 7EF

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial 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 company and to prevent and detect fraud and other irregularities.



Arlington Business Park
Theale
Reading, RG7 4SD
United Kingdom

Report of the auditors to the members of KCC Process Equipment 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 company'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 the company's affairs as at 31 March 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG 26/8/99

*Chartered Accountants
Registered Auditors*

Profit and loss account
for the year ended 31 March 1999

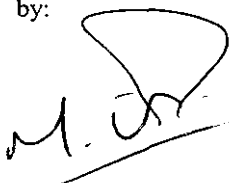
	<i>Note</i>	1999 £	1998 £
Turnover	2	8,103,562	15,271,806
Cost of sales		(6,357,546)	(12,435,278)
Gross profit		<hr/> 1,746,016	<hr/> 2,836,528
Administrative expenses		(1,090,434)	(1,381,664)
Operating profit		<hr/> 655,582	<hr/> 1,454,864
Interest receivable and similar income		139,805	218,397
Interest payable and similar charges	6	(6,729)	(7,715)
Profit on ordinary activities before taxation	3-5	<hr/> 788,658	<hr/> 1,665,546
Tax on profit on ordinary activities	7	(251,387)	(520,498)
Profit on ordinary activities after taxation		<hr/> 537,271	<hr/> 1,145,048
Dividends on equity shares	8	(576,500)	(253,000)
(Loss) / profit for the financial year		<hr/> <hr/> (39,229)	<hr/> <hr/> 892,048

There were no recognised gains or losses other than the profit for the period as shown above.

Balance sheet
as at 31 March 1999

	Note	1999	1998
		£	£
Fixed assets			
Intangible assets	9	3,500	5,600
Tangible assets	10	115,906	155,267
Investments	11	2	4
		<hr/>	<hr/>
		119,408	160,871
Current assets			
Work in progress	12	6,532	47,906
Debtors	13	1,846,265	3,732,117
Cash at bank and in hand		2,680,857	2,444,725
Cash charged against performance bond		1,273,870	909,365
		<hr/>	<hr/>
		5,807,524	7,134,113
Creditors: amounts falling due within one year	14	(3,201,898)	(4,393,879)
		<hr/>	<hr/>
Net current assets		2,605,626	2,740,234
		<hr/>	<hr/>
Total assets less current liabilities		2,725,034	2,901,105
		<hr/>	<hr/>
Creditors: amounts falling due after more than one year	15	(25,363)	(46,639)
		<hr/>	<hr/>
Provisions for liabilities and charges	16	(736,901)	(852,467)
		<hr/>	<hr/>
Net assets		1,962,770	2,001,999
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	17	253,000	253,000
Share premium account	18	4,070	4,070
Profit and loss account	18	1,705,700	1,744,929
		<hr/>	<hr/>
Shareholders' funds (equity interests)		1,962,770	2,001,999
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 23/3/99 and were signed on its behalf by:



ME Kirk
Director

Cash flow statement

for the year ended 31 March 1999

		1999 £	1998 £
Reconciliation of operating profit to net cash flow from operating activities			
Operating profit		655,582	1,454,864
Depreciation and amortisation		74,853	75,572
Profit on disposal of fixed assets		(10,420)	(9,733)
Decrease in stocks		41,374	144,236
Decrease in debtors		1,885,852	1,387,904
Decrease in creditors		(1,341,716)	(3,366,062)
(Decrease)/increase in warranty provision		(115,566)	600,977
Net cash inflow from operating activities		1,189,959	287,758
Cash flow statement			
Cash inflow from operating activities		1,189,959	287,758
Returns on investments and servicing of finance	22	133,076	210,682
Taxation		(550,262)	(214,956)
Capital expenditure	22	(22,972)	(44,483)
Acquisitions and disposals	22	2	-
Equity dividends paid		(126,500)	(275,000)
Cash inflow/(outflow) before management of liquid resources and financing		623,303	(35,999)
Management of liquid resources	22	(364,505)	(163,369)
Financing	22	(22,666)	(22,666)
Increase/(decrease) in cash in the period		236,132	(222,034)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the period	23	236,132	(222,034)
Cash outflow from decrease in debt and lease financing		22,666	22,666
Cash used to increase liquid resources		364,505	163,369
Movement in net funds in the period		623,303	(35,999)
Net funds at the start of the period		3,284,785	3,320,784
Net funds at the end of the period	23	3,908,088	3,284,785

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 company's financial statements.

Basis of preparation

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

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:

Office equipment and furniture	-	5 years
Computer equipment	-	3 years
Motor vehicles	-	4 years

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction, or at the contracted rate of the transaction if covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in 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.

Goodwill

Amortisation is provided against purchased goodwill on a straight line basis over 5 years.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Notes *(continued)*

Accounting policies *(continued)*

Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at cost appropriate to their stage of completion plus attributable profits less amounts recognised in previous years. Provision is made for any losses which are foreseen. Contract work in progress is stated at cost incurred, less that element transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover. Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account. Where payments to account exceed turnover, the difference is taken to creditors.

Stocks

Stocks and work in progress on short term contracts are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price reduced by all costs of marketing, selling and distribution.

Pension scheme

The company pays pension contributions into executive and personal pension schemes held by employees. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Provision for expenditure under warranty

The company provides for costs which may be incurred on completed contracts whilst under warranty.

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 tax 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 customers.

Notes *(continued)*

2 Analysis of turnover

	1999	1998
	£	£
By geographical area:		
United Kingdom	140,661	408,681
Middle East	3,416,784	8,403,613
Europe	3,330,221	4,520,110
Other	1,215,896	1,939,402
	<u>8,103,562</u>	<u>15,271,806</u>

3 Profit on ordinary activities before taxation

	1999	1998
	£	£
<i>Profit on ordinary activities before taxation is stated</i>		
<i>after charging/(crediting)</i>		
Auditors' remuneration:		
Audit	10,536	9,800
Other services	10,406	9,089
Depreciation and other amounts written off tangible fixed assets:		
Owned	45,940	42,950
Leased	26,813	26,813
Goodwill amortised	2,100	2,100
Hire of plant and machinery - rentals payable under operating leases	27,387	18,166
Hire of other assets - operating leases	45,002	42,966
Profit on disposal of fixed assets	(10,420)	(9,733)
Exchange (gains)/losses	(25,800)	47,250
	<u> </u>	<u> </u>

Notes (continued)

4 Remuneration of directors

	1999 £	1998 £
Directors' emoluments	147,569	166,458
Contributions to money purchase pension scheme	13,500	12,000
	<hr/> 161,069	<hr/> 178,458
	<hr/> <hr/>	<hr/> <hr/>

The number of directors in respect of whom the company makes contributions to money purchase pension schemes is 2 (1998: 2).

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees 1999	1998
Management and administration	5	5
Direct work on contracts and sales	23	23
	<hr/> 28	<hr/> 28
	<hr/> <hr/>	<hr/> <hr/>

The aggregate payroll costs of these persons were as follows:

	1999 £	1998 £
Wages and salaries	1,096,992	1,245,005
Social security costs	108,813	140,927
Other pension costs	44,243	40,401
	<hr/> 1,250,048	<hr/> 1,426,333
	<hr/> <hr/>	<hr/> <hr/>

Notes *(continued)*

6 Interest payable and similar charges

	1999 £	1998 £
On bank loans and overdrafts	233	1,086
Finance charges payable in respect of finance leases and hire purchase contracts	6,389	6,389
Interest on late payment of tax	107	240
	<u>6,729</u>	<u>7,715</u>

7 Taxation

	1999 £	1998 £
UK corporation tax at 31% (1998: 31%)	248,000	520,750
Adjustment relating to prior years	3,387	(252)
	<u>251,387</u>	<u>520,498</u>

8 Dividends

	1999 £	1998 £
Equity shares:		
Interim dividend paid	126,500	253,000
Final dividend proposed	450,000	-
	<u>576,500</u>	<u>253,000</u>

Notes (continued)

9 Intangible fixed assets

	Goodwill £
<i>Cost</i>	
At beginning of year	10,500
	<hr/>
At end of year	10,500
	<hr/>
<i>Amortisation</i>	
At beginning of year	4,900
Charged in year	2,100
	<hr/>
At end of year	7,000
	<hr/>
<i>Net book value</i>	
At 31 March 1999	3,500
	<hr/>
At 31 March 1998	5,600
	<hr/>

Goodwill arose on the purchase of the business and assets of RJB Engineering (UK) Limited which has since changed its name to Nisharm Limited.

Notes *(continued)*

10 Tangible fixed assets

	Computer equipment	Office equipment and furniture	Motor vehicles	Total
	£	£	£	£
Cost				
At beginning of year	172,477	118,212	49,944	340,633
Additions	19,191	14,413	-	33,604
Disposals	(8,087)	-	(49,944)	(58,031)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	183,581	132,625	-	316,206
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At beginning of year	90,420	45,003	49,943	185,366
Charge for year	49,036	23,717	-	72,753
On disposals	(7,876)	-	(49,943)	(57,819)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	131,580	68,720	-	200,300
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 March 1999	52,001	63,905	-	115,906
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 1998	82,057	73,209	1	155,267
	<hr/>	<hr/>	<hr/>	<hr/>

Included in the total net book value is £45,261 (1998: £72,073) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £26,813 (1998: £26,813).

11 Fixed asset investments

	Shares in group undertakings £
Cost	
At beginning of year	4
Disposed of in year	(2)
	<hr/>
At end of year	2
	<hr/>

On 28 August 1998, the company transferred its shareholding in KCC Resources (Jersey) Limited to KCC Group Limited for a consideration of £2.

Notes (continued)

11 Fixed asset investments (continued)

	Country of incorporation	Class and percentage of shares held
<i>Subsidiary undertaking</i>		
RJB Engineering (UK) Limited	England and Wales	100% Ordinary

12 Stocks

	1999 £	1998 £
Work in progress on minor contracts	6,532	47,906

13 Debtors

	1999 £	1998 £
Trade debtors	1,104,453	1,356,038
Amounts recoverable on contracts	490,486	2,091,666
Amounts due from group undertakings	59,966	125,602
VAT recoverable	132,022	100,018
Other debtors	8,755	10,715
Prepayments and accrued income	50,583	48,078
	<u>1,846,265</u>	<u>3,732,117</u>

Notes (continued)

14 Creditors: amounts falling due within one year

	1999 £	1998 £
Trade creditors	2,089,949	3,384,085
Obligations under finance leases and hire purchase contracts (see note 15)	21,276	22,666
Payments received on account	1,730	784
Corporation tax	216,375	452,000
Taxation and social security	54,590	73,045
Other creditors	269	171
Accruals and deferred income	367,709	397,878
ACT payable	-	63,250
Proposed dividend	450,000	-
	<u>3,201,898</u>	<u>4,393,879</u>

15 Creditors: amounts falling due after more than one year

	1999 £	1998 £
Obligations under finance leases and hire purchase contracts	<u>25,363</u>	<u>46,639</u>

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	1999 £	1998 £
Within one year	21,276	22,666
In the second to fifth years	25,363	46,639
	<u>46,639</u>	<u>69,305</u>

Notes *(continued)*

16 Provisions for liabilities and charges

	1999 £	1998 £
Warranty provision		
At beginning of year	852,467	251,490
Transfer (to)/from the profit and loss account	(115,566)	600,977
	<hr/>	<hr/>
At end of year	736,901	852,467
	<hr/> <hr/>	<hr/> <hr/>

17 Called up share capital

	1999 £	1998 £
Authorised		
Equity: Ordinary shares of £1 each	1,000,000	1,000,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
Equity: Ordinary shares of £1 each	253,000	253,000
	<hr/> <hr/>	<hr/> <hr/>

18 Reconciliation of movements in shareholders' funds

	Share capital £	Share premium account £	Profit and loss account £	Total £
At beginning of year	253,000	4,070	1,744,929	2,001,999
Retained profit for the year	-	-	(39,229)	(39,229)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	253,000	4,070	1,705,700	1,962,770
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

19 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	1999		1998	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
In the second to fifth years inclusive	-	40,857	-	31,819
Over five years	50,000	-	50,000	-
	<u>50,000</u>	<u>40,857</u>	<u>50,000</u>	<u>31,819</u>

20 Charges

The National Westminster Bank Plc holds a specific charge over cash amounting to £1,221,632 (1998: £745,996) as cover against performance bonds.

21 Contingent liabilities

The company's bankers have provided performance bonds on contracts entered into by the company, up to a total value of £2,022,133 (1998: £1,516,609). In the event of the company's failure to meet its obligations under these contracts, it would be liable to its bankers up to the value of these bonds.

Notes (continued)

22 Analysis of cash flows

	1999 £	1999 £	1998 £	1998 £
Returns on investment and servicing of finance				
Interest received	139,805		218,397	
Interest paid	(340)		(1,326)	
Interest element of hire purchase repayments	(6,389)		(6,389)	
	<u> </u>	133,076	<u> </u>	210,682
		<u> </u>		<u> </u>
Capital expenditure				
Purchase of tangible fixed assets	(33,604)		(56,747)	
Sale of tangible fixed assets	10,632		12,264	
	<u> </u>	(22,972)	<u> </u>	(44,483)
		<u> </u>		<u> </u>
Acquisitions and disposals				
Sale of shares in group companies		2		-
		<u> </u>		<u> </u>
Cash placed on deposit and charged against performance bonds		(364,505)		(163,369)
		<u> </u>		<u> </u>
Financing				
Capital element of hire purchase repayments		(22,666)		(22,666)
		<u> </u>		<u> </u>

23 Analysis of net debt

	At beginning of year £	Cash flow £	Other non cash changes £	At end of year £
Cash at bank and in hand	2,444,725	236,132	-	2,680,857
Debt due within 1 year	(22,666)	22,666	(21,276)	(21,276)
Debt due after 1 year	(46,639)	-	21,276	(25,363)
Current asset investments	909,365	364,505	-	1,273,870
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	3,284,785	623,303	-	3,908,088
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes *(continued)*

25 Ultimate parent company

The company is a subsidiary undertaking of KCC Group Limited, incorporated in England and Wales. The financial statements of KCC Group Limited can be obtained at 91-93 Windmill Road, Sunbury on Thames, Middlesex, TW16 7EF.