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Company Registration No. 2097198 (England and Wales)

PELL FRISCHMANN ENGINEERING LIMITED
DIRECTORS' REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1998

Berg Kaprow Lewis
Chartered Accountants
35 Ballards Lane
London

N3 1XW



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PELL FRISCHMANN ENGINEERING LIMITED

COMPANY INFORMATION

| | |
|--------------------------|--|
| Directors | W W Frischmann CBE S S Prabhu M Ringner |
| Secretary | N W Carmichael |
| Company number | 2097198 |
| Registered office | 5 Manchester Square London W1A 1AU |
| Auditors | Berg Kaprow Lewis Chartered Accountants 35 Ballards Lane London N3 1XW |
| Bankers | Barclays Bank plc Fleet Street Business Centre London |

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PELL FRISCHMANN ENGINEERING LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 1998

The directors present their report and financial statements for the year ended 31 March 1998.

Principal activities

The principal activity of the company during the year was to act as consultant for the design, construction and marketing of oil and gas platforms and of subsea floating production systems.

The continuation of the depressed level of opportunities for new work in the offshore design and engineering sector has been difficult to overcome and the year's outturn generally reflects this situation.

The company has undertaken project management on behalf of the Ministry of Defence of Fire Fighting Training Units for the Royal Navy.

The company will continue to pursue marketing and business opportunities both within the UK and in several overseas markets.

All members of staff employed by the group as a whole were available to any company within the group dependant upon the demand or resources of the constituent company.

Year 2000

The company is implementing the changes necessary to make its accounting and management information systems year 2000 compliant and is confident that this will be completed in time.

Directors

The following directors have held office since 1 April 1997:

W W Frischmann CBE

S S Prabhu

M Ringner

J W Pendered

(Resigned 7 November 1997)

Directors' interests

None of the directors had any beneficial interests in the shares of the company.

Directors interests in ultimate parent undertaking are given in note 16 to the financial statements.

Directors and officers insurance

Directors' and officers' liability insurance has been maintained by the company during the year.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Berg Kaprow Lewis be reappointed as auditors of the company will be put to the Annual General Meeting.

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PELL FRISCHMANN ENGINEERING LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 1998

Directors' responsibilities

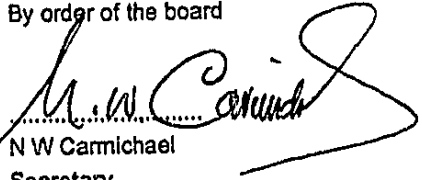
Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

By order of the board



.....
N W Carmichael

Secretary

29 April 1999
.....

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PELL FRISCHMANN ENGINEERING LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS OF PELL FRISCHMANN ENGINEERING LIMITED

We have audited the financial statements on pages 4 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 2 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 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Berg Kaprow Lewis
Berg Kaprow Lewis

Chartered Accountants
Registered Auditor

30th April 1999

Chartered Accountants
35 Ballards Lane
London
N3 1XW

PELL FRISCHMANN ENGINEERING LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 1998

| | | 1998 £ | 1997 £ |
|--|----|-----------|-----------|
| Turnover | | 192,822 | 205,591 |
| Cost of sales | | (233,804) | (195,662) |
| Gross (loss)/profit | | (40,982) | 9,929 |
| Administrative expenses | | (118,453) | (197,828) |
| Other operating income | | 7,800 | 3,938 |
| Operating loss | 2 | (151,635) | (183,961) |
| Other interest receivable and similar income | 3 | 34,300 | 654 |
| Interest payable and similar charges | | - | (208) |
| Loss on ordinary activities before taxation | | (117,335) | (183,515) |
| Tax on loss on ordinary activities | 4 | (4) | (132) |
| Loss on ordinary activities after taxation | 12 | (117,339) | (183,647) |

The profit and loss account has been prepared on the basis that all operations are continuing operations.

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PELL FRISCHMANN ENGINEERING LIMITED

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 1998**

| | 1998 £ | 1997 £ |
|--|------------------|------------------|
| Loss for the financial year | (117,339) | (183,647) |
| Amortisation of intangibles | (10,000) | (10,000) |
| Total recognised gains and losses relating to the year | <u>(127,339)</u> | <u>(193,647)</u> |

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PELL FRISCHMANN ENGINEERING LIMITED

BALANCE SHEET AS AT 31 MARCH 1998

| | Notes | 1998 £ | £ | 1997 £ | £ |
|---|-------|------------------|-----------------------|------------------|-----------------------|
| Fixed assets | | | | | |
| Intangible assets | 5 | | 190,000 | | 200,000 |
| Tangible assets | 6 | | 4,286 | | 5,713 |
| | | | <u>194,286</u> | | <u>205,713</u> |
| Current assets | | | | | |
| Stocks | | | - | 33,995 | |
| Debtors | 7 | 37,203 | | 445,323 | |
| Cash at bank and in hand | | 335,082 | | 704 | |
| | | <u>372,285</u> | | <u>480,022</u> | |
| Creditors: amounts falling due within one year | 8 | <u>(214,724)</u> | | <u>(208,548)</u> | |
| Net current assets | | | <u>157,561</u> | | <u>273,474</u> |
| Total assets less current liabilities | | | <u><u>351,847</u></u> | | <u><u>479,187</u></u> |
| Capital and reserves | | | | | |
| Called up share capital | 11 | | 10,000 | | 10,000 |
| Share premium account | 12 | | 237,599 | | 237,599 |
| Other reserves | 12 | | 190,000 | | 200,000 |
| Profit and loss account | 12 | | (85,752) | | 31,588 |
| Shareholders' funds - equity interests | 13 | | <u><u>351,847</u></u> | | <u><u>479,187</u></u> |

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

The financial statements were approved by the Board on 29 April 1999

W W Frischmann

W W Frischmann CBE
Director

PELL FRISCHMANN ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1998

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

1.2 Turnover

Turnover represents fees receivable and reimbursables for services rendered exclusive of Value Added Tax.

1.3 Know-how

Know-how is amortised over 25 years on a straight line basis.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

| | |
|--------------------------------|----------------------|
| Computer equipment | 25% Straight line |
| Fixtures, fittings & equipment | 25% Reducing balance |
| Motor vehicles | 25% Reducing balance |

1.5 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.6 Stock and work in progress

Work in progress is valued at the cost of direct labour and recoverable charges plus attributable overheads based on normal level of activity, or net realisable value if lower.

Net realisable value is based on estimated selling price less further costs to completion, marketing, selling and distribution.

1.7 Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with SSAP 24.

1.8 Deferred taxation

Deferred taxation is provided at appropriate rates on all timing differences using the liability method only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

PELL FRISCHMANN ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1998

| | | | |
|---|---|-------------------|-------------------|
| 2 | Operating loss | 1998 | 1997 |
| | | £ | £ |
| | Operating loss is stated after charging: | | |
| | Depreciation of tangible assets | 1,427 | 1,900 |
| | Operating lease rentals | 19,850 | 79,650 |
| | Auditors' remuneration | 7,800 | 7,500 |
| | Directors' emoluments | 16,348 | 57,548 |
| | | <u> </u> | <u> </u> |
| <p>The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (1997 - 1).</p> | | | |
| 3 | Other interest receivable and similar income | 1998 | 1997 |
| | | £ | £ |
| | Bank interest | 34,300 | 654 |
| | | <u> </u> | <u> </u> |
| 4 | Taxation | 1998 | 1997 |
| | | £ | £ |
| | Prior years | | |
| | U.K. corporation tax | 4 | 132 |
| | | <u> </u> | <u> </u> |
| 5 | Intangible fixed assets | | Know how |
| | | | £ |
| | Cost | | |
| | At 1 April 1997 & at 31 March 1998 | | 250,000 |
| | | | <u> </u> |
| | Amortisation | | |
| | At 1 April 1997 | | 50,000 |
| | Charge for year | | 10,000 |
| | | | <u> </u> |
| | At 31 March 1998 | | 60,000 |
| | | | <u> </u> |
| | Net book value | | |
| | At 31 March 1998 | | 190,000 |
| | | | <u> </u> |
| | At 31 March 1997 | | 200,000 |
| | | | <u> </u> |

PELL FRISCHMANN ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1998

6 Tangible fixed assets

| | Computer equipment | Fixtures, fittings & equipment | Motor vehicles | Total |
|------------------------------------|-----------------------|--------------------------------------|-------------------|---------|
| | £ | £ | £ | £ |
| Cost | | | | |
| At 1 April 1997 & at 31 March 1998 | 41,439 | 42,227 | 19,631 | 103,297 |
| Depreciation | | | | |
| At 1 April 1997 | 41,439 | 38,415 | 17,730 | 97,584 |
| Charge for the year | - | 953 | 474 | 1,427 |
| At 31 March 1998 | 41,439 | 39,368 | 18,204 | 99,011 |
| Net book value | | | | |
| At 31 March 1998 | - | 2,859 | 1,427 | 4,286 |
| At 31 March 1997 | - | 3,812 | 1,901 | 5,713 |

7 Debtors

| | 1998 £ | 1997 £ |
|---|---------------|----------------|
| Amounts owed by group undertakings and undertakings in which the company has a participating interest | 16,142 | 347,496 |
| Other debtors | 21,061 | 97,827 |
| | <u>37,203</u> | <u>445,323</u> |

8 Creditors: amounts falling due within one year

| | 1998 £ | 1997 £ |
|---|----------------|----------------|
| Bank loans and overdrafts | - | 3,231 |
| Trade creditors | 24,388 | 28,712 |
| Amounts owed to group undertakings and undertakings in which the company has a participating interest | 109,948 | 100,612 |
| Taxation and social security | 2,376 | 21,005 |
| Other creditors | 78,012 | 52,988 |
| | <u>214,724</u> | <u>206,548</u> |

The bank overdraft is secured by a cross guarantee and debenture in favour of Barclays Bank plc by certain undertakings within the group to secure bank borrowings of each other.

PELL FRISCHMANN ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1998

9 Provisions for liabilities and charges

Deferred tax is provided at 21% (1997 - 24%) analysed over the following timing differences:

| | 1998 | Not provided 1997 | 1998 | Provided 1997 |
|--------------------------------|----------|----------------------|------|------------------|
| | £ | £ | £ | £ |
| Accelerated capital allowances | (39,175) | (46,600) | - | - |

10 Pension costs

The 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 pension cost charge represents contributions payable by the company to the fund and amounted to £9,137 (1997 - £20,403). Contributions totalling £nil (1997 - £2,476) were payable to the fund at the year end and are included in creditors.

11 Share capital

| | 1998 £ | 1997 £ |
|--|-----------|-----------|
| Authorised | | |
| 10,000 Equity interests: Ordinary shares of £ 1 each | 10,000 | 10,000 |
| Allotted, called up and fully paid | | |
| 10,000 Equity interests: Ordinary shares of £ 1 each | 10,000 | 10,000 |

12 Statement of movements on reserves

| | Share premium account £ | Other reserves £ | Profit and loss account £ |
|----------------------------|----------------------------------|------------------------|---------------------------------|
| Balance at 1 April 1997 | 237,599 | 200,000 | 31,587 |
| Retained loss for the year | - | - | (117,339) |
| Movement during the year | - | (10,000) | - |
| Balance at 31 March 1998 | 237,599 | 190,000 | (85,752) |

PELL FRISCHMANN ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1998

| 13 Reconciliation of movements in shareholders' funds | 1998 £ | 1997 £ |
|---|-----------|-----------|
| Loss for the financial year | (117,339) | (183,647) |
| Movements on other reserves | (10,000) | (10,000) |
| Net depletion in shareholders' funds | (127,339) | (193,647) |
| Opening shareholders' funds | 479,187 | 672,834 |
| Closing shareholders' funds | 351,847 | 479,187 |

14 Contingent liabilities

a) The company's bankers have the right to set off cash at bank against the borrowings of certain group undertakings.

b) There are unquantified contingent liabilities in the normal course of business arising under engineering contracts and the company is covered by professional indemnity insurance in respect of any claims.

15 Financial commitments

At 31 March 1998 the company had annual commitments under non-cancellable operating leases as follows:

| | Land and buildings 1998 £ | 1997 £ |
|------------------------------------|---------------------------------|-----------|
| Expiry date: In over five years | 79,750 | 79,750 |

16 Control

W W Frischmann and S S Prabhu were directors of Pell Frischmann Group Ltd, and details of their interests in shares of that company are disclosed in its report and financial statements. No other directors of this company had any interests in the shares of any of the Pell Frischmann group of companies.

The ultimate parent undertaking is Pell Frischmann Group Ltd, a company incorporated in England and Wales, which is the only company within the group which prepares group financial statements.

Copies of the group financial statements of Pell Frischmann Group Ltd can be obtained from Mr N W Carmichael, the company secretary, at the following address -

5 Manchester Square, London W1A 1AU, Tel. 0171 486 3661.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1998

17 Related party transactions

The company has taken advantage of the exemptions conferred by Financial Reporting Standard No 8 in respect of disclosure of transactions with other group undertakings

During the year the company provided engineering services to the value of £92,740 (1997: £239,796) to Hawk Development Management Plc, an associated undertaking of the group. The amount owed by this company at 31 March 1998 was £nil (1997: £331,354)