

SBS LOGISTICS LIMITED
(formerly Shetland Base Services Limited)

DIRECTORS' REPORT

31 December 1998

The directors submit their report and the audited financial statements for the year ending 31 December 1998.

Principal activity

The principal activity of the company is that of logistics services to industry, principally the offshore oil industry.

Business review

In the opinion of the directors the annexed accounts give a fair review of the development of the business during the year and of its position at the end of the year.

Results and dividends

The result for the year are shown in the profit and loss account on page 3.

Post balance sheet event

The directors have changed the company's name to SBS Logistics Limited. This took place on 4 March 1999.

Year 2000 compliance

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

The company is well advanced in the phase of assessing the risks to our business resulting from the date change to the year 2000. We are in the process of assessing the likely impact on our activities and developing prioritised action plans to deal with the key risks.

Directors

The directors of the company at 31 December 1998 and their interest in the shares of the company as recorded in the register of directors' interest were as follows:

**31 December
1997 and 1998**

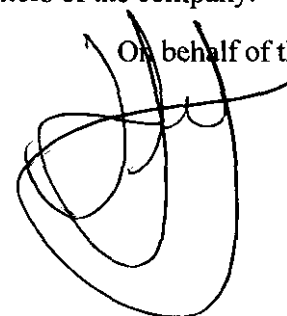
K Fletcher
S B Tulloch
J Young
D Hitchin (appointed 10 December 1998)

-
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-
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Auditors

Kidsons Impey have agreed to offer themselves for re-appointment as auditors of the company.

On behalf of the board



J Young
Director

Lerwick

23 April 1999

SBS LOGISTICS LIMITED
(formerly Shetland Base Services Limited)

Auditors' report to SBS Logistics Limited
under section 247b to the Companies Act 1985

We have examined the abbreviated financial statements set out on pages 3 to 10 together with the financial statements of the company for the year ended 31 December 1998 prepared under section 226 of the Companies Act 1985.

Respective responsibilities of directors and auditors

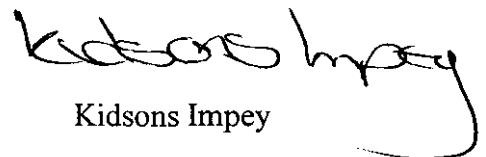
The directors are responsible for preparing the abbreviated financial statements in accordance with section 246A of the Companies Act 1985. It is our responsibility to form an independent opinion as to whether the company is entitled to deliver abbreviated financial statements prepared in accordance with sections 246A(3) of the Act to the Registrar of Companies and whether the financial statements to be delivered are properly prepared in accordance with those provisions and to report our opinion to you.

Basis of opinion

We have carried out the procedures we considered necessary to confirm, by reference to the financial statements, that the company is entitled to deliver abbreviated financial statements and that the abbreviated financial statements to be delivered are properly prepared. The scope of our work for the purpose of this report does not include examining or dealing with events after the date of our report on the full financial statements.

Opinion

In our opinion the company is entitled to deliver abbreviated financial statements prepared in accordance with 246A(3) of the Companies Act 1985 and the abbreviated financial statements on pages 3 to 10 are prepared in accordance with those provisions.



Kidsons Impey

Registered Auditors

Chartered Accountants

Lerwick

23 April 1999

SBS LOGISTICS LIMITED
(formerly Shetland Base Services Limited)

ABBREVIATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1998

	Note	1998 £000	1997 £000
Gross profit		805	686
Administrative expenses		(625)	(388)
		—	—
Operating profit	2	180	298
Investment income	4	24	2
Interest payable	5	(9)	-
		—	—
Profit on ordinary activities before taxation		195	300
Taxation	6	21	-
		—	—
Retained profit for the financial year	15	216	300
		==	==

There are no recognised gains and losses other than the gains and losses for the year shown above.

SBS LOGISTICS LIMITED
(formerly Shetland Base Services Limited)

ABBREVIATED BALANCE SHEET

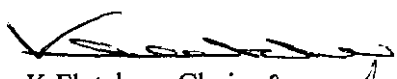
at 31 December 1998

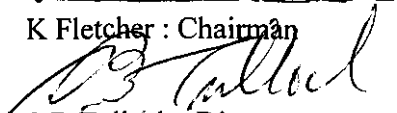
	Note	1998 £000	1997 £000
Fixed assets			
Tangible assets	7	1,766	1,059
Investments	8	21	-
		<u>1,787</u>	<u>1,059</u>
Current assets			
Stocks	9	21	25
Debtors	10	2,707	2,733
Cash at bank and in hand		301	276
		<u>3,029</u>	<u>3,034</u>
Creditors: amounts falling due within one year	11	(999)	(734)
		<u>2,030</u>	<u>2,300</u>
Total assets less current liabilities		<u>3,817</u>	<u>3,359</u>
Creditors: amounts falling due after one year	12	(242)	-
		<u>3,575</u>	<u>3,359</u>
Capital and reserves (equity)			
Called up share capital	14	3,059	3,059
Profit and loss account	15	516	300
		<u>3,575</u>	<u>3,359</u>
Total shareholders' funds	16	<u>3,575</u>	<u>3,359</u>

The financial statements on pages 3 to 10 were approved by the board of directors on 23 April 1999

These financial statements are prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to medium-sized companies.

On behalf of the board


K Fletcher : Chairman


S B Tullóch : Director

SBS LOGISTICS LIMITED
(formerly Shetland Base Services Limited)

NOTES ON ABBREVIATED FINANCIAL STATEMENTS

31 December 1998

1. Principal accounting policies

Basis of accounting

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

The company is entitled for the year ended 31 December 1998 to the exemptions conferred by S248 of the Companies Act 1985 from the requirement to prepare group accounts.

Depreciation

Depreciation of fixed assets is charged by equal annual instalments commencing with the month after acquisition at rates estimated to write off their cost or valuation less any residual value over the expected useful lives which are as follows:

Leasehold buildings	10 -36 years
Plant & equipment	5 - 20 years
Motor cars	3 - 5 years

Leases and hire purchase contracts

Tangible fixed assets acquired under finance leases and hire purchase contracts are capitalised at the estimated fair value at date of inception of each lease or contract. The total finance charges are allocated over the period of the lease in such a way as to give a reasonably constant charge on the outstanding liability.

Rentals paid under operating leases are charged to income as incurred.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is computed on a first in first out basis. Net realisable value is based on estimated selling price less the estimated cost of disposal.

Deferred taxation

Deferred taxation is provided in respect of the taxation effect of all timing differences to the extent that tax liabilities are likely to crystallise in the foreseeable future.

Foreign currencies

Transactions expressed in foreign currencies are translated into sterling and recorded at rates of exchange approximating to those ruling at the date of the transaction. Monetary assets and liabilities are translated at rates ruling at the balance sheet date. All differences are taken to the profit and loss account.

Pensions

Pension costs for the defined benefit pension scheme is charged to trading profit so as to spread costs over the expected service lives of the employees in the schemes using the projected unit method. Variations from the regular cost are spread over the expected remaining service lives of current employees in the schemes. For defined contribution schemes, costs are charged to profit as incurred.

SBS LOGISTICS LIMITED
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NOTES ON ABBREVIATED FINANCIAL STATEMENTS

31 December 1998
(continued)

2.	Operating profit	1998	1997
		£000	£000
	Operating profit is stated after charging:		
	Staff and workforce costs (note 3)	<u>1,002</u>	<u>1,017</u>
	Auditors' remuneration	<u>5</u>	<u>5</u>
	Operating leases - plant and machinery	<u>11</u>	<u>14</u>
	Land and buildings rent	<u>19</u>	<u>36</u>
	Depreciation of tangible fixed assets		
	- Owned assets	71	303
	- Assets held under finance leases } see note 7		
	and hire purchase contracts }	12	-
		<u>83</u>	<u>303</u>
	The total amount charged against profits in respect of finance leases and hire purchase constraints is of which part is shown as depreciation and the balance is shown as interest payable in note 5.	<u>21</u>	<u>-</u>
3.	Directors and employees		
	Staff and workforce costs including directors' emoluments		
	Wages and salaries	906	930
	Social security costs	85	87
	Pension costs	11	-
		<u>1,002</u>	<u>1,017</u>
	Average number employed including executive directors	Number	Number
	Base services	45	49
		<u>£000</u>	<u>£000</u>
	Directors		
	Directors' remuneration	<u>7</u>	<u>Nil</u>

SBS LOGISTICS LIMITED
(formerly Shetland Base Services Limited)

NOTES ON ABBREVIATED FINANCIAL STATEMENTS

31 December 1998
(continued)

4.	Investment income			1998 £000	1997 £000
	Other interest receivable			24 ==	2 ==
5.	Interest payable				
	Finance leases and hire purchase contracts			9 ==	- ==
6.	Taxation				
	Corporation tax on profit on ordinary activities			(21)	165
	Subvention by parent company			- —	(165) —
				(21) ==	- ==
7.	Tangible fixed assets				
		Land and buildings £000	Plant, equipment and vehicles £000	Motor cars £000	Total £000
	Cost				
	31 December 1997	883	2,152	12	3,047
	Additions	35	695	60	790
	Disposals	(21)	(136)	-	(157)
		—	—	—	—
	31 December 1998	897	2,711	72	3,680
	Depreciation				
	31 December 1997	376	1,604	8	1,988
	Charge for the year	19	59	5	83
	Disposals	(21)	(136)	-	(157)
		—	—	—	—
	31 December 1998	374	1,527	13	1,914
	Net book amount				
	31 December 1998	523 ==	1,184 ==	59 ==	1,766 ==
	31 December 1997	507 =	548 =	4 =	1,059 =

The net book amount includes £575,523 (1997 - Nil) in respect of assets held under finance leases and hire purchase contracts, the depreciation of which is shown in note 2.

SBS LOGISTICS LIMITED
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NOTES ON ABBREVIATED FINANCIAL STATEMENTS

31 December 1998

(continued)

7. Tangible fixed assets (continued)

Land and buildings	1998	1997
	£000	£000
Long leasehold	523	507
	<u> </u>	<u> </u>
Future capital commitments		
Other contracts	67	30
	<u> </u>	<u> </u>

8. Fixed assets investment

Related undertakings

Marshall Logistics Limited	21	-
	<u> </u>	<u> </u>

a company registered in Scotland, in which the company holds 20,000 ordinary shares out of a total issued share capital of 20,000 ordinary £1 shares, at cost.

9. Stocks

Work in progress	2	6
Consumables	19	19
	<u> </u>	<u> </u>
	21	25
	<u> </u>	<u> </u>

10. Debtors

	1998	1997
	£000	£000
Amounts falling due within one year		
Trade debtors	473	580
Due from parent company	1,983	1,955
Due from related undertakings	15	-
Other debtors	128	100
Prepayments and accrued income	108	98
	<u> </u>	<u> </u>
	2,707	2,733
	<u> </u>	<u> </u>

There are no debtors falling due after more than one year.

SBS LOGISTICS LIMITED
(formerly Shetland Base Services Limited)

NOTES ON ABBREVIATED FINANCIAL STATEMENTS

31 December 1998
(continued)

	1998 £000	1997 £000
11. Creditors: amounts falling due within one year		
Bank loans and overdrafts	68	-
Trade creditors	204	116
Other taxation and social security	25	53
Finance leases and hire purchase contracts	59	-
Other creditors	16	86
Accruals and deferred income	627	479
	<u>999</u>	<u>734</u>

Bank loans and overdrafts are secured by a bond and floating charge over the company assets for all sums due.

12. Creditors: amounts falling due after one year	1998 £000	1997 £000
Finance leases and hire purchase contracts	<u>242</u>	<u>-</u>

13. Deferred taxation	1998		1997	
	Potential liability £000	Provision made £000	Potential liability £000	Provision made £000
Corporation tax deferred by				
Capital allowances	<u>196</u>	<u>-</u>	<u>74</u>	<u>-</u>

14. Called up share capital	1997 & 1998	
	Number of shares 000's	£000
Authorised		
Ordinary shares of £1 each	<u>3,059</u>	<u>3,059</u>
Allotted, called up and fully paid		
Ordinary shares of £1 each	<u>3,059</u>	<u>3,059</u>
The above shares were issued at their nominal value.		

15. Profit and loss account	£000
31 December 1997	300
Retained profit for the year	216
	<u>516</u>
31 December 1998	<u>516</u>

SBS LOGISTICS LIMITED
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NOTES ON ABBREVIATED FINANCIAL STATEMENTS

31 December 1998
(continued)

16.	Reconciliation of shareholders' funds	1998 £000	1997 £000
	Profit for the financial year	216	300
	Opening shareholders funds	3,359	3,059
		<hr/>	<hr/>
	Closing shareholders' funds	<u>3,575</u>	<u>3,359</u>

17. **Guarantees and other financial commitments**

Financial commitments under non-cancellable operating leases will result in the following payments falling due in the year to 31 December 1999.

	1998		1997	
	Land and Buildings £000	Other £000	Land and buildings £000	Other £000
Expiring:				
Within one year	-	-	-	9
Within one to five years	-	10	-	13
After five years	14	-	36	-
	<hr/>	<hr/>	<hr/>	<hr/>
	14	10	36	22
	<u>14</u>	<u>10</u>	<u>36</u>	<u>22</u>

There are cross letters of guarantee including letters of offset between SBS Logistics Limited and SBSL Holdings Limited.

18. **Ultimate parent company**

The company's ultimate parent undertaking is SBSL Holdings Limited, a company incorporated in Scotland.

19. **Post balance sheet event**

Since the year end the company's directors have changed the name of the company to SBS Logistics Limited.

20. **Related party transactions**

During the year the company sold services to SBS Holdings Limited amounting to £139,108. During the year the company purchased services from SBS Holdings Limited amounting to £260,000. During the year the company purchased services from Marshall Logistics Limited amounting to £15,000.