

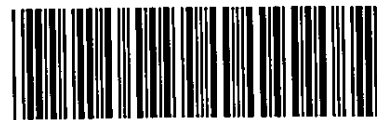
Hydrasun Acquisitions Limited

**Directors' report and financial
statements**

Registered number 06338822

31 March 2010

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Officers and professional advisers

Directors

G J Doherty
R S Drummond
R McAlpine

Secretary

G J Doherty

Registered office

McGrigors
5 Old Bailey
London
EC4M 7BA

Bankers

Barclays Bank Plc
Union Plaza
Union Wynd
Aberdeen
AB10 1SL

Solicitors

Paul & Williamsons
Union Plaza
Union Wynd
Aberdeen
AB10 1SL

Auditors

KPMG LLP
37 Albyn Place
Aberdeen
AB10 1JB

Directors' report

The directors present their directors' report and financial statements for the year ended 31 March 2010

Principal activities

The company's principal activity is to act as an intermediate holding company

Results and dividends

Hydrasun Acquisitions Limited recorded an operating profit of £119,000 for the financial year (2009 *Operating Loss of £99,000*) The loss for the financial year was £3,485,000 (2009 *£5,017,000*) The directors do not recommend the payment of a dividend (2009 *£nil*)

Directors

The directors who held office during the year were as follows

G J Doherty
R S Drummond
R McAlpine

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

KPMG LLP were appointed as auditors during the year Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office

By order of the board



R S Drummond
Director

Hydrasun House
392 King Street
Aberdeen
AB23 3BU

16 July 2010

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.



KPMG LLP

37 Albyn Place
Aberdeen
AB10 1JB
United Kingdom

Independent auditors' report to the members of Hydrasun Acquisitions Limited

We have audited the financial statements of Hydrasun Acquisitions Limited for the year ended 31 March 2010 set out on pages 5 to 14. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its loss for the year then ended
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.


D. MacAskill (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

16 July 2010

Profit and Loss Account
for the year ended 31 March 2010

	<i>Note</i>	2010 £000	2009 £000
Administrative expenses (including exceptional credit of £134,000 (2009 £nil))		119	(99)
Operating profit (loss)		119	(99)
Interest receivable and similar income	5	659	1,221
Interest payable and similar charges	6	(4,263)	(6,139)
Loss on ordinary activities before taxation	2-4	(3,485)	(5,017)
Tax on loss on ordinary activities	7	-	-
Loss for financial year		(3,485)	(5,017)

The company had no recognised gains or losses other than the results for the financial years reported above

All activities relate to continuing operations

The movement in reserves is set out in note 13

Balance Sheet
at 31 March 2010

	<i>Note</i>	2010	2009
		£000	£000
Fixed assets			
Investments	8	54,898	54,764
Current assets			
Debtors (including £17,142,000 (2009 £16,482,000) due after more than one year)	9	17,142	16,482
Creditors amounts falling due within one year	10	(2,093)	(350)
Net current assets		15,049	16,132
Total assets less current liabilities		69,947	70,896
Creditors amounts falling due after more than one year	11	(80,960)	(78,424)
Net liabilities		(11,013)	(7,528)
Capital and reserves			
Called up share capital	12	-	-
Profit and loss account	13	(11,013)	(7,528)
Shareholder's deficit	14	(11,013)	(7,528)

These financial statements were approved by the board of directors on 16 July 2010 and were signed on its behalf by



R S Drummond
Director

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 in accordance with applicable accounting standards and under the historical cost accounting rules

At 31 March 2010 the company has net liabilities of £11.0M (2009 £7.5M). The ultimate parent company, Hydrasun Holdings Limited, has confirmed that it will provide the necessary support to enable the company to meet its obligations and liabilities as they fall due in the next 12 months. Having considered forecast results, the directors expect the Hydrasun Holdings Limited group to be profitable and cash generative in the foreseeable future.

Having considered the foregoing, the directors have a reasonable expectation in that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own publically available financial statements.

As the Company is a wholly owned subsidiary of Hydrasun Holdings Limited the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the group.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Investments

Investments in subsidiary undertakings are stated at cost less amounts written off.

Impairment of fixed assets

The carrying amounts of the Group's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account unless it arises on a previously revalued fixed asset. An impairment loss on a revalued fixed asset is recognised in the profit and loss account if it is caused by a clear consumption of economic benefits. Otherwise impairments are recognised in the statement of total recognised gains and losses until the carrying amount reaches the asset's depreciated historic cost.

Impairment losses recognised in respect of income-generating units are allocated first to reduce the carrying amount of any goodwill allocated to income-generating units, then to any capitalised intangible asset and finally to the carrying amount of the tangible assets in the unit on a pro rata or more appropriate basis. An income generating unit is the smallest identifiable group of assets that generates income that is largely independent of the income streams from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount of fixed assets is the greater of their net realisable value and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the income-generating unit to which the asset belongs.

Notes (continued)

1 Accounting policies (continued)

Reversals of impairment

For fixed assets where the recoverable amount increases as a result of a change in economic conditions or in the expected use of the asset then the resultant reversal of the impairment loss is recognised in the current period

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholder's funds) only to the extent that they meet the following two conditions

- a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

Dividends on shares presented within shareholder's funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period

Derivative instruments

The company uses derivative financial instruments to reduce the exposure to interest rate movements. The company does not hold or use derivative financial instruments for speculative purposes

For an interest rate swap to be treated as a hedge the interest must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting new interest payable over the periods of the contracts

Derivative financial instruments are not fair valued at the balance sheet date and the resultant gains and losses are recognised in the profit and loss account on settlement

Notes (continued)

2 Notes to the profit and loss account

2010	2009
£000	£000

Profit on ordinary activities before taxation is stated after charging

Auditors' remuneration – audit of these financial statements	2	2
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Auditors' remuneration in the current and prior year was borne by another group company, Hydrasun Holdings Limited

The exceptional credit of £134 000 (2009 – £nil) to administrative expenses is in respect of the write back of equity issue costs which were incorrectly written off in prior years

3 Remuneration of directors

Directors' remuneration in both the current and prior years was borne by another group company

4 Staff numbers and costs

The company had no employees in the current and prior years

5 Interest receivable and similar income

2010	2009
£000	£000

Interest on loan to group undertaking	659	1,221
	<hr/>	<hr/>

6 Interest payable and similar charges

2010	2009
£000	£000

Bank loan	2,111	2,747
Amortisation of debt issue costs	329	325
Interest on loan from group undertaking	1,823	3,067
	<hr/>	<hr/>
	4,263	6,139
	<hr/>	<hr/>

Notes (continued)

7 Taxation

Analysis of charge in year

	2010 £000	2009 £000
<i>UK corporation tax</i>		
Current tax on income for the year	-	-
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Tax on loss on ordinary activities	-	-
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Factors affecting the tax charge for the current year

The current tax charge for the year is higher (2009 higher) than the standard rate of corporation tax in the UK 28% (2009 28%). The differences are explained below

	2010 £000	2009 £000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(3,485)	(5,017)
	<hr/>	<hr/>
Current tax at 28% (2009 28%)	(976)	(1,405)
	<hr/>	<hr/>
<i>Effects of</i>		
Intercompany interest not deductible for tax purposes	430	542
Income not taxable	(37)	-
Group relief surrendered for nil consideration	583	863
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Total current tax charge (see above)	-	-
	<hr/>	<hr/>

Notes (continued)

8 Investments

	Shares in subsidiary undertakings £000
<i>Cost</i>	
At beginning of year	54,764
Reversal of amounts written off in prior years	134
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At end of year	54,898
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£134,000 of equity issue costs, incorrectly written off in prior years, have been written back in the current year

Company	Country of incorporation and operation	Activity	Proportion of ordinary shares held
Hydrasun Group Limited	Scotland	Hydraulic equipment manufacture, supply and associated services	100%
Hydrasun Limited	Scotland	Hydraulic equipment manufacture, supply and associated services	100%
Hydrasun Rapid Solutions Limited*	Scotland	Hydraulic equipment manufacture, supply and associated services	60%
Hydrasun Instrumentation BV*	Netherlands	Hydraulic equipment distribution	100%
Hydrasun (Caspian Sea) Limited*	Scotland	Hydraulic equipment supply and associated services in the Caspian region	100%
Hydrasun AMC Limited*	Scotland	Research and development of innovative subsea products	100%
Hydrasun IFP Limited*	Scotland	Hydraulic engineering services	100%
Hydrasun Kazakhstan LLP*	Kazakhstan	Hydraulic equipment manufacture, supply and associated services	100%
Highland Components Limited*	Scotland	Dormant	100%
Valves & Controls – Scotland Limited*	Scotland	Dormant	100%

* Held by subsidiary

Notes (continued)

9 Debtors

	2010 £000	2009 £000
Amounts owed by group undertakings	17,142	16,482

Debtors include amounts owed by group undertakings of £17,142,000 (2009 £16,482,000) due after more than one year. Interest is charged on amounts owed by group undertakings.

10 Creditors: amounts falling due within one year

	2010 £000	2009 £000
Bank loan (note 11)	2,093	350

Interest is charged on amounts owed to group and parent undertakings.

11 Creditors: amounts falling due after more than one year

	2010 £000	2009 £000
Bank loans	32,205	34,555
Amounts owed to parent company	39,905	38,367
Amounts owed to group undertakings	8,850	5,502
	80,960	78,424

	2010 £000	2009 £000
Debt which comprises bank loans can be analysed as falling due		
Within one year	2,418	650
In the second to fifth year	13,572	12,925
After more than five years	19,850	23,175
	35,840	36,750
Unamortised finance costs due within one year	(325)	(300)
Unamortised finance costs due in the second to fifth year	(1,217)	(1,185)
Unamortised finance costs due after more than five years	-	(360)
	34,298	34,905

The original term loan facility 'A' amounts to £18,000,000 and original loan facility 'B' amounts to £20,000,000. Loan facility 'A' is repayable in half yearly instalments on 30 June and 31 December each year, concluding on 31 December 2014. Loan facility 'B' is repayable in full on 31 December 2015.

The loan facilities bear interest at rates of 2% (A facility) and 2.5% (B facility) above LIBOR and are secured by certain of the group's property, plant and machinery and a floating charge over the assets of the group.

Debt issue costs incurred, initially amounting to £2,138,000 are being amortised over 86.5 months to 31 December 2014, being the loan facility 'A' final repayment date.

Notes (continued)

12 Called up share capital

	2010 £	2009 £
<i>Allotted, called up and fully paid</i>		
2 Ordinary shares of £1 each	2	2

13 Reserves

	Profit and loss account £000
At 1 April 2009	(7,528)
Loss for the financial year	(3,485)
At 31 March 2010	(11,013)

14 Reconciliation of movements in shareholder's deficit

	2010 £000	2009 £000
Loss for the financial year	(3,485)	(5,017)
Net increase in shareholder's deficit	(3,485)	(5,017)
Opening shareholder's deficit	(7,528)	(2,511)
Closing shareholder's deficit	(11,013)	(7,528)

15 Derivatives not included at fair value

The company has derivatives which are not included at fair value in the financial statements

	Principal £000	Expiry	2010 Fair value asset (liability) £000	2009 Fair value asset (liability) £000
Interest rate swap	20,000	31 March 2011	(828)	(1,416)
Interest rate cap	5,000	31 March 2011	-	1

The company uses an interest rate cap and an interest rate swap to manage its exposure to interest rate movements on bank borrowings

Notes *(continued)*

16 Contingent liabilities

The company has provided cross guarantees in the form of a floating charge over the assets of the company to its bankers in respect of borrowings of all UK incorporated subsidiaries of Hydrasun Holdings Limited, the company's ultimate parent undertaking. The contingent liability to the group and company at 31 March 2010 amounted to £27,919,000 (2009 £33,949,000)

17 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of Hydrasun Holdings Limited which is the ultimate parent company incorporated in the United Kingdom

The largest group in which the results of the company are consolidated is that headed by Hydrasun Holdings Limited. The consolidated financial statements of Hydrasun Holdings Limited are available to the public and may be obtained from Companies House, Crown Way, Mandy, Cardiff, CF14 3UZ

No other group accounts include the results of the company