REGISTRAR'S COPY

The Lindsay Group Limited

Report and Accounts

31 December 1998

Registered Number: SC 028523

ERNST & YOUNG

DIRECTORS AND ADVISERS

DIRECTORS
D G Lindsay (Chairman and Managing Director)
B J Cloughley
D J L Hardie
Mrs P E Lindsay
A J Thomson

SECRETARY
D J L Hardie

AUDITORS
Ernst & Young
George House
50 George Square
Glasgow
G2 1RR

BANKERS
Bank of Scotland
Park House
Park Circus
Glasgow
G3 6AN

SOLICITORS
Jeffrey Aitken Solicitors
Inter-City House
80 Oswald Street
Glasgow
G1 4PU

REGISTERED OFFICE
133 Lancefield Street
Glasgow
G3 8HZ

COMPANY REGISTRATION NUMBER
SC 028523

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 1997.

RESULTS AND DIVIDENDS
The profit for the year, after taxation, amounted to £692,681.

Interim dividends, amounting to £37,800, were paid during the year. The directors propose a final dividend of £Nil. This makes total dividends of £37,800 which leaves profits of £654,881 to be retained and carried forward.

PRINCIPAL ACTIVITY
The principal activity of the company continues to be contracting services.

REVIEW OF THE BUSINESS
Turnover has decreased by 7%, however the directors are particularly pleased that they have been able to achieve a slightly better margin from last year. The directors are confident that the profit margin will again be maintained or even improved.

DIRECTORS AND THEIR INTERESTS
All of the directors listed on page 1 held office throughout the year under review.

According to the register maintained as required by the Companies Act 1985 the interests of the directors in the ordinary £1 shares of the company were as follows:

	At 31 December 1998		*At 1 January 1998*	
	Beneficial	*As Trustee*	*Beneficial*	*As Trustee*
D G Lindsay	4,750	-	4,750	561
B J Cloughley	-	-	-	-
D J L Hardie	-	-	-	-
Mrs P E Lindsay	689	-	689	311
A J Thomson	-	-	-	-

In accordance with Article 23, all of the directors other than the chairman and managing director, Mr D G Lindsay, fall to retire at the annual general meeting and, being eligible, each offers himself or herself for re-appointment. A resolution proposing the re-appointment of the directors will be put to the members at the annual general meeting.

YEAR 2000
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.

A company-wide programme, designed to address the impact of the Year 2000 on our business, has been commissioned by the Board and is under way. Resources have been allocated and the Board receives regular reports on progress.

YEAR 2000 (continued)
A significant risk analysis has been performed to determine the impact of the issue on all our activities. From this, prioritised action plans have been developed which are designed to address the key risks in advance of critical dates and without disruption to the underlying business processes. Priority is given to those systems which could cause a significant financial or legal impact on the company's business if they were to fail. The plan also includes a requirement for the testing of systems changes, involving the participation of users.

The risk analysis also considers the impact on our business of Year 2000 related failures by our significant suppliers (including computer bureaux) and customers. In appropriate cases we have initiated formal communication with these other parties.

Given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 problems will remain, because at least some level of failure may still occur. However, the Board believes that it will achieve an acceptable state of readiness and has also provided resources to deal promptly with significant subsequent failures or issues that might arise.

No material costs have been incurred to date or are expected in the future.

POLITICAL AND CHARITABLE CONTRIBUTIONS
During the year the company made various charitable contributions totalling £4,500.

DISABLED EMPLOYEES
The company gives full consideration to applications for employment from disabled persons where the requirement of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

HEALTH AND SAFETY
The directors are pleased that the company has achieved the 5 Star Award of the British Safety Council on several sites. The loss control decisions involved have resulted in savings of both human and financial resources.

AUDITORS
Ernst & Young have intimated that they are not seeking re-appointment as auditors at the Annual General Meeting.

By order of the board

D J L Hardie
Secretary

17 February 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF ACCOUNTS

Company law requires the directors to prepare accounts 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 accounts, 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 accounts 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 accounts 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.

ERNST & YOUNG

REPORT OF THE AUDITORS
to the members of The Lindsay Group Limited

We have audited the accounts on pages 6 to 18, which have been prepared under the historical cost convention as modified by the revaluation of freehold land and buildings and on the basis of the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Ernst & Young
Registered Auditor
Glasgow

17 February 1999

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1998

	Notes	*1998* £	*1997* £
TURNOVER	2	10,795,169	11,581,218
Cost of sales		(7,373,715)	(8,084,984)
GROSS PROFIT		3,421,454	3,496,234
Distribution costs		(532,734)	(598,072)
Administrative expenses		(1,921,439)	(1,868,294)
OPERATING PROFIT	3	967,281	1,029,868
Interest payable	6	(567)	(13,056)
Interest receivable		24,476	4,000
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		991,190	1,020,812
Tax on profit on ordinary activities	7	(298,509)	(326,216)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	16	692,681	694,596
Dividends	8/16	(37,800)	(75,600)
RETAINED PROFIT FOR THE YEAR		654,881	618,996

RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the profit attributable to shareholders of the company of £692,681 in the year ended 31 December 1998 and of £694,596 in the year ended 31 December 1997.

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	1998 £	*1997* £
Reported profit on ordinary activities before taxation	991,190	1,020,812
Additional depreciation on revalued assets	4,267	4,267
Historical cost profit on ordinary activities before taxation	995,457	1,025,079
Historical cost profit retained after taxation and dividends	659,148	623,263

BALANCE SHEET
at 31 December 1998

	Note	1998 £	1997 £
FIXED ASSETS			
Tangible assets	9	2,377,526	2,175,164
Investments	10	2	1
		2,377,528	2,175,165
CURRENT ASSETS			
Stocks	11	147,999	132,498
Debtors	12	2,477,753	1,902,855
Cash at bank and in hand	17	118,270	106,260
		2,744,022	2,141,613
CREDITORS - amounts falling due within one year	13	(2,020,399)	(1,322,880)
NET CURRENT ASSETS		723,623	818,733
TOTAL ASSETS LESS CURRENT LIABILITIES		3,101,151	2,993,898
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	14	(102,000)	(35,200)
		2,999,151	2,958,698
CAPITAL AND RESERVES			
Called up share capital	15/16	5,739	6,300
Capital redemption reserve	16	2,261	1,700
Revaluation reserve	16	195,579	199,846
Profit and loss account	16	2,795,572	2,750,852
		2,999,151	2,958,698

D G Lindsay)
) Directors
D J L Hardie)

17 February 1999

STATEMENT OF CASH FLOWS
for the year ended 31 December 1998

	Note	1998 £	1997 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	3(b)	816,873	1,464,770
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(567)	(15,125)
Interest received		24,476	4,000
NET CASH INFLOW/(OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		23,909	(11,125)
TAXATION			
Corporation tax paid		(336,133)	(245,602)
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		(585,857)	(777,841)
Receipts from sales of tangible fixed assets		51,687	113,926
Payments to acquire investments		(1)	(1)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(534,171)	(663,916)
EQUITY DIVIDENDS PAID		(75,600)	(37,800)
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING		(105,122)	506,327
FINANCING			
Purchase of own shares		(614,428)	-
(DECREASE)/INCREASE IN CASH		(719,550)	506,327
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET (DEBT)/FUNDS	17		
Change in net (funds)/debt arising from cash flows		(719,550)	506,327
Net funds/(debt) at 1 January		19,359	(486,968)
Net (debt)/funds at 31 December		(700,191)	19,359

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1 ACCOUNTING POLICIES

Accounting convention
The accounts are prepared under the historical cost convention modified to include the revaluation of freehold land and buildings.

Depreciation
Depreciation is provided using the following rates and bases to reduce by annual instalments the cost or valuation of the tangible assets over their estimated useful lives:

Heritable property	-	straight line over fifty years
Plant and machinery	-	20% reducing balance
Motor vehicles	-	25% reducing balance

Stocks
Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value as follows:

Raw materials, consumables and goods for resale	- purchase cost on a first-in, first-out basis
Work in progress and finished goods	- cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Long term contracts
Profit on long term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit is included on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs (as defined in Stocks above) as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Deferred taxation
Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred taxation balance.

Deferred tax assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

1 ACCOUNTING POLICIES (continued)

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those which substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

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

Pensions

The company operates two defined contribution pension schemes for directors and employees.

Contributions are charged to profit and loss account as they become payable in accordance with the rules of the scheme.

2 TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties, except in respect of long term contracts where turnover represents the sales value of work done in the year, including estimates in respect of amounts not invoiced. Turnover in respect of long term contracts is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract.

Turnover is attributable to the continuing activity of contracting services. An analysis of turnover by geographical market is given below:

	1998 £	*1997* £
United Kingdom	10,777,919	11,116,387
Rest of the world	17,250	464,831
	10,795,169	11,581,218

3 OPERATING PROFIT

(a) This is stated after charging/(crediting):

	1998 £	*1997* £
Depreciation of owned fixed assets	481,205	512,823
Loss/(gain) on disposal of tangible fixed assets	3,635	(3,338)
Auditors' remuneration		
- audit services	9,000	8,500
- non-audit services	18,773	27,632
Hire of plant and equipment	1,048,543	786,134
Rental of land and buildings	91,846	83,500

NOTES TO THE ACCOUNTS
at 31 December 1998

3 OPERATING PROFIT (continued)

(b) Reconciliation of operating profit to net cash inflow from operating activities:

	1998 £	*1997* £
Operating profit	967,281	1,029,868
Depreciation	481,205	512,823
Loss/(gain) on disposal of fixed assets	3,635	(3,338)
Increase in stocks	(15,501)	(2,098)
(Increase)/decrease in debtors	(584,348)	72,331
(Decrease) in creditors	(35,399)	(144,816)
Net cash inflow from continuing operating activities	816,873	1,464,770

4 DIRECTORS' EMOLUMENTS

	1998 £	*1997* £
Emoluments	630,591	558,704
Payments to money purchase pension schemes	240,000	240,000
Compensation for loss of office	-	27,000
	870,591	825,704

5 directors were members of money purchase pension schemes (1997 - 5).

The amounts in respect of the highest paid director are as follows:

	£	£
Emoluments	248,809	182,948
Payments to money purchase pension schemes	99,000	99,000

5 STAFF COSTS

	1998 £	*1997* £
Wages and salaries	4,924,272	5,438,779
Social security costs	453,249	485,189
Other pension costs	277,786	271,538
	5,655,307	6,195,506

The average weekly number of employees during the year was as follows:

	No.	*No.*
Production staff	231	252
Management and administration staff	26	25
	257	277

NOTES TO THE ACCOUNTS
at 31 December 1998

6 INTEREST PAYABLE

	1998 £	1997 £
Bank overdraft interest	567	13,056

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998 £	1997 £
Current taxation:		
UK Corporation tax	233,921	328,895
Transfer to/(from) deferred taxation	64,768	(2,800)
	298,689	326,095
Adjustments in respect of prior years:		
UK Corporation tax	(2,212)	121
Deferred tax	2,032	-
	298,509	326,216

8 DIVIDENDS

	1998 £	1997 £
Ordinary interim dividend paid of £6.00 per share (1997 - £6.00)	37,800	37,800
Final dividend proposed of £Nil per share (1997 - £6.00)	-	37,800
	37,800	75,600

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NOTES TO THE ACCOUNTS
at 31 December 1998

9 TANGIBLE FIXED ASSETS

	Land and buildings	*Plant and machinery, fixtures and fittings*	*Motor vehicles*	*Total*
	£	£	£	£
Cost or valuation:				
At 1 January 1998	386,400	2,850,873	1,218,378	4,455,651
Additions	-	607,296	131,593	738,889
Disposals	-	(21,938)	(113,854)	(135,792)
At 31 December 1998	386,400	3,436,231	1,236,117	5,058,748
Items included at:				
Cost	36,400	3,436,231	1,236,117	4,708,748
Valuation	350,000	-	-	350,000
	386,400	3,436,231	1,236,117	5,058,748
Depreciation:				
At 1 January 1998	58,386	1,583,449	638,652	2,280,487
Charge for year	7,728	304,908	168,569	481,205
On disposals	-	(3,655)	(76,815)	(80,470)
At 31 December 1998	66,114	1,884,702	730,406	2,681,222
Net book value:				
At 31 December 1998	320,286	1,551,529	505,711	2,377,526
At 1 January 1998	328,014	1,267,424	579,726	2,175,164

On 9 November 1989 the company's heritable property was revalued by Knight Frank & Rutley, Chartered Surveyors. Their opinion was that the open market value of the property would be fairly stated at £350,000 and this value has been incorporated in the accounts.

The historical cost of the heritable property at the balance sheet date is £173,034 (1997 - £173,034) and the accumulated depreciation based on historical cost would be £48,327 (1997 - £44,866).

NOTES TO THE ACCOUNTS
at 31 December 1998

10 INVESTMENTS

	£
Cost:	
At 1 January 1998	1
Additions	1
At 31 December 1998	2

The investments represent 50% holdings in two companies, Sub Surface Technologies Limited and Ablyn Limited.

Sub Surface Technologies Limited has not traded since its incorporation on 3 July 1997.

Ablyn Limited was incorporated on 29 June 1998 and commenced trade on 1 July 1998 as Marine and Industrial Painting and Corrosion Engineers. The first accounting period for this company will be to 30 June 1999. No accounts are therefore available as this time.

The company has made an unsecured interest free loan of £40,000 to Ablyn Limited. This has been included in other debtors (note 12). Details of trading balances with Albyn Limited are shown in note 23.

11 STOCKS

	1998 £	*1997* £
Raw materials and consumables	147,999	132,498

There is no material difference between the replacement costs of stocks and the amounts as stated above.

12 DEBTORS

	1998 £	*1997* £
Amounts falling due within one year:		
Trade debtors	2,258,056	1,587,526
Amounts recoverable on contracts	106,358	183,400
Other debtors	113,339	122,479
	2,477,753	1,893,405
Amounts falling due after one year:		
Advance corporation tax	-	9,450
	2,477,753	1,902,855

NOTES TO THE ACCOUNTS
at 31 December 1998

13 **CREDITORS** - amounts falling due within one year

	Note	*1998* £	*1997* £
Bank overdraft	17	818,461	86,901
Trade creditors		509,340	493,905
Corporation tax		215,021	328,895
Other taxes and social security costs		127,274	194,854
Other creditors		185,732	1,788
Accruals and deferred income		164,571	178,737
Proposed dividend		-	37,800
		2,020,399	1,322,880

The bank overdraft is secured by a floating charge over the assets of the company.

14 **DEFERRED TAXATION**

Deferred taxation is made up as follows:

	Potential and provided *1998* £	*1997* £
Capital allowances in advance of depreciation	108,000	49,400
Other timing differences	(6,000)	(14,200)
	102,000	35,200

Movements on the provision for deferred taxation are:

	£
At 1 January 1998	35,200
Transferred from profit and loss account	66,800
At 31 December 1998	102,000

The transfer from profit and loss account has been reduced by £1,200 by the effect of the reduction in the rate of provision from 31% to 30%.

No provision has been made for taxation of approximately £30,000 which would arise if the property was sold at its revalued amount.

NOTES TO THE ACCOUNTS
at 31 December 1998

15 SHARE CAPITAL

		Authorised	Allotted, called up and fully paid	
	1998	1997	1998	1997
	No.	No.	£	£
Ordinary shares of £1 each	15,000	15,000	5,739	6,300

Three directors each have an option to purchase 455 ordinary shares of £1 each at par subject to conditions contained within the option agreements (1997 - 500 shares). These options can be exercised until 18 September 2001.

The company re-purchased 561 ordinary shares of £1 each out of reserves for a total consideration of £614,428.

16 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital	Capital redemption reserve	Revaluation reserve	Profit and loss account	Total
	£	£	£	£	£
At 1 January 1997	6,300	1,700	204,113	2,127,589	2,339,702
Profit for the year	-	-	-	694,596	694,596
Dividends	-	-	-	(75,600)	(75,600)
Other recognised gains and losses:					
release of revaluation surplus	-	-	(4,267)	4,267	-
At 1 January 1998	6,300	1,700	199,846	2,750,852	2,958,698
Profit for the year	-	-	-	692,681	692,681
Dividends	-	-	-	(37,800)	(37,800)
Other recognised gains and losses:					
Release of revaluation surplus	-	-	(4,267)	4,267	-
Purchase of own shares:					
Consideration paid	-	-	-	(614,428)	(614,428)
Shares cancelled	(561)	561	-	-	-
At 31 December 1998	5,739	2,261	195,579	2,795,572	2,999,151

NOTES TO THE ACCOUNTS
at 31 December 1998

17 ANALYSIS OF CHANGES IN NET FUNDS/(DEBT)

	At 1 January 1998	*Cash flow*	*At 31 December 1998*
	£	£	£
Cash	106,260	12,010	118,270
Overdraft	(86,901)	(731,560)	(818,461)
	19,359	(719,550)	(700,191)

18 PENSION COMMITMENTS

The company operates two defined contribution schemes for its directors and employees. The assets of both schemes are held separately from those of the company in independently administered funds. The amount of contributions outstanding at the year end was £6,171 (1997 - £9,000).

19 OTHER FINANCIAL COMMITMENTS

At 31 December 1998 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings			*Other*
	1998	*1997*	*1998*	*1997*
	£	£	£	£
Operating leases which expire:				
within one year	-	-	-	-
within two to five years	118,000	87,000	5,160	3,217
in over five years	-	-	-	-
	118,000	87,000	5,160	3,217

20 CAPITAL COMMITMENTS

At 31 December 1998, the company had contracted commitments for future capital expenditure of £450,000 (1997 - £Nil).

21 CONTINGENT LIABILITIES

There are contingent liabilities arising in the ordinary course of business relating to performance bonds outstanding but, in the opinion of the directors, no provision is required.

22 TRANSACTIONS WITH DIRECTORS

Included in "other debtors" (note 12) is a loan to a director, D G Lindsay. This is an interest free loan repayable on demand.

	1998
	£
Amount outstanding at 1 January	-
Monies advanced by company during the year	30,000
Amount repaid during the year	-
Amount outstanding at 31 December	30,000

The maximum amount outstanding during the year was £30,000.

23 RELATED PARTY TRANSACTIONS

(a) The company has patented a submarine weapons handling system called 'Magnum' which was invented by Mr Harold Armstrong, the company's defence sales manager. The company has entered into an agreement with Mr Armstrong whereby 50% of profits made on the sale of the product will be paid to him. The company received £20,000 during the year from a customer, Babcock Thorn Limited, in respect of costs incurred to date on the project. The company is meeting the remainder of the development costs of this product. Costs of £2,890 have been written off through profit and loss account in the year (1997 - £9,870). Cumulative costs to date amount to £23,219.

(b) As noted in note 10, during the year the company acquired an interest in 50% of the share capital of a newly incorporated company Ablyn Limited. D G Lindsay and A J Thomson are also directors of this company. During the year the company made sales of £13,889 to Ablyn Limited and purchased goods and services from Ablyn Limited at a cost of £17,314. At 31 December 1998 trade debtors included £6,932 due by Ablyn Limited. This is in addition to the loan to Ablyn Limited noted in note 10.

(c) The company is controlled by Mr D G Lindsay.