

Aquatic Engineering & Construction Limited

**Directors' report and consolidated
financial statements**

Registered number 123734

31 July 2000

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Directors' report

The directors present their annual report and audited financial statements for the year ended 31 July 2000.

Principal activity

The principal activity of the company and the group is the provision of equipment and consultancy services to the offshore oil and gas industry.

Business review

The Group produced strong trading results during the year ended 31 July 2000 and the directors remain optimistic about the Group's prospects in the forthcoming year.

Proposed dividend

The directors recommend that a final dividend be paid on the A Ordinary Shares of £52,131 (1999: £63,501) and on the ordinary shares of £121,639 (1999: £150,165).

Directors and directors' interests

The directors who held office during the year were as follows:

Derek Ian Edgley
Michael John Arnell
Frederick Edgley
Douglas Craigie
Suzanne Morrison

The directors who held office at the end of the financial year had the following interests in the ordinary share capital of the company as recorded in the register of directors' share interests:

	31 July 2000 No	31 July 1999 No
Derek Ian Edgley	30,300	30,300
Michael John Arnell	20,200	20,200
Frederick Edgley	30,300	30,300
Douglas Craigie	25,250	25,250

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



Ledingham Chalmers
Secretaries

Palmerston Centre
29/31 Palmerston Road
Aberdeen

14 December 2000

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 group 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 group 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 the group 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 group and to prevent and detect fraud and other irregularities.



37 Albyn Place
Aberdeen
AB10 1JB
United Kingdom

Report of the auditors to the members of Aquatic Engineering & Construction Limited

We have audited the financial statements on pages 4 to 19.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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 group'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 affairs of the company and the group as at 31 July 2000 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

14 December 2000

Consolidated profit and loss account
for the year ended 31 July 2000

	<i>Note</i>	2000 £	1999 £
Turnover	2	11,224,549	9,382,173
Cost of sales		(9,655,979)	(7,656,901)
Gross profit		1,568,570	1,725,272
Administrative expenses		(1,008,972)	(1,024,047)
Operating profit	3-5	559,598	701,225
Interest receivable		10,796	-
Interest payable and similar charges	6	(53,383)	(66,210)
Profit on ordinary activities before taxation		517,011	635,015
Tax on profit on ordinary activities	7	(112,497)	(208,562)
Profit for the financial year		404,514	426,453
Dividends on equity shares	8	(173,770)	(213,666)
Retained profit for the financial year		230,744	212,787

A statement of movements on reserves is given in note 18.

Turnover and profit on ordinary activities arise wholly from continuing operations.

There are no recognised gains or losses other than the profit for the year.

Consolidated balance sheet
at 31 July 2000

	<i>Note</i>	£	2000 £	£	1999 £
Fixed assets					
Intangible assets	9		-		-
Tangible assets	10		635,686		670,668
			<u>635,686</u>		<u>670,668</u>
Current assets					
Stocks	12	-		81,956	
Debtors	13	2,864,464		2,302,167	
Cash at bank and in hand		26,300		168,678	
			<u>2,890,764</u>	<u>2,552,801</u>	
Creditors: amounts falling due within one year	14	(2,144,920)		(1,963,373)	
Net current assets			<u>745,844</u>		<u>589,428</u>
Total assets less current liabilities			<u>1,381,530</u>		<u>1,260,096</u>
Creditors: amounts falling due after more than one year	15		(99,023)		(214,372)
Provisions for liabilities and charges	16		(72,015)		(65,976)
Net assets			<u>1,210,492</u>		<u>979,748</u>
Capital and reserves					
Called up share capital	17		151,500		151,500
Share premium	18		3,000		3,000
Capital redemption reserve	18		210,000		210,000
Capital reserve	18		50,400		64,551
Profit and loss account	18		795,592		550,697
Equity shareholders' funds	19		<u>1,210,492</u>		<u>979,748</u>

Balance sheet

at 31 July 2000

	Note	£	2000	£	£	1999	£
Fixed assets							
Intangible assets	9		-			-	
Tangible assets	10		632,540			670,668	
Investments	11		12,016			12,016	
			<u>644,556</u>			<u>682,684</u>	
Current assets							
Debtors	13	1,850,511			1,685,551		
Cash at bank and in hand		819			163,592		
		<u>1,851,330</u>			<u>1,849,143</u>		
Creditors: amounts falling due within one year	14	(1,314,037)			(1,325,741)		
		<u>537,293</u>			<u>523,402</u>		
Net current assets							
			<u>1,181,849</u>			<u>1,206,086</u>	
Total assets less current liabilities							
Creditors: amounts falling due after more than one year	15		(99,023)			(214,372)	
Provisions for liabilities and charges	16		(72,015)			(65,976)	
			<u>1,010,811</u>			<u>925,738</u>	
Net assets							
Capital and reserves							
Called up share capital	17		151,500			151,500	
Share premium	18		3,000			3,000	
Capital redemption reserve	18		210,000			210,000	
Capital reserve	18		33,266			41,705	
Profit and loss account	18		613,045			519,533	
			<u>1,010,811</u>			<u>925,738</u>	
Equity shareholders' funds	19						

These financial statements were approved by the board of directors on 14 December 2000 were signed on its behalf by:

Suzanne Morrison

S Morrison
Director

Consolidated cash flow statement
for the year ended 31 July 2000

	Note	£	2000	£	£	1999	£
Net cash inflow from operating activities	22		325,997			931,397	
Returns on investments and servicing of finance							
Interest paid		(53,383)			(66,210)		
Interest received		10,796			-		
Net cash outflow from returns on investments and servicing of finance			(42,587)			(66,210)	
Taxation							
UK corporation tax paid		(80,989)			(87,825)		
Overseas tax (paid) repaid		(91,097)			16,716		
Net tax paid			(172,086)			(71,109)	
Capital expenditure							
Purchase of tangible fixed assets		(100,647)			(74,190)		
Sale of tangible fixed assets		-			55,290		
Net cash outflow for capital expenditure			(100,647)			(18,900)	
Equity dividends paid			(213,666)			(106,085)	
Net cash (outflow) inflow before financing			(202,989)			669,093	
Financing							
Repayment of bank loan		(45,387)			(43,565)		
Capital element of finance lease and hire purchase rental payments		(77,044)			(110,598)		
Net cash outflow from financing			(122,431)			(154,163)	
(Decrease) increase in cash	23		(325,420)			514,930	

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 under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertaking made up to 31 July 2000. The acquisition method of accounting has been adopted.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Capital reserves arising on acquisition (less goodwill arising on acquisition) before 1 January 1998, when FRS 10 *Goodwill and intangible assets* was adopted, were credited directly to reserves and transferred to the profit and loss account over a period of 15 years.

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:

Plant and equipment	-	3-10 years
Motor vehicles	-	4 years

Intangible fixed assets are valued at net realisable value.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities, other than investments denominated in foreign currencies, are translated at the rate of exchange ruling at the balance sheet date. Investments, not supported by foreign loans, are translated at the rate of exchange ruling at the time when the investment was made. All exchange differences are taken to 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.

Pension costs

The parent 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 amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Notes (continued)

1 Accounting policies (continued)

Stocks

In determining the cost of goods purchased for resale, the purchase price is used.

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. *Deferred tax is accounted for on a full provision basis.*

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers during the year.

2 Turnover

Turnover is derived from the provision of equipment and consultancy services to the offshore oil and gas industry in the following geographical locations:

	2000 £	1999 £
United Kingdom	4,338,630	4,260,261
Rest of Europe	1,701,830	869,340
Africa	1,222,020	1,328,334
Rest of World	3,962,069	2,924,238
	11,224,549	9,382,173

3 Profit on ordinary activities before taxation

	2000 £	1999 £
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Hire of plant and machinery	206,952	143,446
Depreciation and amortisation	135,629	141,910
Auditors' remuneration:		
Group - audit	19,000	18,400
- other services	4,500	4,150
Company - audit	12,000	11,775
<i>after crediting:</i>		
Gain on disposal of fixed assets	-	6,022
Exchange gain	128,241	38,998

Notes (continued)

4 Remuneration of directors

	2000 £	1999 £
Directors' emoluments	511,527	464,952
Company contributions to money purchase pension schemes	60,843	27,630

The emoluments of the highest paid director were £141,397 (1999: £125,285) and company pension contributions of £18,747 (1999: £8,499) were made to a money purchase pension scheme on his behalf.

Retirement benefits are accruing to five (1999: five) directors under money purchase pension schemes.

5 Staff numbers and costs

	2000 £	1999 £
Wages and salaries	5,764,521	3,866,891
Social security costs	126,154	137,633
Other pension costs (see note 21)	86,617	51,877
	5,977,292	4,056,401

Number of employees

	2000	1999
The average number of persons, including directors, employed by the Group during the year was:	177	131

6 Interest payable and similar charges

	2000 £	1999 £
On bank loans and overdrafts	53,055	60,715
Finance charges payable in respect of finance leases and hire purchase contracts	328	986
Other interest payable	-	4,509
	53,383	66,210

Notes *(continued)*

7 Taxation

	2000 £	1999 £
UK corporation tax at 30%	57,090	114,672
Overseas taxation	49,368	80,708
Deferred taxation	6,039	13,182
	<u>112,497</u>	<u>208,562</u>

8 Dividends

	2000 £	1999 £
Equity		
Ordinary shares:		
Final proposed	121,639	150,165
 A ordinary shares:		
Final proposed	52,131	63,501
	<u>173,770</u>	<u>213,666</u>

Notes (continued)

9 Intangible fixed assets

Group and company	Patents £
<i>Cost</i>	
At beginning and end of year	184,000
<i>Amortisation</i>	
At beginning and end of year	184,000
<i>Net book value</i>	
At 31 July 2000	-
At 31 July 1999	-

10 Tangible fixed assets

Group	Plant and equipment £	Motor vehicles £	Total £
<i>Cost</i>			
At beginning of year	1,822,978	34,786	1,857,764
Additions	100,647	-	100,647
At end of year	1,923,625	34,786	1,958,411
<i>Depreciation</i>			
At beginning of year	1,165,776	21,320	1,187,096
Charge for year	129,753	5,876	135,629
At end of year	1,295,529	27,196	1,322,725
<i>Net book value</i>			
At 31 July 2000	628,096	7,590	635,686
At 31 July 1999	657,202	13,466	670,668

Included in the total net book value of plant and equipment and motor vehicles is £267,343 (1999: £315,169) in respect of assets held under finance leases and hire purchase contracts. Depreciation for the year on these assets was £47,826 (1999: £58,902).

Notes (continued)

10 Tangible fixed assets (continued)

Company	Plant and equipment £	Motor vehicles £	Total £
<i>Cost</i>			
At beginning of year	1,790,720	34,786	1,825,506
Additions	95,927	-	95,927
At end of year	1,886,647	34,786	1,921,433
<i>Depreciation</i>			
At beginning of year	1,133,519	21,319	1,154,838
Charge for year	128,179	5,876	134,055
At end of year	1,261,698	27,195	1,288,893
<i>Net book value</i>			
At 31 July 2000	<u>624,949</u>	<u>7,591</u>	<u>632,540</u>
At 31 July 1999	<u>657,201</u>	<u>13,467</u>	<u>670,668</u>

Included in the total net book value of plant and equipment and motor vehicles is £267,343 (1999: £315,169) in respect of assets held under finance leases and hire purchase contracts. Depreciation for the year on these assets was £47,826 (1999: £58,902).

11 Fixed asset investments

Shares in subsidiary undertaking (unlisted)	£
<i>Cost</i>	
At beginning and end of year	<u>12,016</u>

The company's subsidiary undertaking is as follows:

	Country of registration	Percentage of ordinary shares held	Principal activity
Aquatic Engineering and Construction BV	Netherlands	100%	Offshore oilfield services

Notes *(continued)*

12 Stock

	Group	
	2000	1999
	£	£
Goods for resale	-	81,956

13 Debtors

	Group		Company	
	2000	1999	2000	1999
	£	£	£	£
Trade debtors	2,790,354	2,225,149	1,084,360	1,344,415
Other debtors	74,110	77,018	44,413	57,435
Amounts owed by subsidiary undertaking	-	-	721,738	283,701
	<u>2,864,464</u>	<u>2,302,167</u>	<u>1,850,511</u>	<u>1,685,551</u>

14 Creditors: amounts falling due within one year

	Group		Company	
	2000	1999	2000	1999
	£	£	£	£
Bank loan (note 15)	47,596	44,141	47,596	44,141
Bank overdrafts (note 15)	559,505	376,463	440,597	294,662
Trade creditors	511,787	486,934	318,727	377,010
Obligations under finance lease and hire purchase contracts	66,463	77,000	66,463	77,000
Corporation tax	93,282	117,181	93,282	117,181
Other taxation and social security	390,565	410,748	31,744	81,411
Other creditors	301,952	237,240	141,858	120,670
Dividends proposed	173,770	213,666	173,770	213,666
	<u>2,144,920</u>	<u>1,963,373</u>	<u>1,314,037</u>	<u>1,325,741</u>

Notes (continued)

15 Creditors: amounts falling due after more than one year

	Group and company	
	2000	1999
	£	£
Bank loan:		
Amounts due in the second to fifth years	51,003	99,845
Obligations under hire purchase contracts:		
Amounts due in the second to fifth years	48,020	114,527
	<u>99,023</u>	<u>214,372</u>

The bank loan and overdrafts are secured by a bond and floating charge over the assets of the parent company.

The bank loan is repayable quarterly over a period of 10 years and bears interest at rates which vary with bank base lending rates.

16 Provisions for liabilities and charges

Group and company	Deferred taxation
	£
At beginning of year	65,976
Charge for the year	6,039
At end of year	<u>72,015</u>

The amounts provided for deferred taxation are set out below:

Group and company	2000	1999
	£	£
Difference between accumulated depreciation and capital allowances	<u>72,015</u>	<u>65,976</u>

Notes (continued)

17 Called up share capital

	2000 £	1999 £
<i>Authorised</i>		
Ordinary shares of £1 each	106,500	106,500
'A' Ordinary shares of £1 each	45,000	45,000
Cumulative redeemable preference shares of £1 each	255,000	255,000
	406,500	406,500
<i>Allotted, called up and fully paid</i>		
Equity		
Ordinary shares of £1 each	106,500	106,500
'A' Ordinary shares of £1 each	45,000	45,000
	151,500	151,500

Rights attaching to the various classes of shares are as follows:

(i) A ordinary shares

The 'A' ordinary shares are entitled to a participating dividend based on adjusted profit on ordinary activities before taxation and amounts payable to ordinary shareholders.

The 'A' ordinary shares may be converted to a like number of ordinary shares at any time.

The holders of these shares are entitled to attend and vote at general meetings and are entitled to the same voting rights as the ordinary shareholders.

The 'A' ordinary shareholders would rank before the ordinary shareholders on a winding up of the company. In such circumstances they are entitled to the subscription price paid for the shares plus all dividend arrears. Any capital surplus remaining after distribution to ordinary shareholders is payable to both 'A' ordinary and ordinary classes of shares as if all shares were of the same class.

Notes (continued)

18 Reserves

	Share premium	Capital redemption reserve	Capital reserve	Profit and loss account
	£	£	£	£
Group				
At beginning of year	3,000	210,000	64,551	550,697
Retained profit for year	-	-	-	230,744
Transfer	-	-	(14,151)	14,151
At end of year	3,000	210,000	50,400	795,592
Company				
At beginning of year	3,000	210,000	41,705	519,533
Retained profit for year	-	-	-	85,073
Amortise capital reserve	-	-	(10,671)	10,671
Amortise goodwill	-	-	2,232	(2,232)
At end of year	3,000	210,000	33,266	613,045

19 Reconciliation of movements in shareholders' funds

	Group		Company	
	2000	1999	2000	1999
	£	£	£	£
Profit for the financial year	404,514	426,453	258,843	364,621
Dividends on equity shares	(173,770)	(213,666)	(173,770)	(213,666)
Net increase in shareholders' funds	230,744	212,787	85,073	150,955
At beginning of year	979,748	766,961	925,738	774,783
At end of year	1,210,492	979,748	1,010,811	925,738

Notes (continued)

20 Commitments

At the end of the financial year the company and group had annual commitments under non-cancellable operating leases as follows:

	2000 Land and buildings £	1999 Land and buildings £
<i>Operating leases which expire:</i>		
Within 1 year	-	27,025
Within 2-5 years	77,584	48,998
	77,584	76,023

21 Pension scheme

The parent company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the scheme and amounted to £86,617 (1999: £51,877).

22 Reconciliation of operating profit to net cash inflow from operating activities

	2000 £	1999 £
Operating profit	559,598	701,225
Depreciation and amortisation	135,629	141,910
Gain on sale of tangible fixed assets	-	(6,022)
(Increase) decrease in debtors	(562,297)	345,964
Increase (decrease) in creditors	111,111	(251,680)
Decrease in stocks	81,956	-
	325,997	931,397
Net cash inflow from operating activities		

Notes *(continued)*

23 Analysis of net debt

	At 31 July 1999 £	Cash flow £	Other non cash changes £	At 31 July 2000 £
Cash at bank and in hand	168,678	(142,378)		26,300
Bank overdrafts	(376,463)	(183,042)		(559,505)
	<u>(207,785)</u>	<u>(325,420)</u>		<u>(533,205)</u>
Debt due after one year	(99,845)	1,246	47,596	(51,003)
Debt due within one year	(44,141)	44,141	(47,596)	(47,596)
Finance lease and hire purchase liabilities	(191,527)	77,044	-	(114,483)
	<u>(335,513)</u>	<u>122,431</u>	<u>-</u>	<u>(213,082)</u>
Total	<u><u>(543,298)</u></u>	<u><u>(202,989)</u></u>	<u><u>-</u></u>	<u><u>(746,287)</u></u>

24 Reconciliation of net cash flow to movement in net debt

	2000 £	1999 £
(Decrease) increase in cash in year	(325,420)	514,930
Cash outflow from decrease in net debt	122,431	154,163
	<u>(202,989)</u>	<u>669,093</u>
Change in net debt resulting from cash flows	(202,989)	669,093
New finance leases and similar hire purchase contracts	-	(54,765)
	<u>(202,989)</u>	<u>614,328</u>
Movement in net debt in year	(202,989)	614,328
Net debt at beginning of year	(543,298)	(1,157,626)
	<u>(746,287)</u>	<u>(543,298)</u>
Net debt at end of year	<u><u>(746,287)</u></u>	<u><u>(543,298)</u></u>