

Aquatic Engineering & Construction Limited

**Directors' report and consolidated
financial statements**

Registered number 123734

31 July 2001



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Directors' report

The directors present their annual report and audited financial statements for the year ended 31 July 2001.

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 2001 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 £82,591 (2000: £52,131) and on the ordinary shares of £195,513 (2000: £121,639).

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

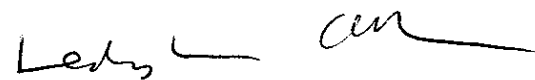
The directors who held office at the end of the financial year had the following interests in the ordinary share capital of the company at the beginning and end of the year as recorded in the register of directors' share interests:

	No
Derek Ian Edgley	30,300
Michael John Arnell	20,200
Frederick Edgley	30,300
Douglas Craigie	25,250
Suzanne Morrison	-

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
Secretary

Palmerston Centre
29/31 Palmerston Road
Aberdeen

20 December 2001

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 of the 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 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

Independent auditors' report 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 1985. 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 audit 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 2001 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

20 December 2001

Consolidated profit and loss account
for the year ended 31 July 2001

	<i>Note</i>	2001 £	2000 £
Turnover	2	13,099,909	11,224,549
Cost of sales		(10,811,020)	(9,655,979)
Gross profit		2,288,889	1,568,570
Administrative expenses		(1,402,330)	(1,008,972)
Operating profit	3-5	886,559	559,598
Interest receivable		7,707	10,796
Interest payable and similar charges	6	(70,637)	(53,383)
Profit on ordinary activities before taxation		823,629	517,011
Tax on profit on ordinary activities	7	(230,739)	(112,497)
Profit for the financial year		592,890	404,514
Dividends on equity shares	8	(278,104)	(173,770)
Retained profit for the financial year		314,786	230,744

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

Turnover and operating profit arise wholly from continuing operations.

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

Consolidated balance sheet
at 31 July 2001

	<i>Note</i>	£	2001 £	£	2000 £
Fixed assets					
Intangible assets	9		-		-
Tangible assets	10		673,781		635,686
			<u>673,781</u>		<u>635,686</u>
Current assets					
Stocks	12	81,956		-	
Debtors	13	3,645,332		2,784,164	
Cash at bank and in hand		57,365		26,300	
			<u>3,784,653</u>	<u>2,810,464</u>	
Creditors: amounts falling due within one year	14	(2,825,102)		(2,064,620)	
			<u>959,551</u>	<u>745,844</u>	
Net current assets					
			<u>959,551</u>	<u>745,844</u>	
Total assets less current liabilities			1,633,332		1,381,530
Creditors: amounts falling due after more than one year	15		(27,910)		(99,023)
Provisions for liabilities and charges	16		(80,144)		(72,015)
			<u>1,525,278</u>	<u>1,210,492</u>	
Net assets					
			<u>1,525,278</u>	<u>1,210,492</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		41,961		50,400
Profit and loss account	18		1,118,817		795,592
			<u>1,525,278</u>	<u>1,210,492</u>	
Equity shareholders' funds	19				
			<u>1,525,278</u>	<u>1,210,492</u>	

Balance sheet

at 31 July 2001

	Note	£	2001 £	£	2000 £
Fixed assets					
Intangible assets	9		-		-
Tangible assets	10		672,208		632,540
Investments	11		12,016		12,016
			<u>684,224</u>		<u>644,556</u>
Current assets					
Debtors	13	2,149,318		1,850,511	
Cash at bank and in hand		20,030		819	
		<u>2,169,348</u>		<u>1,851,330</u>	
Creditors: amounts falling due within one year	14	(1,728,732)		(1,314,037)	
		<u></u>		<u></u>	
Net current assets			<u>440,616</u>		<u>537,293</u>
Total assets less current liabilities			<u>1,124,840</u>		<u>1,181,849</u>
Creditors: amounts falling due after more than one year	15		(27,910)		(99,023)
Provisions for liabilities and charges	16		(80,144)		(72,015)
			<u></u>		<u></u>
Net assets			<u>1,016,786</u>		<u>1,010,811</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		24,827		33,266
Profit and loss account	18		627,459		613,045
			<u></u>		<u></u>
Equity shareholders' funds	19		<u>1,016,786</u>		<u>1,010,811</u>

These financial statements were approved by the board of directors on 20 December 2001 were signed on its behalf by:



S Morrison
Director

Consolidated cash flow statement
for the year ended 31 July 2001

	Note	£	2001 £	£	2000 £
Net cash inflow from operating activities	23		656,480		325,997
Returns on investments and servicing of finance					
Interest paid		(70,637)		(53,383)	
Interest received		7,707		10,796	
Net cash outflow from returns on investments and servicing of finance			(62,930)		(42,587)
Taxation					
UK corporation tax paid		(88,997)		(80,989)	
Overseas tax paid		(57,749)		(91,097)	
Net tax paid			(146,746)		(172,086)
Capital expenditure					
Purchase of tangible fixed assets		(184,136)		(100,647)	
Sale of tangible fixed assets		20,000		-	
Net cash outflow for capital expenditure			(164,136)		(100,647)
Equity dividends paid			(173,770)		(213,666)
Net cash inflow (outflow) before financing			108,898		(202,989)
Financing					
Repayment of bank loan		(49,712)		(45,387)	
Capital element of finance lease and hire purchase rental payments		(73,255)		(77,044)	
Net cash outflow from financing			(122,967)		(122,431)
Decrease in cash	24		(14,069)		(325,420)

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 2001. 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

Work in progress is stated at the lower of cost and net realisable value. In determining the cost of work in progress, 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:

	2001 £	2000 £
United Kingdom	5,629,973	4,338,630
Rest of Europe	833,932	1,701,830
Africa	324,616	1,222,020
Rest of World	6,311,388	3,962,069
	13,099,909	11,224,549

3 Profit on ordinary activities before taxation

	2001 £	2000 £
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Hire of plant and machinery	290,725	206,952
Hire of other assets – operating leases	64,682	60,521
Depreciation and amortisation:		
Owned	109,442	87,803
Leased	51,894	47,826
Auditors' remuneration:		
Group - audit	20,000	19,000
- other services	19,000	18,000
Company - audit	12,000	12,000
<i>after crediting:</i>		
Gain on disposal of fixed assets	15,839	-
Exchange gain	31,897	128,241

Notes *(continued)*

4 Remuneration of directors

	2001 £	2000 £
Directors' emoluments	613,280	511,527
Company contributions to money purchase pension schemes	65,244	60,843

The emoluments of the highest paid director were £166,251 (2000: £141,397) and company pension contributions of £19,018 (2000: £18,747) were made to a money purchase pension scheme on his behalf.

Retirement benefits are accruing to five (2000: five) directors under money purchase pension schemes.

5 Staff numbers and costs

	2001 £	2000 £
Wages and salaries	6,809,987	5,764,521
Social security costs	209,028	126,154
Other pension costs (see note 21)	93,935	86,617
	<u>7,112,950</u>	<u>5,977,292</u>

	Number of employees 2001	2000
The average number of persons, including directors, employed by the group during the year was:	<u>202</u>	<u>177</u>

6 Interest payable and similar charges

	2001 £	2000 £
On bank loans and overdrafts	64,950	53,055
On all over loans	5,359	-
Finance charges payable in respect of finance leases and hire purchase contracts	328	328
	<u>70,637</u>	<u>53,383</u>

Notes (continued)

7 Taxation

	£	2001 £	£	2000 £
<i>UK corporation tax</i>				
Current tax on income for the year	167,971		94,508	
Adjustment in respect of prior year	1,591		-	
	<u>169,562</u>		<u>94,508</u>	
Double taxation relief	(24,266)		(37,418)	
		<u>145,296</u>		57,090
<i>Foreign tax</i>				
Current tax on income for the year	72,300		59,430	
Adjustment in respect of prior year	5,014		(10,062)	
	<u>77,314</u>		<u>49,368</u>	
<i>Deferred tax</i>				
(Credit) charge for the year	(4,585)		6,039	
Adjustment in respect of prior year	12,714		-	
		<u>8,129</u>		6,039
		<u>230,739</u>		<u>112,497</u>

8 Dividends

	2001 £	2000 £
Equity		
Ordinary shares:		
Final proposed	195,513	121,639
A ordinary shares:		
Final	82,591	52,131
	<u>278,104</u>	<u>173,770</u>

Notes (continued)

9 Intangible fixed assets

Group and company	Patents £
<i>Cost</i>	
At beginning of year	184,000
Disposal	(184,000)
At end of year	-
<i>Amortisation</i>	
At beginning of year	184,000
On disposal	(184,000)
At end of year	-
<i>Net book value</i>	
At 31 July 2001	-
At 31 July 2000	-

10 Tangible fixed assets

Group	Plant and equipment £	Motor vehicles £	Total £
<i>Cost</i>			
At beginning of year	1,923,625	34,786	1,958,411
Additions	187,242	16,350	203,592
Disposals	(23,778)	-	(23,778)
At end of year	2,087,089	51,136	2,138,225
<i>Depreciation</i>			
At beginning of year	1,295,530	27,195	1,322,725
Charge for year	152,322	9,014	161,336
On disposals	(19,617)	-	(19,617)
At end of year	1,428,235	36,209	1,464,444
<i>Net book value</i>			
At 31 July 2001	658,854	14,927	673,781
At 31 July 2000	628,095	7,591	635,686

Notes (continued)

10 Tangible fixed assets (continued)

Company	Plant and equipment £	Motor vehicles £	Total £
<i>Cost</i>			
At beginning of year	1,886,647	34,786	1,921,433
Additions	187,242	16,350	203,592
Disposals	(23,778)	-	(23,778)
At end of year	2,050,111	51,136	2,101,247
<i>Depreciation</i>			
At beginning of year	1,261,698	27,195	1,288,893
Charge for year	150,749	9,014	159,763
Disposals	(19,617)	-	(19,617)
At end of year	1,392,830	36,209	1,429,039
<i>Net book value</i>			
At 31 July 2001	657,281	14,927	672,208
At 31 July 2000	624,949	7,591	632,540

Included in the total net book value of plant and equipment and motor vehicles in the group and in the company, is £231,799 (2000: £267,343) in respect of assets held under finance leases and hire purchase contracts. Depreciation for the year on these assets was £51,894 (2000: £47,826).

11 Fixed asset investments

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

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 Stocks

	Group
	2001 £
	2000 £
Work in progress	81,956
	-

13 Debtors

	Group		Company
	2001 £	2000 £	2001 £
			2000 £
Trade debtors	3,559,202	2,710,054	1,685,924
Other debtors	86,130	74,110	45,010
Amounts owed by subsidiary undertaking	-	-	418,384
	3,645,332	2,784,164	2,149,318
			1,850,511

14 Creditors: amounts falling due within one year

	Group		Company
	2001 £	2000 £	2001 £
			2000 £
Bank loan (note 15)	48,887	47,596	48,887
Bank overdrafts (note 15)	604,639	559,505	241,837
Trade creditors	755,331	511,787	551,041
Obligations under finance lease and hire purchase contracts	32,774	66,463	32,774
UK Corporation tax	149,581	93,282	149,581
Other taxation and social security	572,597	390,565	172,809
Other creditors	383,189	221,652	253,699
Dividends	278,104	173,770	278,104
	2,825,102	2,064,620	1,728,732
			1,314,037

Notes *(continued)*

15 Creditors: amounts falling due after more than one year

	Group and company	
	2001	2000
	£	£
Bank loan:		
Amounts due in the second to fifth years	-	51,003
Obligations under hire purchase contracts:		
Amounts due in the second to fifth years	27,910	48,020
	<u>27,910</u>	<u>99,023</u>

The bank loan and overdrafts are secured by a bond and floating charge over the assets of the parent company together with cross guarantees between the group companies.

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	72,015
Charge for the year	8,129
At end of year	<u>80,144</u>

The amounts provided for deferred taxation are set out below:

Group and company	2001	2000
	£	£
Difference between accumulated depreciation and capital allowances	<u>80,144</u>	<u>72,015</u>

Notes (continued)

17 Called up share capital

	2001 £	2000 £
<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	50,400	795,592
Retained profit for year	-	-	-	314,786
Transfer	-	-	(8,439)	8,439
At end of year	3,000	210,000	41,961	1,118,817
Company				
At beginning of year	3,000	210,000	33,266	613,045
Retained profit for year	-	-	-	5,975
Amortise capital reserve	-	-	(10,671)	10,671
Amortise goodwill	-	-	2,232	(2,232)
At end of year	3,000	210,000	24,827	627,459

The parent company's profit for the financial year was £284,079 (2000: £258,843) including a dividend of £nil (2000: £99,000) from the subsidiary company.

19 Reconciliation of movements in shareholders' funds

	Group		Company	
	2001 £	2000 £	2001 £	2000 £
Profit for the financial year	592,890	404,514	284,079	258,843
Dividends on equity shares	(278,104)	(173,770)	(278,104)	(173,770)
<i>Net increase in shareholders' funds</i>	314,786	230,744	5,975	85,073
At beginning of year	1,210,492	979,748	1,010,811	925,738
At end of year	1,525,278	1,210,492	1,016,786	1,010,811

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:

	Group		Company	
	2001 Land and Buildings £	2000 Land and buildings £	2001 Land and buildings £	2000 Land and buildings £
<i>Operating leases which expire:</i>				
Within 1 year	40,148	-	40,148	-
Within 2-5 years	37,802	77,584	37,802	77,584
Over 5 years	17,000	17,000	-	-
	<u>94,950</u>	<u>94,584</u>	<u>77,950</u>	<u>77,584</u>

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 £93,935 (2000: £86,617).

22 Contingent liabilities

The company has guaranteed the overdraft of its subsidiary; the amount outstanding at the year end was £362,802 (2000: £118,908).

Guarantees at the year end in respect of performance bonds entered into the normal course of business amounted to £69,122 (2000: £14,122) in the group and company.

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

	2001 £	2000 £
Operating profit	886,559	559,598
Depreciation and amortisation	161,336	135,629
Gain on sale of tangible fixed assets	(15,839)	-
Increase in debtors	(861,168)	(562,297)
Increase in creditors	567,548	111,111
(Increase) decrease in stocks	(81,956)	81,956
	<u>656,480</u>	<u>325,997</u>
Net cash inflow from operating activities		

Notes *(continued)*

24 Analysis of net debt

	At 31 July 2000 £	Cash flow £	Other non cash changes £	At 31 July 2001 £
Cash at bank and in hand	26,300	31,065	-	57,365
Bank overdrafts	(559,505)	(45,134)	-	(604,639)
	(533,205)	(14,069)	-	(547,274)
Debt due after one year	(51,003)	2,116	48,887	-
Debt due within one year	(47,596)	47,596	(48,887)	(48,887)
Finance lease and hire purchase liabilities	(114,483)	73,255	(19,456)	(60,684)
	(213,082)	122,967	(19,456)	(109,571)
Total	(746,287)	108,898	(19,456)	(656,845)

25 Reconciliation of net cash flow to movement in net debt

	2001 £	2000 £
Decrease in cash in year	(14,069)	(325,420)
Cash outflow from decrease in net debt	122,967	122,431
Change in net debt resulting from cash flows	108,898	(202,989)
New finance leases and similar hire purchase contracts	(19,456)	-
Movement in net debt in year	89,442	(202,989)
Net debt at beginning of year	(746,287)	(543,298)
Net debt at end of year	(656,845)	(746,287)