

Aquatic Engineering & Construction Limited

**Directors' report and consolidated
financial statements**

Registered number 123734

31 July 2002



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Directors' report

The directors present their annual report and audited financial statements for the year ended 31 July 2002.

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 2002 and the directors remain optimistic about the Group's prospects in the current year.

Proposed dividend

The directors recommend payment of a final dividend of £122,369 (2001: £195,513) on the ordinary shares and £51,705 (£82,591) on the A ordinary shares. Interim dividends of £40,000 on the ordinary shares and £10,000 on the A ordinary shares were paid during the year.

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

Our auditors KPMG have indicated to the directors that their business has transferred to a limited liability partnership, KPMG LLP. Accordingly KPMG resigned as auditors on 10 June 2002 and the directors thereupon appointed KPMG LLP to fill the vacancy arising. A resolution for the reappointment of KPMG LLP 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 2002

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 company and 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 2002 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 LLP
Chartered Accountants
Registered Auditor

20 December 2002

Consolidated profit and loss account
for the year ended 31 July 2002

	<i>Note</i>	2002 £	2001 £
Turnover	2	14,380,554	13,099,909
Cost of sales		(12,215,945)	(10,811,020)
Gross profit		2,164,609	2,288,889
Administrative expenses		(1,604,463)	(1,402,330)
Operating profit	3-5	560,146	886,559
Interest receivable		3,072	7,707
Interest payable and similar charges	6	(46,186)	(70,637)
Profit on ordinary activities before taxation		517,032	823,629
Tax on profit on ordinary activities	7	(133,622)	(230,739)
Profit for the financial year		383,410	592,890
Dividends on equity shares	8	(224,074)	(278,104)
Retained profit for the financial year	17	159,336	314,786

A statement of movements on reserves is given in note 17.

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 2002

	<i>Note</i>	2002	2001
		£	£
Fixed assets			
Tangible assets	9	904,290	673,781
Current assets			
Stocks	11	-	81,956
Debtors	12	3,761,940	3,645,332
Cash at bank and in hand		86,754	57,365
		<u>3,848,694</u>	<u>3,784,653</u>
Creditors: amounts falling due within one year	13	(2,793,992)	(2,825,102)
Net current assets		<u>1,054,702</u>	<u>959,551</u>
Total assets less current liabilities		<u>1,958,992</u>	<u>1,633,332</u>
Creditors: amounts falling due after more than one year	14	(153,900)	(27,910)
Provisions for liabilities and charges	15	(120,478)	(80,144)
Net assets		<u>1,684,614</u>	<u>1,525,278</u>
Capital and reserves			
Called up share capital	16	151,500	151,500
Share premium	17	3,000	3,000
Capital redemption reserve	17	210,000	210,000
Capital reserve	17	33,522	41,961
Profit and loss account	17	1,286,592	1,118,817
Equity shareholders' funds	18	<u>1,684,614</u>	<u>1,525,278</u>

Balance sheet

at 31 July 2002

	Note	£	2002	£	2001	£
Fixed assets						
Tangible assets	9		901,980		672,208	
Investments	10		12,016		12,016	
			<u>913,996</u>		<u>684,224</u>	
Current assets						
Debtors	12	2,257,929		2,149,318		
Cash at bank and in hand		8,384		20,030		
		<u>2,266,313</u>		<u>2,169,348</u>		
Creditors: amounts falling due within one year	13	(1,968,241)		(1,728,732)		
		<u></u>		<u></u>		
Net current assets			<u>298,072</u>		<u>440,616</u>	
Total assets less current liabilities			<u>1,212,068</u>		<u>1,124,840</u>	
Creditors: amounts falling due after more than one year	14		(153,900)		(27,910)	
Provisions for liabilities and charges	15		(120,478)		(80,144)	
			<u></u>		<u></u>	
Net assets			<u>937,690</u>		<u>1,016,786</u>	
Capital and reserves						
Called up share capital	16		151,500		151,500	
Share premium	17		3,000		3,000	
Capital redemption reserve	17		210,000		210,000	
Capital reserve	17		16,388		24,827	
Profit and loss account	17		556,802		627,459	
			<u></u>		<u></u>	
Equity shareholders' funds	18		<u>937,690</u>		<u>1,016,786</u>	

These financial statements were approved by the board of directors on 20 December 2002 were signed on its behalf by:



S Morrison
Director

Consolidated cash flow statement
for the year ended 31 July 2002

	<i>Note</i>	2002	2001
		£	£
Net cash inflow from operating activities	22	634,694	656,480
Returns on investments and servicing of finance			
Interest paid		(46,186)	(70,637)
Interest received		3,072	7,707
Net cash outflow from returns on investments and servicing of finance		(43,114)	(62,930)
Taxation			
UK corporation tax paid		(139,929)	(88,997)
Overseas tax paid		(92,577)	(57,749)
Net tax paid		(232,506)	(146,746)
Capital expenditure			
Purchase of tangible fixed assets		(265,294)	(184,136)
Sale of tangible fixed assets		133,902	20,000
Net cash outflow for capital expenditure		(131,392)	(164,136)
Equity dividends paid		(328,104)	(173,770)
Net cash (outflow) inflow before financing		(100,422)	108,898
Financing			
Repayment of bank loan		(48,887)	(49,712)
Capital element of finance lease and hire purchase rental payments		(53,539)	(73,255)
Net cash outflow from financing		(102,426)	(122,967)
Decrease in cash	23	(202,848)	(14,069)

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.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertaking made up to 31 July 2002. 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

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.

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.

Notes (continued)

1 Accounting policies (continued)

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 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.

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:

	2002 £	2001 £
United Kingdom	6,218,331	5,629,973
Rest of Europe	1,285,116	833,932
Africa	491,143	324,616
Rest of World	6,385,964	6,311,388
	<u>14,380,554</u>	<u>13,099,909</u>

3 Profit on ordinary activities before taxation

	2002 £	2001 £
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Hire of plant and machinery	184,717	290,725
Hire of other assets – operating leases	85,357	64,682
Depreciation and amortisation:		
Owned	109,521	109,442
Leased	80,011	51,894
Auditors' remuneration:		
Group - audit	22,000	20,000
- other services	18,000	19,000
Company - audit	13,000	12,000
Exchange loss	59,165	-
<i>after crediting:</i>		
Gain on disposal of fixed assets	73,531	15,839
Exchange gain	-	31,897

Notes *(continued)*

4 Remuneration of directors

	2002 £	2001 £
Directors' emoluments	664,435	613,280
Company contributions to money purchase pension schemes	78,927	65,244

The emoluments of the highest paid director were £185,827 (2001: £166,251) and company pension contributions of £18,938 (2001: £19,018) were made to a money purchase pension scheme on his behalf.

Retirement benefits are accruing to five (2001: five) directors under money purchase pension schemes.

5 Staff numbers and costs

	2002 £	2001 £
Wages and salaries	8,397,563	6,809,987
Social security costs	300,637	209,028
Other pension costs (see note 20)	114,751	93,935
	8,812,951	7,112,950

	Number of employees 2002	2001
The average number of persons, including directors, employed by the group during the year was:	218	202

6 Interest payable and similar charges

	2002 £	2001 £
On bank loans and overdrafts	41,601	64,950
On all over loans	4,339	5,359
Finance charges payable in respect of finance leases and hire purchase contracts	246	328
	46,186	70,637

Notes (continued)

7 Taxation

Analysis of charge in year

	2002	2001
	£	£
<i>UK corporation tax</i>		
Current tax on income for the year	24,867	167,971
Adjustment in respect of prior year	(76)	1,591
	<u>24,791</u>	<u>169,562</u>
Double taxation relief	(6,697)	(24,266)
	<u>18,094</u>	<u>145,296</u>
<i>Foreign tax</i>		
Current tax on income for the year	61,535	72,300
Adjustment in respect of prior year	13,659	5,014
	<u>75,194</u>	<u>77,314</u>
Total current tax	<u>93,288</u>	<u>222,610</u>
<i>Deferred tax (see note 15)</i>		
Charge (credit) for the year	40,334	(4,585)
Adjustment in respect of prior year	-	12,714
	<u>40,334</u>	<u>8,129</u>
	<u>133,622</u>	<u>230,739</u>

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2001: lower) than the standard rate of corporation tax in the UK (30%, 2001: 30%). The differences are explained below:

	2002	2001
	£	£
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	517,032	823,629
Current tax at 30% (2001: 30%)	155,110	247,089
<i>Effects of:</i>		
Expenses not deductible for tax purposes	16,253	12,524
Difference between capital allowances and depreciation for the period	(40,334)	4,585
Capital gains indexation	(3,990)	-
Corporation tax at lower rates	(10,230)	(4,387)
Lower tax rates on overseas earnings	(37,104)	(43,806)
Adjustments to current tax charge in respect of previous periods	13,583	6,605
Total current tax charge (see above)	<u>93,288</u>	<u>222,610</u>

Notes (continued)

8 Dividends

	2002 £	2001 £
Equity		
Ordinary shares:		
Interim dividend paid	40,000	-
Final proposed	122,369	195,513
 A ordinary shares:		
Interim dividend paid	10,000	-
Final	51,705	82,591
	<u>224,074</u>	<u>278,104</u>

9 Tangible fixed assets

Group	Plant and equipment £	Motor vehicles £	Total £
Cost			
At beginning of year	2,087,089	51,136	2,138,225
Additions	468,577	11,835	480,412
Disposals	(120,600)	-	(120,600)
	<u>2,435,066</u>	<u>62,971</u>	<u>2,498,037</u>
At end of year	2,435,066	62,971	2,498,037
 Depreciation			
At beginning of year	1,428,235	36,209	1,464,444
Charge for year	179,821	9,711	189,532
On disposals	(60,229)	-	(60,229)
	<u>1,547,827</u>	<u>45,920</u>	<u>1,593,747</u>
At end of year	1,547,827	45,920	1,593,747
 Net book value			
At 31 July 2002	<u>887,239</u>	<u>17,051</u>	<u>904,290</u>
At 31 July 2001	<u>658,854</u>	<u>14,927</u>	<u>673,781</u>

Notes *(continued)*

9 Tangible fixed assets *(continued)*

Company	Plant and equipment £	Motor vehicles £	Total £
<i>Cost</i>			
At beginning of year	2,050,111	51,136	2,101,247
Additions	466,004	11,835	477,839
Disposals	(120,600)	-	(120,600)
At end of year	2,395,515	62,971	2,458,486
<i>Depreciation</i>			
At beginning of year	1,392,830	36,209	1,429,039
Charge for year	177,985	9,711	187,696
Disposals	(60,229)	-	(60,229)
At end of year	1,510,586	45,920	1,556,506
<i>Net book value</i>			
At 31 July 2002	884,929	17,051	901,980
At 31 July 2001	657,281	14,927	672,208

Included in the total net book value of plant and equipment and motor vehicles in the group and in the company, is £437,823 (2001: £231,799) in respect of assets held under finance leases and hire purchase contracts. Depreciation for the year on these assets was £80,011 (2001: £51,894).

10 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)

11 Stocks

	Group
	2002 £
	2001 £
Work in progress	-
	81,956

12 Debtors

	Group	Company
	2002 £	2001 £
	2002 £	2001 £
Trade debtors	3,559,359	3,559,202
Other debtors	202,581	86,130
Amounts owed by subsidiary undertaking	-	-
	377,729	418,384
	3,761,940	3,645,332
	2,257,929	2,149,318

13 Creditors: amounts falling due within one year

	Group	Company
	2002 £	2001 £
	2002 £	2001 £
Bank loan	-	48,887
Bank overdrafts	836,876	604,639
Trade creditors	628,818	755,331
Obligations under hire purchase contracts	68,363	32,774
UK Corporation tax	34,443	149,581
Other taxation and social security	546,496	572,597
Other creditors	504,922	383,189
Dividends	174,074	278,104
	2,793,992	2,825,102
	1,968,241	1,728,732

Notes *(continued)*

14 Creditors: amounts falling due after more than one year

	Group and company	
	2002	2001
	£	£
Obligations under hire purchase contracts:		
Amounts due in the second to fifth years	153,900	27,910

Analysis of debt:	Company		Group	
	2002	2001	2002	2001
	£	£	£	£
Debt can be analysed as falling due:				
In one year or less, or on demand	905,239	686,300	748,630	323,498
Between one and two years	48,579	23,616	48,579	23,616
Between two and five years	105,321	4,294	105,321	4,294
	1,059,139	714,210	902,530	351,408

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

15 Provisions for liabilities and charges

Group and company	Deferred taxation
	£
At beginning of year	80,144
Charge for the year	40,334
At end of year	120,478

The amounts provided for deferred taxation are set out below:

Group and company	2002	2001
	£	£
Difference between accumulated depreciation and capital allowances	120,478	80,144

Notes *(continued)*

16 Called up share capital

	2002 £	2001 £
<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>		
<i>Equity</i>		
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)*

17 Reserves

	Share premium	Capital redemption reserve	Capital reserve	Profit and loss account
	£	£	£	£
Group				
At beginning of year	3,000	210,000	41,961	1,118,817
Retained profit for year	-	-	-	159,336
Transfer	-	-	(8,439)	8,439
At end of year	3,000	210,000	33,522	1,286,592
Company				
At beginning of year	3,000	210,000	24,827	627,459
Retained profit for year	-	-	-	(79,096)
Amortise capital reserve	-	-	(10,671)	10,671
Amortise goodwill	-	-	2,232	(2,232)
At end of year	3,000	210,000	16,388	556,802

The parent company's profit for the financial year was £144,978 (2001: £284,079).

18 Reconciliation of movements in shareholders' funds

	Group		Company	
	2002 £	2001 £	2002 £	2001 £
Profit for the financial year	383,410	592,890	144,978	284,079
Dividends on equity shares	(224,074)	(278,104)	(224,074)	(278,104)
Net increase (decrease) in shareholders' funds	159,336	314,786	(79,096)	5,975
At beginning of year	1,525,278	1,210,492	1,016,786	1,010,811
At end of year	1,684,614	1,525,278	937,690	1,016,786

Notes (continued)

19 Commitments

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

	Group		Company	
	2002 Land and Buildings £	2001 Land and buildings £	2002 Land and buildings £	2001 Land and buildings £
<i>Operating leases which expire:</i>				
Within 1 year	-	40,148	-	40,148
Within 2-5 years	38,588	37,802	38,588	37,802
Over 5 years	17,000	17,000	-	-
	<u>55,588</u>	<u>94,950</u>	<u>38,588</u>	<u>77,950</u>

20 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 £114,751 (2001: £93,935).

21 Contingent liabilities

The company has guaranteed the overdraft of its subsidiary; the amount outstanding at the year end was £156,609 (2001: £362,802).

Guarantees at the year end in respect of performance bonds entered into the normal course of business amounted to £nil (2001: £69,122) in the group and company.

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

	2002 £	2001 £
Operating profit	560,146	886,559
Depreciation and amortisation	189,532	161,336
Gain on sale of tangible fixed assets	(73,531)	(15,839)
Increase in debtors	(103,918)	(861,168)
(Decrease) increase in creditors	(19,491)	567,548
Decrease (increase) in stocks	81,956	(81,956)
	<u>634,694</u>	<u>656,480</u>
Net cash inflow from operating activities		

Notes (continued)

23 Analysis of net debt

	At 31 July 2001 £	Cash flow £	Other non cash changes £	At 31 July 2002 £
Cash at bank and in hand	57,365	29,389	-	86,754
Bank overdrafts	(604,639)	(232,237)	-	(836,876)
	<u>(547,274)</u>	<u>(202,848)</u>	<u>-</u>	<u>(750,122)</u>
Debt due within one year	(48,887)	48,887	-	-
Hire purchase liabilities	(60,684)	53,539	(215,118)	(222,263)
	<u>(109,571)</u>	<u>102,426</u>	<u>(215,118)</u>	<u>(222,263)</u>
Total	<u><u>(656,845)</u></u>	<u><u>(100,422)</u></u>	<u><u>(215,118)</u></u>	<u><u>(972,385)</u></u>

24 Reconciliation of net cash flow to movement in net debt

	2002 £	2001 £
Decrease in cash in year	(202,848)	(14,069)
Cash outflow from decrease in net debt	102,426	122,967
	<u>(100,422)</u>	<u>108,898</u>
Change in net debt resulting from cash flows	(100,422)	108,898
New hire purchase contracts	(215,118)	(19,456)
	<u>(315,540)</u>	<u>89,442</u>
Movement in net debt in year	(315,540)	89,442
Net debt at beginning of year	(656,845)	(746,287)
	<u><u>(972,385)</u></u>	<u><u>(656,845)</u></u>

25 Related party disclosure

The company is controlled by directors as disclosed in the directors' report.