

Aquatic Engineering & Construction Limited

Directors' report and consolidated
financial statements

Registered number 123734

31 July 2004



8CT 87PUD21Y 0145
COMPANIES HOUSE 18/01/05

Contents

Directors' report	1
Statement of directors' responsibilities	2
Independent auditors' report to the members of Aquatic Engineering & Construction Limited	3
Consolidated profit and loss account	4
Consolidated balance sheet	5
Balance sheet	6
Consolidated cash flow statement	7
Notes	8

Directors' report

The directors present their annual report and audited financial statements for the year ended 31 July 2004.

Principal activity

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

Business review

Personnel secondment has, as predicted, shown a steady increase, with major rewards and new contracts won both in the UK and the Middle East.

The first six months of trading for our pipelay and subsea installation equipment division was slower than anticipated, primarily through project deferment. However, the second half work period improved, with continued momentum which has enabled the group to report a modest profit.

The new Peterhead yard facility has already provided positive responses from our clients through providing a more efficient and wide ranging service.

At the time of writing, the "Step Out Solutions" alliance has not yet won an award although market awareness has been enhanced which has resulted in independent hire of our equipment.

The Directors are highly optimistic on all fronts for the remainder of 2004 and beyond.

Proposed dividend

The directors recommend payment of a final dividend of £15,612 (2003: £88,395) on the ordinary shares and £6,596 (2003: £37,350) on the A ordinary shares.

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

George Macintosh was appointed a director on 1 August 2004.

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 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
2 December 2004

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 20.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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 group 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 2004 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

KPMG LLP
Chartered Accountants
Registered Auditor

2 December 2004

Consolidated profit and loss account
for the year ended 31 July 2004

	<i>Note</i>	2004 £	2003 £
Turnover	2	15,579,614	14,549,935
Cost of sales		(13,857,613)	(12,724,680)
Gross profit		1,722,001	1,825,255
Administrative expenses		(1,587,352)	(1,497,685)
Operating profit		134,649	327,570
Interest receivable		8,924	128,090
Interest payable and similar charges	6	(77,608)	(82,031)
Profit on ordinary activities before taxation	3-5	65,965	373,629
Tax on profit on ordinary activities	7	41,910	(28,818)
Profit for the financial year		107,875	344,811
Dividends on equity shares	8	(22,208)	(125,745)
Retained profit for the financial year	17	85,667	219,066

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 2004

	<i>Note</i>	£	2004 £	£	2003 £
Fixed assets					
Intangible assets	9		215,402		-
Tangible assets	10		1,982,089		937,218
			2,197,491		937,218
Current assets					
Debtors	12	4,047,190		4,388,362	
Cash at bank and in hand		222,029		157,111	
		4,269,219		4,545,473	
Creditors: amounts falling due within one year	13	(4,262,780)		(3,418,345)	
Net current assets			6,439		1,127,128
Total assets less current liabilities			2,203,930		2,064,346
Creditors: amounts falling due after more than one year	14		(158,373)		(69,315)
Provisions for liabilities and charges	15		(56,210)		(91,351)
Net assets			1,989,347		1,903,680
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		17,134		25,083
Profit and loss account	17		1,607,713		1,514,097
Equity shareholders' funds	18		1,989,347		1,903,680

Balance sheet

at 31 July 2004

	Note	£	2004	£	£	2003	£
Fixed assets							
Intangible assets	9		215,402			-	
Tangible assets	10		1,978,491			934,923	
Investments	11		12,016			12,016	
			<u>2,205,909</u>			<u>946,939</u>	
Current assets							
Debtors	12	2,083,174		2,305,628			
Cash at bank and in hand		9,912		124,066			
		<u>2,093,086</u>		<u>2,429,694</u>			
Creditors: amounts falling due within one year	13	(3,483,191)		(2,383,275)			
Net current (liabilities) assets			<u>(1,390,105)</u>			<u>46,419</u>	
Total assets less current liabilities			<u>815,804</u>			<u>993,358</u>	
Creditors: amounts falling due after more than one year	14		(158,373)			(69,315)	
Provisions for liabilities and charges	15		(56,210)			(91,351)	
Net assets			<u>601,221</u>			<u>832,692</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		-			7,949	
Profit and loss account	17		236,721			460,243	
Equity shareholders' funds	18		<u>601,221</u>			<u>832,692</u>	

These financial statements were approved by the board of directors on 2 December 2004 and were signed on its behalf by:



S Morrison
Director

Consolidated cash flow statement
for the year ended 31 July 2004

	Note	2004	2003
		£	£
Net cash inflow from operating activities	22	995,711	24,597
Returns on investments and servicing of finance			
Interest paid		(77,608)	(82,031)
Interest received		8,924	128,090
Net cash (outflow) inflow from returns on investments and servicing of finance		(68,684)	46,059
Taxation			
UK corporation tax (paid) received		(17,564)	32,111
Overseas tax received (paid)		48,417	(100,888)
Net tax received (paid)		30,853	(68,777)
Capital expenditure			
Purchase of tangible fixed assets		(1,146,278)	(358,129)
Development expenditure		(123,786)	
Sale of tangible fixed assets		447	342,039
Net cash outflow for capital expenditure		(1,269,617)	(16,090)
Equity dividends paid		(125,745)	(174,074)
Net cash outflow before financing		(437,482)	(188,285)
Financing			
Capital element of finance lease and hire purchase rental payments		(82,884)	(119,325)
Net cash outflow from financing		(82,884)	(119,325)
Decrease in cash	23	(520,366)	(307,610)

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 2004. 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:

Heritable land and buildings	-	50 years
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.

Notes (continued)

1 Accounting policies (continued)

Taxation

The charge or credit for taxation is based on the profit or loss 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.

Research and development expenditure

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

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:

	2004 £	2003 £
United Kingdom	5,771,077	5,700,875
Rest of Europe	1,518,122	1,028,355
Africa	310,831	526,398
Rest of World	7,979,584	7,294,307
	<u>15,579,614</u>	<u>14,549,935</u>

3 Profit on ordinary activities before taxation

	2004 £	2003 £
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Hire of plant and machinery	399,251	295,325
Hire of other assets – operating leases	45,974	48,960
Depreciation and amortisation:		
Owned	180,871	140,672
Leased	25,989	38,120
Auditors' remuneration:		
Group	27,500	29,700
- audit	28,000	39,600
- other services	14,500	14,000
Company	14,500	14,000
<i>after crediting:</i>		
Gain on disposal of fixed assets	447	195,630
Exchange gain	59,644	4,273
	<u>447</u>	<u>195,630</u>
	<u>59,644</u>	<u>4,273</u>

Notes (continued)

4 Remuneration of directors

	2004	2003
	£	£
Directors' emoluments	629,081	640,934
Company contributions to money purchase pension schemes	89,191	88,663

The emoluments of the highest paid director were £175,989 (2003: £181,245) and company pension contributions of £22,293 (2003: £22,160) were made to a money purchase pension scheme on his behalf.

Retirement benefits are accruing to five (2003: five) directors under money purchase pension schemes.

5 Staff numbers and costs

	2004	2003
	£	£
Wages and salaries	9,024,677	8,803,771
Social security costs	312,283	311,367
Other pension costs (see note 20)	138,434	132,603
	9,475,394	9,247,741

Number of employees
2004 **2003**

The average number of persons, including directors, employed by the group during the year was:	205	232
--	------------	-----

6 Interest payable and similar charges

	2004	2003
	£	£
On bank loans and overdrafts	65,239	63,815
On all over loans	7,325	8,550
Finance charges payable in respect of finance leases and hire purchase contracts	5,044	9,666
	77,608	82,031

Notes (continued)

7 Taxation

Analysis of credit (2003: charge) in year

	2004	2003
	£	£
<i>UK corporation tax</i>		
Current tax on income for the year	3,602	6,048
Adjustment in respect of prior year	-	(30,925)
	<u>3,602</u>	<u>(24,877)</u>
Double taxation relief	(3,602)	(6,048)
	<u>-</u>	<u>(30,925)</u>
<i>Foreign tax</i>		
Current tax on income for the year	79,504	46,548
Adjustment in respect of prior year	(86,273)	42,322
	<u>(6,769)</u>	<u>88,870</u>
Total current tax	<u>(6,769)</u>	<u>57,945</u>
<i>Deferred tax (see note 14)</i>		
Origination of timing differences	(35,141)	15,049
Effect of decreased tax rate	-	(44,176)
	<u>(35,141)</u>	<u>(29,127)</u>
Tax on profit on ordinary activities	<u>(41,910)</u>	<u>28,818</u>

Factors affecting the current tax credit (2003: charge)

The current tax credit (2003: charge) for the period is lower (2003: lower) than the standard rate of corporation tax in the UK (30%, 2003: 30%). The differences are explained below:

	2004	2003
	£	£
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	65,965	373,629
Current tax at 30% (2003: 30%)	<u>19,789</u>	<u>112,089</u>
<i>Effects of:</i>		
Expenses not deductible for tax purposes	23,236	35,234
Difference between capital allowances and depreciation for the year	(74,803)	(23,762)
Capital gains indexation	-	(4,314)
Corporation tax at lower rates	(2,448)	(3,502)
Tax losses carried forward	126,735	-
Overseas tax adjustment	2,101	-
Other timing differences	3,554	-
Withholding tax adjustment	8,261	-
Lower tax rates on overseas earnings	(26,921)	(69,197)
Adjustments in respect of previous periods	(86,273)	11,397
Total current tax (credit) charge (see above)	<u>(6,769)</u>	<u>57,945</u>

Notes (continued)

8 Dividends

	2004 £	2003 £
Equity		
Ordinary shares:		
Final proposed	15,612	88,395
A ordinary shares:		
Final	6,596	37,350
	<u>22,208</u>	<u>125,745</u>

9 Intangible fixed assets

Group and company

	2004 Deferred development expenditure £
Cost	
Transfer from tangible fixed assets	91,616
Additions	123,786
	<u>215,402</u>
At end of year	<u>215,402</u>
Amortisation	
At beginning and end of year	-
	<u>-</u>
Net book value	
At 31 July 2004	<u>215,402</u>
At 31 July 2003	<u>-</u>

The transfer of £91,616 from tangible fixed assets represents development expenditure incurred in the previous year. This transfer has had no effect on the amount of net assets disclosed at the year end or at the previous year end.

Notes *(continued)*

10 Tangible fixed assets

Group	Heritable land and buildings £	Plant and equipment £	Motor vehicles £	Total £
<i>Cost</i>				
At beginning of year	17,661	2,557,670	62,971	2,638,302
Additions	707,897	635,450	-	1,343,347
Disposals	-	-	(11,281)	(11,281)
Transfer to intangibles	-	(91,616)	-	(91,616)
At end of year	725,558	3,101,504	51,690	3,878,752
<i>Depreciation</i>				
At beginning of year	-	1,648,118	52,966	1,701,084
Charge for year	14,511	185,303	7,046	206,860
On disposals	-	-	(11,281)	(11,281)
At end of year	14,511	1,833,421	48,731	1,896,663
<i>Net book value</i>				
At 31 July 2004	711,047	1,268,083	2,959	1,982,089
At 31 July 2003	17,661	909,552	10,005	937,218

Notes (continued)

10 Tangible fixed assets (continued)

Company	Heritable land and buildings £	Plant and equipment £	Motor vehicles £	Total £
Cost				
At beginning of year	17,661	2,517,079	62,971	2,597,711
Additions	707,897	631,912	-	1,339,809
Disposals	-	-	(11,281)	(11,281)
Transfer to intangibles	-	(91,616)	-	(91,616)
At end of year	725,558	3,057,375	51,690	3,834,623
Depreciation				
At beginning of year	-	1,609,822	52,966	1,662,788
Charge for year	14,511	183,068	7,046	204,625
Disposals	-	-	(11,281)	(11,281)
At end of year	14,511	1,792,890	48,731	1,856,132
Net book value				
At 31 July 2004	711,047	1,264,485	2,959	1,978,491
At 31 July 2003	17,661	907,257	10,005	934,923

Included in the total net book value of plant and equipment and motor vehicles in the group and in the company, is £136,601 (2003: £196,265) in respect of assets held under finance leases and hire purchase contracts. Depreciation for the year on these assets was £25,989 (2003: £38,120).

Included in the cost of tangible fixed assets in the group and in the company is expenditure amounting to £434,853 (2003: £90,801) on assets in the course of construction. Depreciation will be provided on those assets from the date on which they are brought into use.

11 Fixed asset investments

	£
Shares in subsidiary undertaking (unlisted)	
Cost	
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 Debtors

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Trade debtors	3,550,370	4,153,306	1,708,307	2,011,731
Other debtors	496,820	235,056	353,656	77,743
Amounts owed by subsidiary undertaking	-	-	21,211	216,154
	<u>4,047,190</u>	<u>4,388,362</u>	<u>2,083,174</u>	<u>2,305,628</u>

13 Creditors: amounts falling due within one year

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Bank overdrafts	1,800,127	1,214,843	1,800,127	1,062,465
Trade creditors	1,297,550	942,782	1,038,182	639,359
Obligations under hire purchase contracts	58,750	33,623	58,750	33,623
UK corporation tax	5,709	23,273	5,709	23,273
Other taxation and social security	182,237	223,700	85,881	167,857
Other creditors	896,199	854,379	472,334	330,953
Dividends	22,208	125,745	22,208	125,745
	<u>4,262,780</u>	<u>3,418,345</u>	<u>3,483,191</u>	<u>2,383,275</u>

Notes (continued)

14 Creditors: amounts falling due after more than one year

	Group and company	
	2004	2003
	£	£
Obligations under hire purchase contracts:		
Amounts due in the second to fifth years	158,373	69,315

Analysis of debt:	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Debt can be analysed as falling due:				
In one year or less, or on demand	1,858,877	1,248,466	1,858,877	1,096,088
Between one and two years	57,172	29,214	57,172	29,214
Between two and five years	101,201	40,101	101,201	40,101
	2,017,250	1,317,781	2,017,250	1,165,403

Bank borrowings are secured by a bond and floating charge over the assets of the parent company, a standard security over the parent company's heritable property, together with cross guarantees between the group companies. Liabilities under hire purchase contracts are secured over the assets concerned.

15 Provisions for liabilities and charges

Group and company	Deferred taxation
	£
At beginning of year	91,351
Credit to the profit and loss account for the year	(35,141)
At end of year	56,210

The amounts provided for deferred taxation are set out below:

Group and company	2004	2003
	£	£
Difference between accumulated depreciation and capital allowances	138,726	91,351
Tax losses carried forward	(80,265)	-
Other timing differences	(2,251)	-
	56,210	91,351

Notes *(continued)*

16 Called up share capital

	2004 £	2003 £
<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	25,083	1,514,097
Retained profit for year	-	-	-	85,667
Transfer	-	-	(7,949)	7,949
At end of year	3,000	210,000	17,134	1,607,713
Company				
At beginning of year	3,000	210,000	7,949	460,243
Retained loss for year	-	-	-	(231,471)
Amortise capital reserve	-	-	(21,331)	21,331
Amortise goodwill	-	-	13,382	(13,382)
At end of year	3,000	210,000	-	236,721

The parent company's loss for the financial year was £209,263 (2003: profit £20,747).

18 Reconciliation of movements in shareholders' funds

	Group		Company	
	2004 £	2003 £	2004 £	2003 £
Profit (loss) for the financial year	85,667	344,811	(209,263)	20,747
Dividends on equity shares	-	(125,745)	(22,208)	(125,745)
Net increase (decrease) in shareholders' funds	85,667	219,066	(231,471)	(104,998)
At beginning of year	1,903,680	1,684,614	832,692	937,690
At end of year	1,989,347	1,903,680	601,221	832,692

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	
	2004 Land and Buildings £	2003 Land and buildings £	2004 Land and buildings £	2003 Land and buildings £
<i>Operating leases which expire:</i>				
Within 2-5 years	47,222	17,000	28,222	-
Over 5 years	-	28,222	-	28,222
	<u>47,222</u>	<u>45,222</u>	<u>28,222</u>	<u>28,222</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 £138,434 (2003: £132,603).

21 Contingent liabilities

The company has guaranteed the overdraft of its subsidiary; the amount outstanding at the year end was £nil (2003: £152,378).

Guarantees at the year end in respect of performance bonds entered into the normal course of business amounted to £81,188 (2003: £nil) in the group and company.

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

	2004 £	2003 £
Operating profit	134,649	327,570
Depreciation and amortisation	206,860	178,792
Gain on sale of tangible fixed assets	(447)	(195,630)
Decrease (increase) in debtors	329,936	(613,825)
Increase in creditors	324,713	327,690
	<u>995,711</u>	<u>24,597</u>
Net cash inflow from operating activities		

Notes *(continued)*

23 Analysis of net debt

	At 31 July 2003 £	Cash flow £	Other non cash changes £	At 31 July 2004 £
Cash at bank and in hand	157,111	64,918	-	222,029
Bank overdrafts	(1,214,843)	(585,284)	-	(1,800,127)
	<u>(1,057,732)</u>	<u>(520,366)</u>	<u>-</u>	<u>(1,578,098)</u>
Hire purchase liabilities	(102,938)	82,884	(197,069)	(217,123)
Total	<u><u>(1,160,670)</u></u>	<u><u>(437,482)</u></u>	<u><u>(197,069)</u></u>	<u><u>(1,795,221)</u></u>

24 Reconciliation of net cash flow to movement in net debt

	2004 £	2003 £
Decrease in cash in year	(520,366)	(307,610)
Cash outflow from decrease in net debt	82,884	119,325
	<u>(437,482)</u>	<u>(188,285)</u>
Change in net debt resulting from cash flows	(437,482)	(188,285)
New hire purchase contracts	(197,069)	-
	<u>(634,551)</u>	<u>(188,285)</u>
Movement in net debt in year	(1,160,670)	(972,385)
Net debt at beginning of year	<u>(1,160,670)</u>	<u>(1,160,670)</u>
Net debt at end of year	<u><u>(1,795,221)</u></u>	<u><u>(1,160,670)</u></u>

25 Related party disclosure

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