

Aquatic Engineering & Construction Limited

**Directors' report and consolidated
financial statements**

Registered number 123734

31 July 2005



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Directors' report

The directors present their annual report and audited financial statements for the year ended 31 July 2005.

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

The directors are happy to report that the year ending 31 July 2005 has been a pleasing one in the development of the company.

Significant returns have been achieved from the implementation of earlier strategic decisions made in 2003 and 2004, to both consolidate the company's personnel services within a defined geographic and client specific framework, and also to expand its equipment services offering, through the build up of its engineering resources and the steady build up of additional and improved equipment.

The decision to purpose build a new yard facility in Peterhead in 2004 has made a meaningful contribution to the company's equipment services both in terms of operational efficiencies and capabilities and is now well set to continue to offer such improvements on a sustained basis.

At the time of writing, the directors continue to see strong activity levels for the company, and overall demands within the international oil and gas industry are high.

Proposed dividend

The directors recommend payment of a final dividend of £385,171 (2004: £15,612) on the ordinary shares and £162,748 (2004: £6,596) on the A ordinary shares. Interim dividends of £106,500 (2004: £nil) on the ordinary shares and £45,000 (£nil) 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
George Mackintosh (appointed 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	-
George Mackintosh	-

Political and charitable contributions

During the year the group made a donation of £2,000 to the Scottish National Party. Donations to UK charities amounted to £2,137.

Directors' report *(continued)*

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

29 November 2005

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 5 to 21.

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 3, 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 2005 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

26 January 2006

Consolidated profit and loss account
for the year ended 31 July 2005

	<i>Note</i>	2005 £	2004 £
Turnover	2	19,450,451	15,579,614
Cost of sales		(16,243,887)	(13,857,613)
Gross profit		3,206,564	1,722,001
Administrative expenses		(1,719,041)	(1,587,352)
Operating profit		1,487,523	134,649
Interest receivable		4,276	8,924
Interest payable and similar charges	6	(106,810)	(77,608)
Profit on ordinary activities before taxation	3-5	1,384,989	65,965
Tax on profit on ordinary activities	7	(411,149)	41,910
Profit for the financial year		973,840	107,875
Dividends on equity shares	8	(699,419)	(22,208)
Retained profit for the financial year	17	274,421	85,667

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 2005

	<i>Note</i>	2005	2004
		£	£
Fixed assets			
Intangible assets	9	-	215,402
Tangible assets	10	2,539,949	1,982,089
		<u>2,539,949</u>	<u>2,197,491</u>
Current assets			
Debtors	12	4,928,441	4,047,190
Cash at bank and in hand		638,503	222,029
		<u>5,566,944</u>	<u>4,269,219</u>
Creditors: amounts falling due within one year	13	(4,815,956)	(4,262,780)
Net current assets		<u>750,988</u>	<u>6,439</u>
Total assets less current liabilities		<u>3,290,937</u>	<u>2,203,930</u>
Creditors: amounts falling due after more than one year	14	(764,251)	(158,373)
Provisions for liabilities and charges	15	(262,918)	(56,210)
Net assets		<u>2,263,768</u>	<u>1,989,347</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	17,134	17,134
Profit and loss account	17	1,882,134	1,607,713
Equity shareholders' funds	18	<u>2,263,768</u>	<u>1,989,347</u>

Balance sheet
at 31 July 2005

	Note	£	2005	£	£	2004	£
Fixed assets							
Intangible assets	9		-			215,402	
Tangible assets	10		2,537,929			1,978,491	
Investments	11		12,016			12,016	
			<u>2,549,945</u>			<u>2,205,909</u>	
Current assets							
Debtors	12	3,700,071		2,083,174			
Cash at bank and in hand		784		9,912			
		<u>3,700,855</u>		<u>2,093,086</u>			
Creditors: amounts falling due within one year	13	(4,611,147)		(3,483,191)			
Net current liabilities			<u>(910,292)</u>			<u>(1,390,105)</u>	
Total assets less current liabilities			<u>1,639,653</u>			<u>815,804</u>	
Creditors: amounts falling due after more than one year	14		(764,251)			(158,373)	
Provisions for liabilities and charges	15		<u>(262,918)</u>			<u>(56,210)</u>	
Net assets			<u>612,484</u>			<u>601,221</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	
Profit and loss account	17		247,984			236,721	
Equity shareholders' funds	18		<u>612,484</u>			<u>601,221</u>	

These financial statements were approved by the board of directors on 29 November 2005 and were signed on its behalf by:



S Morrison
Director

Consolidated cash flow statement
for the year ended 31 July 2005

	<i>Note</i>	2005	2004
		£	£
Net cash inflow from operating activities	22	1,205,328	995,711
Returns on investments and servicing of finance			
Interest paid		(82,616)	(72,564)
Interest received		4,276	8,924
Interest element of hire purchase contracts		(24,194)	(5,044)
Net cash outflow from returns on investments and servicing of finance		(102,534)	(68,684)
Taxation			
UK corporation tax paid		(4,162)	(17,564)
Overseas tax (paid) recovered		(95,654)	48,417
Net tax (paid) recovered		(99,816)	30,853
Capital expenditure			
Purchase of tangible fixed assets		(443,623)	(1,146,278)
Development expenditure		-	(123,786)
Sale of tangible fixed assets		7,981	447
Net cash outflow for capital expenditure		(435,642)	(1,269,617)
Equity dividends paid		(173,708)	(125,745)
Net cash inflow (outflow) before financing		393,628	(437,482)
Financing			
New bank loan		560,000	-
Bank loan repayment		(60,000)	-
Capital element of finance lease and hire purchase rental payments		(142,175)	(82,884)
Net cash inflow (outflow) from financing		357,825	(82,884)
Increase (decrease) in cash	23	751,453	(520,366)

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 2005. 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. The unamortised balance of expenditure is reviewed for impairment at each accounting date.

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:

	2005 £	2004 £
United Kingdom	6,750,606	5,771,077
Rest of Europe	2,132,110	1,518,122
Africa	2,784,298	310,831
Rest of World	7,783,437	7,979,584
	<u>19,450,451</u>	<u>15,579,614</u>

3 Profit on ordinary activities before taxation

	2005 £	2004 £
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Hire of plant and machinery	439,425	399,251
Hire of other assets – operating leases	47,453	45,974
Depreciation and amortisation of tangible fixed assets:		
Owned	212,626	180,871
Leased	99,426	25,989
Impairment of intangible fixed asset	215,402	-
Auditors' remuneration:		
Group - audit	29,000	27,500
- other services	33,500	28,000
Company - audit	15,500	14,500
<i>after crediting:</i>		
Gain on disposal of fixed assets	7,981	447
Exchange gain	26,901	59,644

Notes *(continued)*

4 Remuneration of directors

	2005 £	2004 £
Directors' emoluments	1,042,408	629,081
Company contributions to money purchase pension schemes	99,406	89,191

The emoluments of the highest paid director were £241,256 (2004: £175,989) and company pension contributions of £20,150 (2004: £22,293) were made to a money purchase pension scheme on his behalf.

Retirement benefits are accruing to six (2004: five) directors under money purchase pension schemes.

5 Staff numbers and costs

	2005 £	2004 £
Wages and salaries	9,008,736	9,024,677
Social security costs	432,455	312,283
Other pension costs (see note 20)	159,926	138,434
	9,601,117	9,475,394

	Number of employees 2005	2004
The average number of persons, including directors, employed by the group during the year was:	316	205

6 Interest payable and similar charges

	2005 £	2004 £
On bank loans and overdrafts	78,812	65,239
Other interest	3,804	7,325
Finance charges payable in respect of finance leases and hire purchase contracts	24,194	5,044
	106,810	77,608

Notes (continued)

7 Taxation

Analysis of charge (2004: credit) in year

	2005	2004
	£	£
<i>UK corporation tax</i>		
Current tax on income for the year	170,595	3,602
Adjustment in respect of prior year	(1,547)	-
	<u>169,048</u>	<u>3,602</u>
Double taxation relief	-	(3,602)
	<u>169,048</u>	-
<i>Foreign tax</i>		
Current tax on income for the year	41,096	79,504
Adjustment in respect of prior year	(5,703)	(86,273)
	<u>35,393</u>	<u>(6,769)</u>
Total current tax	<u>204,441</u>	<u>(6,769)</u>
<i>Deferred tax (see note 15)</i>		
Origination/reversal of timing differences	174,678	(35,141)
Effect of increased tax rate	32,354	-
Adjustment in respect of previous years	(324)	-
	<u>206,708</u>	<u>(35,141)</u>
Tax on profit on ordinary activities	<u>411,149</u>	<u>(41,910)</u>

Factors affecting the tax charge (2004: credit) for the current period

The current tax charge (2004: credit) for the period is lower (2004: lower) than the standard rate of corporation tax in the UK (30%, 2004: 30%). The differences are explained below:

	2005	2004
	£	£
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	1,384,989	65,965
Current tax at 30% (2004: 30%)	<u>415,496</u>	<u>19,789</u>
<i>Effects of:</i>		
Expenses not deductible for tax purposes	25,952	23,236
Difference between capital allowances and depreciation for the year	(69,454)	(74,803)
Corporation tax at lower rates	(4,568)	(2,448)
Utilisation of tax losses	(102,761)	-
Tax losses carried forward	-	126,735
Overseas tax adjustment	20,718	10,362
Other timing differences	(2,463)	3,554
Lower tax rates on overseas earnings	(71,229)	(26,921)
Adjustments in respect of previous periods	(7,250)	(86,273)
Total current tax charge (credit) (see above)	<u>204,441</u>	<u>(6,769)</u>

Notes *(continued)*

8 Dividends

	2005	2004
	£	£
Equity		
Ordinary shares:		
Interim paid	106,500	-
Final proposed	385,171	15,612
Participating dividends on 'A' ordinary shares:		
Interim paid	45,000	-
Final	162,748	6,596
	699,419	22,208

9 Intangible fixed assets

Group and company

	2005
	Deferred
	development
	expenditure
	£
Cost	
At beginning and end of year	215,402
Impairment	
Charged in year	215,402
At end of year	215,402
Net book value	
At 31 July 2005	-
At 31 July 2004	215,402

Notes *(continued)*

10 Tangible fixed assets

Group	Heritable land and buildings £	Plant and equipment £	Motor vehicles £	Total £
<i>Cost</i>				
At beginning of year	725,558	3,101,504	51,690	3,878,752
Additions	-	814,756	55,156	869,912
Disposals	-	-	(30,809)	(30,809)
At end of year	725,558	3,916,260	76,037	4,717,855
<i>Depreciation</i>				
At beginning of year	14,511	1,833,421	48,731	1,896,663
Charge for year	14,511	280,794	16,747	312,052
On disposals	-	-	(30,809)	(30,809)
At end of year	29,022	2,114,215	34,669	2,177,906
<i>Net book value</i>				
At 31 July 2005	696,536	1,802,045	41,368	2,539,949
At 31 July 2004	711,047	1,268,083	2,959	1,982,089

Notes (continued)

10 Tangible fixed assets (continued)

Company	Heritable land and buildings £	Plant and equipment £	Motor vehicles £	Total £
Cost				
At beginning of year	725,558	3,057,375	51,690	3,834,623
Additions	-	814,756	55,156	869,912
Disposals	-	-	(30,809)	(30,809)
At end of year	725,558	3,872,131	76,037	4,673,726
Depreciation				
At beginning of year	14,511	1,792,890	48,731	1,856,132
Charge for year	14,511	279,216	16,747	310,474
Disposals	-	-	(30,809)	(30,809)
At end of year	29,022	2,072,106	34,669	2,135,797
Net book value				
At 31 July 2005	696,536	1,800,025	41,368	2,537,929
At 31 July 2004	711,047	1,264,485	2,959	1,978,491

Included in the total net book value of plant and equipment and motor vehicles in the group and in the company, is £738,659 (2004: £136,601) in respect of assets held under finance leases and hire purchase contracts. Depreciation for the year on these assets was £99,426 (2004: £25,989).

Included in the cost of tangible fixed assets in the group and in the company is expenditure amounting to £103,576 (2004: £434,853) 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	
	2005	2004	2005	2004
	£	£	£	£
Trade debtors	4,516,054	3,550,370	3,361,073	1,708,307
Other debtors	412,387	496,820	338,998	353,656
Amounts owed by subsidiary undertaking	-	-	-	21,211
	<u>4,928,441</u>	<u>4,047,190</u>	<u>3,700,071</u>	<u>2,083,174</u>

13 Creditors: amounts falling due within one year

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Bank overdrafts	1,465,148	1,800,127	1,465,148	1,800,127
Bank loan	80,000	-	80,000	-
Trade creditors	1,316,252	1,297,550	1,144,390	1,038,182
Amount owed to subsidiary undertaking	-	-	234,134	-
Obligations under hire purchase contracts	156,986	58,750	156,986	58,750
UK corporation tax	170,595	5,709	170,595	5,709
Other taxation and social security	309,896	182,237	286,891	85,881
Other creditors	769,160	896,199	525,084	472,334
Dividends	547,919	22,208	547,919	22,208
	<u>4,815,956</u>	<u>4,262,780</u>	<u>4,611,147</u>	<u>3,483,191</u>

Notes (continued)

14 Creditors: amounts falling due after more than one year

	Group and company	
	2005	2004
	£	£
Obligations under hire purchase contracts:		
Amounts due in the second to fifth years	344,251	158,373
Bank loan	420,000	-
	764,251	158,373

Analysis of debt:	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Debt can be analysed as falling due:				
In one year or less, or on demand	1,545,148	1,800,127	1,545,148	1,800,127
Between one and two years	80,000	-	80,000	-
Between two and five years	240,000	-	240,000	-
In over five years	100,000	-	100,000	-
	1,965,148	1,800,127	1,965,148	1,800,127

The bank loan is repayable by quarterly instalments, the final instalment being due in September 2011. The interest charged is related to bank base rate.

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	56,210
Charge to the profit and loss account for the year	206,708
At end of year	262,918

The amounts provided for deferred taxation are set out below:

Group and company	2005	2004
	£	£
Difference between accumulated depreciation and capital allowances	264,010	138,726
Tax losses carried forward	-	(80,265)
Other timing differences	(1,092)	(2,251)
	262,918	56,210

Notes (continued)

16 Called up share capital

	2005 £	2004 £
<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	17,134	1,607,713
Retained profit for year	-	-	-	274,421
At end of year	3,000	210,000	17,134	1,882,134
Company				
At beginning of year	3,000	210,000	-	236,721
Retained profit for year	-	-	-	11,263
At end of year	3,000	210,000	-	247,984

The parent company's profit for the financial year was £710,682 (2004: loss £209,263).

18 Reconciliation of movements in shareholders' funds

	Group		Company	
	2005 £	2004 £	2005 £	2004 £
Profit (loss) for the financial year	973,840	107,875	710,682	(209,263)
Dividends on equity shares	(699,419)	(22,208)	(699,419)	(22,208)
Net increase (decrease) in shareholders' funds	274,421	85,667	11,263	(231,471)
At beginning of year	1,989,347	1,903,680	601,221	832,692
At end of year	2,263,768	1,989,347	612,484	601,221

Notes *(continued)*

19 Commitments

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

	Group		Company	
	2005	2004	2005	2004
	Land and	Land and	Land and	Land and
	Buildings	buildings	buildings	buildings
	£	£	£	£
<i>Operating leases which expire:</i>				
Within 1 year	19,000	19,000	-	-
Within 2-5 years	41,858	28,222	41,858	28,222
	60,858	47,222	41,858	28,222

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 £159,926 (2004: £138,434).

21 Contingent liabilities

Guarantees at the year end in respect of performance bonds entered into the normal course of business amounted to £nil (2004: £81,188) in the group and company.

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

	2005	2004
	£	£
Operating profit	1,487,523	134,649
Depreciation and amortisation of tangible fixed assets	312,052	206,860
Impairment of intangible fixed asset	215,402	-
Gain on sale of tangible fixed assets	(7,981)	(447)
(Increase) decrease in debtors	(888,693)	329,936
Increase in creditors	87,025	324,713
Net cash inflow from operating activities	1,205,328	995,711

Notes *(continued)*

23 Analysis of net debt

	At 31 July 2004 £	Cash flow £	Other non cash changes £	At 31 July 2005 £
Cash at bank and in hand	222,029	416,474	-	638,503
Bank overdrafts	(1,800,127)	334,979	-	(1,465,148)
	<u>(1,578,098)</u>	<u>751,453</u>	<u>-</u>	<u>(826,645)</u>
Debt due within one year	-	-	(80,000)	(80,000)
Debt due after one year	-	-	(420,000)	(420,000)
New bank loan, less repaid	-	(500,000)	500,000	-
Hire purchase liabilities	(217,123)	142,175	(426,289)	(501,237)
	<u>(1,795,221)</u>	<u>393,628</u>	<u>(426,289)</u>	<u>(1,827,882)</u>

The other non-cash changes of £426,289 are in respect of new hire purchase contracts.

24 Reconciliation of net cash flow to movement in net debt

	2005 £	2004 £
Decrease in cash in year	751,453	(520,366)
Cash (inflow) outflow from (increase) decrease in net debt	(357,825)	82,884
	<u>393,628</u>	<u>(437,482)</u>
Change in net debt resulting from cash flows	(426,289)	(197,069)
	<u>(32,661)</u>	<u>(634,551)</u>
Movement in net debt in year	(1,795,221)	(1,160,670)
Net debt at beginning of year	-	-
	<u>(1,827,882)</u>	<u>(1,795,221)</u>

25 Related party disclosure

The company is controlled by directors as disclosed in the directors' report. There were no related party transactions.