



**REPORT AND FINANCIAL STATEMENTS**

31ST DECEMBER 2004



# *REPORT AND FINANCIAL STATEMENTS*

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31st December 2004

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# DIRECTORS AND ADVISERS

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<b>Directors</b>	Antony Gerard Ebel ( <i>Non-Executive Chairman</i> ) John Hallin Giddens ( <i>Chief Executive</i> ) John Barry Quinn ( <i>Non-Executive</i> ) Tanya Maria O'Carroll ( <i>Non-Executive, Isle of Man</i> )
<b>Registered Office and Head Office</b>	International House, Castle Hill, Victoria Road, Douglas, Isle of Man IM2 4RB
<b>Company Secretary</b>	Niamh Goddard, International House, Castle Hill, Victoria Road, Douglas, Isle of Man IM2 4RB
<b>Nominated Adviser</b>	ARM Corporate Finance Limited 12 Pepper Street, London E14 9RP
<b>Broker</b>	J M Finn & Co. Salisbury, House, London Wall, London EC2M 5TA
<b>Auditors</b>	Moores Rowland Certified Public Accountants, Singapore 133 Cecil Street, #15-02 Keck Seng Tower, Singapore 069535
<b>Solicitors to the Company:</b>	
<b>UK</b>	DMH Stallard Centurion House, 37 Jewry Street, London EC3N 2ER
<b>Isle of Man</b>	Dickinson Cruickshank 33 Athol Street, Douglas, Isle of Man IM1 1LB
<b>Bankers</b>	Royal Bank of Scotland PO Box 64, 71 Bath Street, St Helier, Jersey Channel Islands, JE4 8PJ  Barclays Bank plc Isle of Man International Banking Centre, Barclays House, Victoria Street, Douglas, Isle of Man IM1 2LE
<b>CREST Registrars</b>	Neville Registrars Limited Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA
<b>Corporate Services Provider in the Isle of Man</b>	IFG International Limited International House, Castle Hill, Victoria Road, Douglas, Isle of Man IM2 4RB

# *CHAIRMAN AND CHIEF EXECUTIVE'S REPORT*

We are pleased to report that in the second year of the new structure the Hallin Marine Subsea International Group achieved a total turnover of US\$20,222,089 for the year, more than double the turnover for the eleven month period of operation in 2003, which amounted to US\$787,200. The profit from operations for the year was US\$1,348,125 as against US\$48,015 for 2003.

In response to the increasing demand from our clients, your Group increased its investment in a further Saturation Diving System through the completion of SAT 002 at the company facility in Singapore together with a further Air/Surface Mixed Gas Diving System. Utilisation of the Group's own assets increased in the year to approximately 70% and additionally, frequent use has had to be made of third party rental systems. Inevitably this has impacted adversely upon overall project profitability. With the continuing customer demand construction started in October 2004 on a further Saturation Diving System (SAT 003) which is scheduled for completion in April 2005 and will add a state of the art portable saturation diving system to our existing inventory of high quality subsea assets.

With demand for the Groups services reaching record levels the Board has deemed it appropriate to float Hallin Marine Subsea International on the Alternative Investment Market (AIM) of the London Stock Exchange in April 2005. The purpose of this flotation is to enable the Group to continue to expand its equipment inventory in order to take advantage of the buoyant market; to broaden the geographic operations of the Group; to provide more working capital for the Group in order to enable it to address larger projects in the future; and to repay investor loans.

The industry fundamentals reflected by the high price of oil and gas over the last two years are creating high activity in the offshore construction market which is evident in the current demand for Hallin Marine's services. Underpinned by the inherent advantages that the proposed flotation will provide the Group, and by our increasing base of good quality equipment, backed up by experienced staff, we envisage the solid performance of the Group to continue in 2005 with further profitable expansion.

It is vital that we continue to invest a meaningful part of our income in improving our infrastructure, upgrading our systems and progressively adding as required to our high quality management team.

Finally, we would wish to thank our dedicated team of employees, without whose efforts we would not have been able to achieve these record results.

**Tony Ebel**  
*Chairman*

**John Giddens**  
*Chief Executive*

# *STATEMENT BY THE DIRECTORS*

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In our opinion:–

- (a) the accompanying balance sheets, income statements, statements of changes in equity and statements of cash flows of the Group and of the Company together with the notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31st December 2004 and the results of the business, changes in equity and cash flows of the Group and of the Company for the year ended on that date; and
- (b) at the date of this statement there are reasonable grounds to believe that the Group and the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

**John Hallin Giddens**  
*Director*

**Antony Gerard Ebel**  
*Director*

# REPORT OF THE AUDITORS

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**TO THE MEMBERS OF HALLIN MARINE SUBSEA INTERNATIONAL LTD**  
*(Incorporated in the Isle of Man)*  
**AND ITS SUBSIDIARIES**

We have audited the accompanying financial statements of **Hallin Marine Subsea International Ltd** and of the consolidated financial statements of the Group for the year ended 31st December 2004. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements of the Group and of the Company are properly drawn up in accordance with Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31st December 2004, the results, changes in equity of the Group and of the Company and cash flows of the Group and of the Company for the year ended on that date.

**Moores Rowland**  
*Certified Public Accountants*

Singapore: 15 February 2005

Certified Public Accountants

A member of  
Moores Rowland International  
an association of independent  
accounting firms throughout  
the world.

# BALANCE SHEETS

as at 31st December 2004

	Note	GROUP		COMPANY	
		2004 US\$	2003 US\$	2004 US\$	2003 US\$
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	3	40,000	3	40,000	3
Share application money	4	–	399,997	–	399,997
Share premium	5	360,000	–	360,000	–
Reserves	6	716,180	(229,341)	593,543	(165,961)
		<u>1,116,180</u>	<u>170,659</u>	<u>993,543</u>	<u>234,039</u>
<b>NON-CURRENT ASSETS</b>					
Plant and equipment	7	3,599,675	2,177,803	3,255,822	2,144,003
Investment in subsidiaries	8	–	–	126,260	126,260
		<u>3,599,675</u>	<u>2,177,803</u>	<u>3,382,082</u>	<u>2,270,263</u>
<b>CURRENT ASSETS</b>					
Trade and other receivables	9	3,806,964	373,787	20,137	17,721
Amounts owing by related companies	12	139,760	37,682	–	–
Amounts owing by subsidiaries	13	–	–	169,350	38,660
Cash and bank balances		2,335,422	14,493	8,492	2,169
		<u>6,282,146</u>	<u>425,962</u>	<u>197,979</u>	<u>58,550</u>
Less:-					
<b>CURRENT LIABILITIES</b>					
Trade and other payables	14	7,865,636	1,803,131	1,114,695	1,396,435
Amount owing to a shareholder	15	613,384	628,390	613,384	628,390
Amounts owing to subsidiaries	13	–	–	858,352	69,949
Amounts owing to related companies	12	–	–	87	–
Current portion of obligations under finance leases	16	27,212	–	–	–
Provision for taxation		17,693	–	–	–
		<u>8,523,925</u>	<u>2,431,521</u>	<u>2,586,518</u>	<u>2,094,774</u>
<b>NET CURRENT LIABILITIES</b>		<u>(2,241,779)</u>	<u>(2,005,559)</u>	<u>(2,388,539)</u>	<u>(2,036,224)</u>
		1,357,896	172,244	993,543	234,039
<b>NON-CURRENT LIABILITIES</b>					
Obligations under finance leases	16	(234,578)	–	–	–
Deferred taxation	17	(7,138)	(1,585)	–	–
		<u>1,116,180</u>	<u>170,659</u>	<u>993,543</u>	<u>234,039</u>

The annexed notes form an integral part of and should be read in conjunction with these financial statements

# INCOME STATEMENTS

for the year ended 31st December 2004

	Note	GROUP		COMPANY	
		01/01/2004 to 31/12/2004 US\$	06/01/2003 to 31/12/2003 US\$	01/01/2004 to 31/12/2004 US\$	06/01/2003 to 31/12/2003 US\$
<b>REVENUE</b>	18	20,222,089	787,200	1,635,000	346,970
<b>LESS:-</b>					
Cost of sales		(17,446,748)	(330,024)	(295,678)	(10,840)
<b>Gross profit</b>		2,775,341	457,176	1,339,322	336,130
Other income		4,129	–	–	–
		2,779,470	457,176	1,339,322	336,130
<b>LESS:-</b>					
Administrative expenses		(1,431,345)	(409,161)	(283,869)	(226,244)
<b>Profit from operations</b>	19	1,348,125	48,015	1,055,453	109,886
Finance costs	21	(149,799)	(66,149)	(145,865)	(66,149)
Exchange loss		(213,662)	(209,456)	(150,084)	(209,698)
<b>Profit/(Loss) before taxation</b>		984,664	(227,590)	759,504	(165,961)
Taxation	22	(22,462)	(1,550)	–	–
<b>NET PROFIT/(LOSS) FOR THE YEAR/PERIOD</b>		<u>962,202</u>	<u>(229,140)</u>	<u>759,504</u>	<u>(165,961)</u>

The annexed notes form an integral part of and should be read in conjunction with these financial statements

# STATEMENTS OF CHANGES IN EQUITY

for the year ended 31st December 2004

<b>Group</b>	<i>Share Capital US\$</i>	<i>Share Premium US\$</i>	<i>Translation Reserve US\$</i>	<i>Retained Profits/ (Accumulated Losses) US\$</i>	<i>Total US\$</i>
Balance as at date of incorporation	3	–	–	–	3
Currency translation differences	–	–	(201)	–	(201)
Net loss for the period	–	–	–	(229,140)	(229,140)
Balance as at 31st December 2003	3	–	(201)	(229,140)	(229,338)
Issue of shares (Transfer from share application money)	39,997	360,000	–	–	399,997
Currency translation differences	–	–	(16,681)	–	(16,681)
Net profit for the year	–	–	–	962,202	962,202
Balance as at 31st December 2004	<u>40,000</u>	<u>360,000</u>	<u>(16,882)</u>	<u>733,062</u>	<u>1,116,180</u>
<b>Company</b>					
Balance as at date of incorporation	3	–	–	–	3
Net loss for the period	–	–	–	(165,961)	(165,961)
Balance as at 31st December 2003	3	–	–	(165,961)	(165,958)
Issue of shares (Transfer from share application money)	39,997	360,000	–	–	399,997
Net profit for the year	–	–	–	759,504	759,504
Balance as at 31st December 2004	<u>40,000</u>	<u>360,000</u>	<u>–</u>	<u>593,543</u>	<u>993,543</u>

The annexed notes form an integral part of and should be read in conjunction with these financial statements

# STATEMENTS OF CASH FLOWS

for the year ended 31st December 2004

	01/01/2004 to 31/12/2004	06/01/2003 to 31/12/2003	01/01/2004 to 31/12/2004	06/01/2003 to 31/12/2003
	GROUP		COMPANY	
	2004 US\$	2003 US\$	2004 US\$	2003 US\$
<b>Cash flows from operating activities</b>				
Profit/(Loss) before taxation	984,664	(227,590)	759,504	(165,961)
Adjustments for:-				
Exchange realignment	(17,213)	(166)	–	–
Interest expense	149,799	66,149	145,865	66,149
Depreciation of plant and equipment	330,204	101,819	280,403	97,571
<b>Operating profit/(loss) before working capital changes</b>	1,447,454	(59,788)	1,185,772	(2,241)
Increase/(Decrease) in working capital:-				
Trade and other receivables	(3,433,177)	(373,787)	(2,416)	(17,721)
Amounts owing by related companies	(102,078)	(37,682)	87	–
Amount owing by subsidiary	–	–	657,713	31,289
Trade and other payables	6,062,505	1,803,131	(281,740)	1,396,435
Amount owing to a shareholder	(15,006)	628,390	(15,006)	628,390
<b>Net cash inflow from operating activities</b>	3,959,698	1,960,264	1,544,410	2,036,152
<b>Cash flows from investing activities</b>				
Purchase of plant and equipment	(1,750,760)	(2,279,622)	(1,392,222)	(2,241,574)
Investment in subsidiaries	–	–	–	(126,260)
<b>Net cash outflow from investing activities</b>	(1,750,760)	(2,279,622)	(1,392,222)	(2,367,834)
<b>Cash flows from financing activities</b>				
Interest paid	(149,799)	(66,149)	(145,865)	(66,149)
Proceeds from finance leases	261,790	–	–	–
Issue of shares	–	3	–	3
Share application money	–	399,997	–	399,997
<b>Net cash inflow/(outflow) from financing activities</b>	111,991	333,851	(145,865)	333,851
Net increase in cash and bank balances	2,320,929	14,493	6,323	2,169
Cash and bank balances at beginning of year	14,493	–	2,169	–
<b>Cash and bank balances at end of year/period</b>	<u>2,335,422</u>	<u>14,493</u>	<u>8,492</u>	<u>2,169</u>

During the financial year, the Group acquired plant and equipment with an aggregate cost of US\$1,750,760, of which US\$269,203 was acquired by means of finance leases.

*The annexed notes form an integral part of and should be read in conjunction with these financial statements*

# NOTES TO THE FINANCIAL STATEMENTS

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31st December 2004

## 1. CORPORATE INFORMATION

Hallin Marine Subsea International Ltd is a company incorporated in Isle of Man with its registered office at International House, Castle Hill, Victoria Road, Douglas, Isle of Man.

The principal activities of the Company are those of assets and investments holding. The principal activities of its subsidiaries are set out in Note 8 to the financial statements.

On 30th November 2004, the Company changed its name from Hallin Marine Subsea International (2003) Ltd to Hallin Marine Subsea International Ltd.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with the Singapore Financial Reporting Standards.

### (b) Basis of financial statements preparation

The financial statements, expressed in United States dollars, are prepared on the historical cost basis.

### (c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary companies.

All significant intra-group transactions, balances and unrealised gains/losses are eliminated on consolidation and the consolidated financial statements reflect external transactions and balances only.

Assets and liabilities and the results of overseas subsidiaries are translated into United States dollars on the basis set out in paragraph (g) below.

### (d) Subsidiary

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the Board of Directors.

Investments in subsidiaries are stated in the financial statements of the Company at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

### (e) Plant and equipment

#### (i) *Owned assets*

Items of plant and equipment are stated at cost less accumulated depreciation.

#### (ii) *Depreciation*

Depreciation is provided on the straight-line basis so as to write off the cost of plant and equipment over their estimated useful lives as follows:-

Leasehold improvement	50%
Furniture and fittings	20%
Office equipment	33 <sup>1</sup> / <sub>3</sub> %
Operational equipment	10% – 20%
Motor vehicles	20%

# NOTES TO THE FINANCIAL STATEMENTS

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31st December 2004

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fully depreciated assets are retained in the financial statements until they are no longer in use and no further charge of depreciation is made in respect of these assets.

The cost of equipment under construction represents all costs attributable to bringing the construed asset to its working condition and getting it ready for its intended use. The accumulated costs will be reclassified to the appropriate plant and equipment account when the construction is completed. No depreciation charge is provided for equipment under construction until the asset is used in operations.

### (f) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statements as follows:-

#### (i) *Sale of services*

Revenue is recognised upon the completion of the services performed. Revenue of the Group comprises of net invoiced value of services rendered by the Company and its subsidiary company. Transactions within the Group have been excluded.

#### (ii) *Interest income*

Interest income is accrued on a time-apportioned basis on the principal outstanding and at the rates applicable.

#### (iii) *Service income*

Service income is recognised on an accrual basis.

### (g) Translation of foreign currencies

Monetary assets and liabilities in foreign currencies are translated into United States dollars at rates of exchange closely approximate to those ruling at balance sheet date and transactions in foreign currencies during the year are translated at rates ruling on transaction dates. Translation differences are dealt with through the income statements.

The results of foreign subsidiary company are translated at the exchange rates ruling during the year. Assets and liabilities of foreign subsidiary company are translated at the exchange rates ruling at the balance sheet date. Exchange differences arising from such currency translation are included in the Currency Translation Reserve Account.

### (h) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

### (i) Deferred taxation

Deferred taxation is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax benefits are recognised in the financial statements only to the extent of any deferred tax liability or when such benefits are reasonably expected to be realisable in the near future.

# NOTES TO THE FINANCIAL STATEMENTS

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31st December 2004

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (j) Impairment

The carrying amounts of the Group's and the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognised in the income statements.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation if no impairment loss had been recognised. Reversals of impairment are recognised in the income statements.

### (k) Financial instruments

Financial assets and financial liabilities carried on the balance sheets include cash and bank balances, trade and other receivables and payables. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in these Notes.

### (l) Trade and other receivables

Trade and other receivables are stated at their estimated recoverable amounts.

In estimating the recoverable amounts, known bad debts are written off and specific provisions are made for accounts considered to be doubtful.

### (m) Trade and other payables

Trade and other payables are stated at cost.

### (n) Finance costs

Interest expense and similar charges are expensed in the income statements in the period in which they are incurred.

The interest component of finance lease payments is recognised in the income statement.

### (o) Operating leases

Rental payable under operating leases are accounted for in the income statements on a straight-line basis over the periods of the respective leases.

### (p) Employee benefits

Contributions to defined contribution plans are recognised as an expense in the income statements as incurred.

### (q) Provisions

Provisions are recognised when the Group and the Company has a present obligation as a result of a past event where it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.

# NOTES TO THE FINANCIAL STATEMENTS

31st December 2004

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (r) Leases

Finance leases which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the lease item, are capitalised at the present value of the minimum lease payments at the inception of the lease term and disclosed as plant and equipment.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of liability. Finance charges are dealt with in the income statement.

## 3. SHARE CAPITAL

	<i>2004</i> <i>GBP</i>	<i>2003</i> <i>GBP</i>	<i>2004</i> <i>US\$</i>	<i>2003</i> <i>US\$</i>
Authorised				
275,000 ordinary shares of GBP 0.10 each	27,500	27,500	44,000	44,000
Issued and fully paid				
250,000 (2003: 2) ordinary shares of GBP 0.10 each	25,000	2	40,000	3

## 4. SHARE APPLICATION MONEY

On 10th March 2004, the Company increased its issued and paid up capital to GBP 250,000 (US\$400,000) via the allotment of an additional 249,998 shares of GBP 0.10 each at a share premium of GBP 0.90 per share.

The share application money was converted to share capital upon the completion of the above allotment during the financial year.

## 5. SHARE PREMIUM

	<i>2004</i> <i>US\$</i>	<i>2003</i> <i>US\$</i>
Balance at beginning	–	–
Premium from issue of shares	360,000	–
Balance at end	<u>360,000</u>	<u>–</u>

## 6. RESERVES

	<i>Group</i>		<i>Company</i>	
	<i>2004</i> <i>US\$</i>	<i>2003</i> <i>US\$</i>	<i>2004</i> <i>US\$</i>	<i>2003</i> <i>US\$</i>
Retained profit/(Accumulated losses)	733,062	(229,140)	593,543	(165,961)
Currency translation reserve	(16,882)	(201)	–	–
	<u>716,180</u>	<u>(229,341)</u>	<u>593,543</u>	<u>(165,961)</u>

# NOTES TO THE FINANCIAL STATEMENTS

31st December 2004

## 7. PLANT AND EQUIPMENT

### Group

	<i>Leasehold Improvement US\$</i>	<i>Furniture and fittings US\$</i>	<i>Office Equipment US\$</i>	<i>Operational Equipment US\$</i>	<i>Equipment under Construction US\$</i>	<i>Motor Vehicles US\$</i>	<i>Total US\$</i>
<b>2004</b>							
Cost							
At 1st January 2004	5,304	10,830	17,554	1,461,796	784,138	–	2,279,622
Currency realignment	207	422	685	170	–	–	1,484
Additions	42,587	25,555	19,506	1,151,229	242,680	269,203	1,750,760
Transferred to operational equipment	–	–	–	784,138	(784,138)	–	–
At 31st December 2004	<u>48,098</u>	<u>36,807</u>	<u>37,745</u>	<u>3,397,333</u>	<u>242,680</u>	<u>269,203</u>	<u>4,031,866</u>
Accumulated Depreciation							
At 1st January 2004	903	648	2,450	97,818	–	–	101,819
Currency realignment	35	25	97	11	–	–	168
Charge for the year	9,694	4,864	13,185	282,174	–	20,287	330,204
At 31st December 2004	<u>10,632</u>	<u>5,537</u>	<u>15,732</u>	<u>380,003</u>	<u>–</u>	<u>20,287</u>	<u>432,191</u>
Net Book Value							
At 31st December 2004	<u>37,466</u>	<u>31,270</u>	<u>22,013</u>	<u>3,017,330</u>	<u>242,680</u>	<u>248,916</u>	<u>3,599,675</u>

Operational equipment with net book value of US\$2,612,032 was pledged in favour of the Loan Notes which was issued on March 2004.

The net book value of plant and equipment of the Group includes an amount of US\$248,916 held under finance leases.

### Group

	<i>Leasehold Improvement US\$</i>	<i>Furniture and fittings US\$</i>	<i>Office Equipment US\$</i>	<i>Operational Equipment US\$</i>	<i>Equipment under Construction US\$</i>	<i>Total US\$</i>
<b>2003</b>						
Cost						
Additions	<u>5,304</u>	<u>10,830</u>	<u>17,554</u>	<u>1,461,796</u>	<u>784,138</u>	<u>2,279,622</u>
Accumulated Depreciation						
Charge for the period	<u>903</u>	<u>648</u>	<u>2,450</u>	<u>97,818</u>	<u>–</u>	<u>101,819</u>
Net Book Value						
At 31st December 2003	<u>4,401</u>	<u>10,182</u>	<u>15,104</u>	<u>1,363,978</u>	<u>784,138</u>	<u>2,177,803</u>

Included in the additions of plant and equipment was an amount of US\$37,442 and US\$235,896 which was transferred from its related company and shareholder respectively.

Operational equipment and equipment under construction with net book value of US\$1,303,508 and US\$784,138 respectively were pledged in favour of the Loan Notes which was issued on March 2004.

# NOTES TO THE FINANCIAL STATEMENTS

31st December 2004

## 7. PLANT AND EQUIPMENT (continued)

### Company

<i>2004</i>	<i>Operational Equipment US\$</i>	<i>Equipment under Construction US\$</i>	<i>Total US\$</i>
Cost			
At 1st January 2004	1,457,436	784,138	2,241,574
Additions	1,149,542	242,680	1,392,222
Transferred to operational equipment	784,138	(784,138)	–
At 31st December 2004	<u>3,391,116</u>	<u>242,680</u>	<u>3,633,796</u>
Accumulated Depreciation			
At 1st January 2004	97,571	–	97,571
Charge for the year	280,403	–	280,403
At 31st December 2004	<u>377,974</u>	<u>–</u>	<u>377,974</u>
Net Book Value			
At 31st December 2004	<u>3,013,142</u>	<u>242,680</u>	<u>3,255,822</u>

Operational equipment with net book value of US\$2,612,032 was pledged in favour of the Loan Notes which was issued on March 2004.

<i>2003</i>	<i>Operational Equipment US\$</i>	<i>Equipment under Construction US\$</i>	<i>Total US\$</i>
Cost			
Additions	<u>1,457,436</u>	<u>784,138</u>	<u>2,241,574</u>
Accumulated Depreciation			
Charge for the period	<u>97,571</u>	<u>–</u>	<u>97,571</u>
Net Book Value			
At 31st December 2003	<u>1,359,865</u>	<u>784,138</u>	<u>2,144,003</u>

Included in the additions of plant and equipment was an amount of US\$235,896, which was transferred from its shareholder.

Operational equipment and equipment under construction with net book value of US\$1,303,508 and US\$784,138 respectively were pledged in favour of the Loan Notes which was issued on March 2004.

# NOTES TO THE FINANCIAL STATEMENTS

31st December 2004

## 8. INVESTMENT IN SUBSIDIARIES

	<i>Company</i>	
	<i>2004</i>	<i>2003</i>
	<i>US\$</i>	<i>US\$</i>
Unquoted shares, at cost	<u>126,260</u>	<u>126,260</u>

The following information relates to the subsidiary companies:-

<i>Name of Subsidiary</i>	<i>Principal Activities</i>	<i>Country of Incorporation and Place of Business</i>	<i>Cost of investment held by company</i>		<i>Percentage of equity held by company</i>	
			<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
			<i>US\$</i>	<i>US\$</i>	<i>%</i>	<i>%</i>
Hallin Marine Pte Ltd	The provision of specialist services to the marine, oil and gas and offshore cable laying and hydrographic survey industries and to act as agent for overseas companies	Singapore	46,260	46,260	100	100
Hallin Marine Systems Limited (Formerly known as Hallin Marine Systems (2003) Limited)	The provision of specialist services to the marine, oil and gas and offshore cable laying and hydrographic survey industries	Isle of Man	80,000	80,000	100	100
			<u>126,260</u>	<u>126,260</u>		

## 9. TRADE AND OTHER RECEIVABLES

	<i>Note</i>	<i>Group</i>		<i>Company</i>	
		<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
		<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Trade receivables	10	2,587,313	220,995	–	–
Deposits, prepayments and other receivables	11	1,219,651	152,792	20,137	17,721
		<u>3,806,964</u>	<u>373,787</u>	<u>20,137</u>	<u>17,721</u>

# NOTES TO THE FINANCIAL STATEMENTS

31st December 2004

## 10. TRADE RECEIVABLES

	<i>Group</i>		<i>Company</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Trade receivables	2,666,912	220,995	–	–
Less: Provision for doubtful debts	(79,599)	–	–	–
	<u>2,587,313</u>	<u>220,995</u>	<u>–</u>	<u>–</u>
Analysis of provision for doubtful debts:-				
Balance at beginning of year	–	–	–	–
Provision made during the year	79,599	–	–	–
Balance at end of year	<u>79,599</u>	<u>–</u>	<u>–</u>	<u>–</u>

## 11. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	<i>Group</i>		<i>Company</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Deposits	135,974	18,203	–	–
Prepayments	468,558	34,089	20,137	17,721
Other receivables	611,457	100,500	–	–
Cash advances	3,662	–	–	–
	<u>1,219,651</u>	<u>152,792</u>	<u>20,137</u>	<u>17,721</u>

## 12. AMOUNTS OWING BY/(TO) RELATED COMPANIES

	<i>Group</i>		<i>Company</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Trade	202,923	–	–	–
Non-trade	(63,163)	37,682	(87)	–
	<u>139,760</u>	<u>37,682</u>	<u>(87)</u>	<u>–</u>

## 13. AMOUNTS OWING BY/(TO) SUBSIDIARIES

The amounts owing by/(to) subsidiaries are unsecured, interest-free and with no fixed terms of repayment.

	<i>Company</i>	
	<i>2004</i>	<i>2003</i>
	<i>US\$</i>	<i>US\$</i>
Amount owing by a subsidiary		
(a) Trade	556,861	10,900
Non-trade	(387,511)	27,760
	<u>169,350</u>	<u>38,660</u>

# NOTES TO THE FINANCIAL STATEMENTS

31st December 2004

## 13. AMOUNTS OWING BY/(TO) SUBSIDIARIES (continued)

	<i>Company</i>	
	<i>2004</i>	<i>2003</i>
	<i>US\$</i>	<i>US\$</i>
Amount owing to a subsidiary		
(b) Trade	(131,987)	105,533
Non-trade	(726,365)	(175,482)
	<u>(858,352)</u>	<u>(69,949)</u>

## 14. TRADE AND OTHER PAYABLES

	<i>Group</i>		<i>Company</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Trade payables *	5,807,760	338,431	57,000	60,331
Accrued operating expenses	1,026,075	157,151	25,894	30,744
Other payables (secured) **	1,031,801	1,307,549	1,031,801	1,305,360
	<u>7,865,636</u>	<u>1,803,131</u>	<u>1,114,695</u>	<u>1,396,435</u>

\* The group has disputed the charge from one of its creditors of approximately US\$215,000 (2003: Nil). No provision is made in the financial statements for this amount as the directors are of the view that no further liabilities will crystallise.

\*\* Other payables relate mainly to a loan, in the form of debenture loan notes, from its shareholders in United Kingdom. The loan is repayable in full in year 2004, at an interest rate of 6% per annum. The debenture loan notes holders have agreed to extend the repayment period to 31 December 2005. Interest will be charged at 6% per annum.

These loans are secured on the Group and the Company's operational equipment and equipment under construction – See Note 7.

## 15. AMOUNT OWING TO A SHAREHOLDER

The shareholders are Hallin Marine Systems International Ltd, a company incorporated in the Commonwealth of The Bahamas and a group of shareholders in United Kingdom.

The amount owing is unsecured, interest-free and with no fixed terms of repayment.

	<i>2004</i>	<i>2003</i>
	<i>US\$</i>	<i>US\$</i>
Amount owing to Hallin Marine Systems International Ltd		
Trade	(1,205,860)	(1,152,860)
Non-trade	592,476	524,470
	<u>(613,384)</u>	<u>(628,390)</u>

Included in the non-trade balance is an amount of US\$553,327 (2003: US\$509,545) with an effective interest rate of 6% per annum.

# NOTES TO THE FINANCIAL STATEMENTS

31st December 2004

## 16. OBLIGATIONS UNDER FINANCE LEASES

### Group

	<i>Payments</i>	<i>Interest</i>	<i>Principal</i>	<i>Payments</i>	<i>Interest</i>	<i>Principal</i>
	2004	2004	2004	2003	2003	2003
	US\$	US\$	US\$	US\$	US\$	US\$
Within 1 year	33,890	6,678	27,212	–	–	–
After 1 year but within 5 years	135,559	26,709	108,850	–	–	–
After 5 years	156,474	30,746	125,728	–	–	–
	292,033	57,455	234,578	–	–	–
	<u>325,923</u>	<u>64,133</u>	<u>261,790</u>	<u>–</u>	<u>–</u>	<u>–</u>

The effective interest rates for the finance leases are 4.6056% per annum.

## 17. DEFERRED TAXATION

The movement in the Group's deferred tax assets and liabilities (prior to offsetting of balances within the same jurisdiction) during the year is as follows:-

### Deferred tax liabilities

	<i>Accelerated tax depreciation</i>	
	2004	2003
	US\$	US\$
At beginning of year	1,585	–
Transfer to income statement	5,553	1,585
At end of year	<u>7,138</u>	<u>1,585</u>

## 18. REVENUE

	<i>Group</i>		<i>Company</i>	
	01/01/2004	06/01/2003	01/01/2004	06/01/2003
	to	to	to	to
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
	US\$	US\$	US\$	US\$
Equipment rental	–	222,750	1,635,000	222,750
Service income and sales of services	20,222,089	564,450	–	124,220
	<u>20,222,089</u>	<u>787,200</u>	<u>1,635,000</u>	<u>346,970</u>

# NOTES TO THE FINANCIAL STATEMENTS

31st December 2004

## 19. PROFIT FROM OPERATIONS

	Note	Group		Company	
		01/01/2004 to 31/12/2004 US\$	06/01/2003 to 31/12/2003 US\$	01/01/2004 to 31/12/2004 US\$	06/01/2003 to 31/12/2003 US\$
Profit from operations is arrived at after charging:–					
Depreciation of plant and equipment	7	330,204	101,819	280,403	97,571
Directors' remuneration	20	175,592	48,898	93,225	38,142
Directors' fees		24,000	22,000	24,000	22,000
Operating lease expenses		75,400	8,720	–	–
Provision for doubtful trade debts		79,599	–	–	–
Staff costs	20	534,267	51,389	–	–
		<u>534,267</u>	<u>51,389</u>	<u>–</u>	<u>–</u>

## 20. STAFF COSTS

		Group		Company	
		01/01/2004 to 31/12/2004 US\$	06/01/2003 to 31/12/2003 US\$	01/01/2004 to 31/12/2004 US\$	06/01/2003 to 31/12/2003 US\$
Salaries and bonuses		426,507	37,631	–	–
Defined contribution plans		11,253	1,388	–	–
Housing allowance		46,433	9,187	–	–
Staff benefit and welfare		50,074	3,183	–	–
		<u>534,267</u>	<u>51,389</u>	<u>–</u>	<u>–</u>
Directors' remuneration:					
Director of the Company					
– Salaries and bonuses		118,225	38,142	93,225	38,142
Other director of subsidiary					
– Salaries and bonuses		51,872	9,510	–	–
– Defined contribution plans		5,495	1,246	–	–
		<u>175,592</u>	<u>48,898</u>	<u>93,225</u>	<u>38,142</u>
		2004	2003	2004	2003
Number of employees (excluding salaried directors) at the end of the year/period		<u>12</u>	<u>7</u>	<u>–</u>	<u>–</u>

# NOTES TO THE FINANCIAL STATEMENTS

31st December 2004

## 21. FINANCE COSTS

	<i>Group</i>		<i>Company</i>	
	<i>01/01/2004</i>	<i>06/01/2003</i>	<i>01/01/2004</i>	<i>06/01/2003</i>
	<i>to</i>	<i>to</i>	<i>to</i>	<i>to</i>
	<i>31/12/2004</i>	<i>31/12/2003</i>	<i>31/12/2004</i>	<i>31/12/2003</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Interest paid and payable to:				
– shareholders	145,865	66,149	145,865	66,149
– finance lease creditors	3,934	–	–	–
	<u>149,799</u>	<u>66,149</u>	<u>145,865</u>	<u>66,149</u>

## 22. TAXATION

	<i>Group</i>		<i>Company</i>	
	<i>01/01/2004</i>	<i>06/01/2003</i>	<i>01/01/2004</i>	<i>06/01/2003</i>
	<i>to</i>	<i>to</i>	<i>to</i>	<i>to</i>
	<i>31/12/2004</i>	<i>31/12/2003</i>	<i>31/12/2004</i>	<i>31/12/2003</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Tax expense attributable to profit/ (loss) is made up of:				
Current tax				
Current year	17,142	–	–	–
Deferred tax				
Origination and reversal of temporary differences	5,320	1,550	–	–
	<u>22,462</u>	<u>1,550</u>	<u>–</u>	<u>–</u>

The reconciliation of the tax expense and the product of accounting profit/(loss) multiplied by the applicable rate is as follows:-

	<i>Group</i>		<i>Company</i>	
	<i>01/01/2004</i>	<i>06/01/2003</i>	<i>01/01/2004</i>	<i>06/01/2003</i>
	<i>to</i>	<i>to</i>	<i>to</i>	<i>to</i>
	<i>31/12/2004</i>	<i>31/12/2003</i>	<i>31/12/2004</i>	<i>31/12/2003</i>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Accounting profit/(loss)	<u>984,664</u>	<u>(227,590)</u>	<u>759,504</u>	<u>(165,961)</u>
Tax at the respective tax rates	14,352	(135)	–	–
Tax effect of non-deductible items	15,956	1,632	–	–
Tax exemptions	(6,207)	–	–	–
Others	(1,639)	53	–	–
Tax expense	<u>22,462</u>	<u>1,550</u>	<u>–</u>	<u>–</u>

The tax effect of profit/(loss) for the year/period of the Company is Nil, as the Company has obtained a tax exempt status in the Isle of Man.

# NOTES TO THE FINANCIAL STATEMENTS

31st December 2004

## 23. SIGNIFICANT RELATED PARTY TRANSACTIONS

During the financial year, the significant transactions at terms agreed between the Group and the Company and its related parties are as follows:-

	<i>Group</i>		<i>Company</i>	
	<i>01/01/2004</i> <i>to</i> <i>31/12/2004</i> <i>US\$</i>	<i>06/01/2003</i> <i>to</i> <i>31/12/2003</i> <i>US\$</i>	<i>01/01/2004</i> <i>to</i> <i>31/12/2004</i> <i>US\$</i>	<i>06/01/2003</i> <i>to</i> <i>31/12/2003</i> <i>US\$</i>
Purchase of plant and equipment from a related company	–	1,146,613	–	1,110,000
Purchase of plant and equipment from a shareholder	–	235,896	–	235,896
Service income charged to a shareholder	–	124,220	–	124,220
Equipment rental charged to a shareholder	–	204,750	–	204,750
Equipment rental charged to a subsidiary	–	–	1,635,000	18,000
Purchase of plant and equipment from a subsidiary	–	–	1,117,181	176,925
Sales to a related company	–	22,290	–	–
Loan interest paid to shareholders	145,865	66,149	145,865	66,149
	<u>145,865</u>	<u>66,149</u>	<u>145,865</u>	<u>66,149</u>

## 24. OPERATING LEASE COMMITMENTS

At balance sheet date, the commitments in respect of the operating leases were as follows:-

	<i>Group</i>	
	<i>2004</i> <i>US\$</i>	<i>2003</i> <i>US\$</i>
Amount due:		
– Within 1 year	120,678	33,940
– After 1 year but within 5 years	70,698	22,901
	<u>191,376</u>	<u>56,841</u>

# NOTES TO THE FINANCIAL STATEMENTS

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31st December 2004

## 25. FINANCIAL RISK MANAGEMENT

The Group's activities are exposed to the following key financial risks which were monitored closely by the Board of Directors.

### *Credit risk*

The Group has no significant concentration risk. The Group has policies in place to ensure the services rendered are made with adequate financial standing and appropriate credit history.

The carrying amount of financial assets recorded in the financial statements, represents the Group's maximum exposure to credit risk.

### *Foreign exchange risk*

The Group's foreign exchange risk results mainly from cash flows from transactions denominated in foreign currencies.

The Group presently does not have any specific policy to hedge its foreign currency exposure and has not used any financial instruments to manage its foreign currency risk. Those exposures are managed using natural hedges that arise from offsetting assets and liabilities that are denominated in foreign currencies.

### *Fair value of financial instruments*

The carrying amounts of financial assets and financial liabilities of the Group and the Company approximate their fair values.



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