

Modus Subsea Services Limited

Strategic Report, Directors' Report and Audited Financial
Statements for the Year Ended 31 March 2021



Contents of the Financial Statements

for the Year Ended 31 March 2021

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Company Information

for the Year Ended 31 March 2021

DIRECTORS: AC Tompkins
NSC Tompkins
RH Edmondson
AJ Sheppard
M Hatta

REGISTERED OFFICE: Beaumont House
Beaumont Street
Darlington
County Durham
DL1 5RW

REGISTERED NUMBER: 02183639 (England and Wales)

INDEPENDENT AUDITOR: KPMG LLP
Quayside House
110 Quayside
Newcastle-upon-Tyne
NE1 3DX

Strategic Report

for the Year Ended 31 March 2021

The Directors present their Strategic Report for the year ended 31 March 2021.

REVIEW OF BUSINESS

The Company continued to supply a diverse range of solutions to subsea industries during the period, centring on its provision of modular remote and autonomous vehicles. The Company delivers its services through four service lines: Seabed Intervention (Trenching); Work-class Remote Operated Vehicles ("ROVs"); Autonomous Underwater Vehicle Technology ("AUVs"); and Managed and Technical Services. Developing disruptive technology remains a key focus of the Company, with the Hybrid AUV ("HAUV") systems fully proven in the market.

The Directors consider Adjusted EBITDA (calculated as operating profit plus depreciation, less other income net of related costs and one-off exceptional costs) to be the key measure of performance. During the year under review, because of the external factors noted below, the Company experienced a fall in Adjusted EBITDA to £1.7m (2020: £2.8m) along with a corresponding reduction in gross profit to £5.1m (2020: £6.3m). The net result of the Company fell from net profit £0.8m in 2020 to a net loss of £0.8m.

	2021	2020
	£000	£000
Operating (loss) / profit	(932)	1,248
Depreciation	1,838	1,600
Other income	(289)	-
Exceptional costs	1,097	-
Adjusted EBITDA	<u>1,714</u>	<u>2,848</u>

As with almost all other businesses, the most significant external factor affecting performance in the year under review was Covid-19. The Company was quick to react to Covid-19 by applying new ways of working in partnership with our customers. Onshore personnel were able to perform their roles remotely, alongside revised working procedures at our marine facilities to safely maintain our equipment between projects. In consultation with our client base, offshore personnel adopted quarantine procedures prior to mobilising, reducing the risk of positive Covid case offshore.

Covid-19 affected our industries on a macro level through project deferrals and cancellations. However, the ability to move people and equipment quickly across borders was at times also adversely impacted by frequently changing local regulations, along with the availability and cost of those movements. For our European work, Brexit also had a negative impact on the movement of personnel and equipment, however, with the assistance of our supplier base, this has been minimal on performance and project delivery.

The Company's strategy of obtaining long term arrangements for a substantial part of its fleet protected revenue performance for much of the period. However, the impact of Covid-19 on one customer in Indonesia led to a significant event in the period. Following continued payment deferrals, the Directors concluded that this customer was headed towards an insolvency process, and therefore an exceptional item for £1,097k was recognised relating to a provision for the bad debt, and associated costs of recovering the equipment. During the insolvency process, although the contract had been terminated, Modus was unable to recover the equipment until mid-2020, therefore charges for equipment continued to accrue until that point. These charges were fully provided against.

Prior to this the Company had sought to mitigate the financial impact of Covid-19 and late payments using a Coronavirus Business Interruption Loan Scheme ("CBILS") loan of £1.5m which was fully drawn in the year. Alongside this, the Company utilised the Job Retention Scheme on a specific and limited basis to retain onshore and offshore roles through the year that were at risk due to the lower throughput from project deferrals.

Strategic Report

for the Year Ended 31 March 2021

The final external factor affecting the business was the activation of the IR35 legislation for private companies in April 2021. Whilst this occurred after this period end, it already impacted the year under review with an upward trend in labour costs from reduced supply. It was apparent that the personnel pool had reduced with personnel leaving the industry due to the pending IR35 legislation, and an expectation of higher rates from those that remain in the industry. It is therefore a continued strategic focus for Modus to identify and train new personnel to supplement the offshore labour pool.

Whilst the year under review had difficulties to address, Modus remains well placed to move forward in the future. Significant investment has been made in equipment and personnel to further develop HAUV technology, with a campaign of trials in late 2021 providing a showcase of the equipment's abilities and highlighting Modus as the industry leader in HAUV capability. Further HAUV systems will be delivered in 2022 and 2023 through the strategic group alliance with Kawasaki to further supplement the Company's fleet of HAUVs.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company recognises that in the market in which it operates there is strong competition. However, with the Company's available range of assets, extensive knowledge, focus and experience in the sector, it is our opinion that the Company will continue to grow its activities and remain competitive in the market.

GOING CONCERN

Notwithstanding net current liabilities of £4,429,000 as at 31 March 2021, the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, through its overdraft facility, to meet its liabilities as they fall due for that period. The overdraft facility is due to be renewed in April 2022 and the Directors have no reason to believe this will not be renewed by the bank on similar terms.

Those forecasts are dependent on the Company's ultimate parent company, Modus Subsea Group Limited not seeking repayment of the amounts currently due to the Group, which at 31 December 2021 amounted to £1,363,000. Modus Subsea Group Limited has indicated that it does not intend to seek repayment of these amounts for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The Directors have also considered the impact of severe but plausible downside scenarios, including the possibility of another government-imposed lockdown in the forecast period due to a further peak of Covid-19 infection. Alongside the impact that further COVID-19 restrictions could have on utilisation and demand for the entity's assets. In practical terms this would cause logistical issues which would largely manifest itself in a delay of projects to later months.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

ON BEHALF OF THE BOARD:



NSC Tompkins - Director
28 February 2022

Directors' Report

for the Year Ended 31 March 2021

The Directors present their Report with the financial statements of the Company for the year ended 31 March 2021.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the year was the provision of integrated project and engineering services to the subsea sectors including the supply and operation of remote and autonomous vehicles.

DIVIDENDS

No dividends were declared or paid during the year ended 31 March 2021 (2020: *£Nil*).

DIRECTORS

The Directors who held office during the year and since the year end, were as follows:

JE Tompkins	(resigned 31 March 2021)
NJ Ward	(resigned 30 September 2021)
PMI Short	(resigned 31 January 2022)
AC Tompkins	
NSC Tompkins	
M Hatta	(appointed 27 November 2020)
AJ Sheppard	(appointed 4 November 2021)
RH Edmondson	(appointed 4 November 2021)

POLITICAL CONTRIBUTIONS

The Company made no political donations during the year (2020: *£Nil*).

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

ON BEHALF OF THE BOARD:



NSC Tompkins - Director

28 February 2022

Beaumont House
Beaumont Street
Darlington
County Durham
DL1 5RW

Directors' Responsibilities Statement

for the Year Ended 31 March 2021

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102").

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these 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 UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Report of the Independent Auditor to the Members of Modus Subsea Services Limited

Opinion

We have audited the financial statements of Modus Subsea Services Limited ("the Company") for the year ended 31 March 2021 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going Concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.

Report of the Independent Auditor to the Members of Modus Subsea Services Limited

- Reading board meeting minutes.
- Considering remuneration incentive schemes and performance targets for management.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue is recorded in the wrong period and the risk that management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts linked to revenue.
- Substantive testing of revenue around the period end, including assessing revenue cut-off with reference to source documentation.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards) and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varied considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines. We identified the following areas as those most likely to have such an effect: health and safety and employment law. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Report of the Independent Auditor to the Members of Modus Subsea Services Limited

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic Report and Directors' Report

The Directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover these reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Report of the Independent Auditor to the Members of Modus Subsea Services Limited

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at:
www.frc.org.uk/auditorsresponsibilities

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.



David Mitchell (Senior Statutory Auditor)

for and on behalf of KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

4 March 2022

Statement of Comprehensive Income

for the Year Ended 31 March 2021

	<i>Note</i>	2021 £000	2020 £000
Turnover	<i>3</i>	13,757	16,786
Cost of sales		(8,686)	(10,493)
Gross profit		5,071	6,293
Administrative expenses		(5,195)	(5,045)
Exceptional costs	<i>4</i>	(1,097)	-
Other operating income	<i>4</i>	289	-
Operating (loss) / profit	<i>4</i>	(932)	1,248
Interest receivable and similar income	<i>7</i>	52	-
Interest payable and similar expenses	<i>8</i>	(298)	(273)
(Loss) / profit before taxation		(1,178)	975
Tax on (loss) / profit	<i>9</i>	418	(210)
(Loss) / profit for the financial year		(760)	765
Total comprehensive (expense) / income for the year		(760)	765

All activities derive from continuing operations.

The notes on pages 13 to 23 form part of these financial statements

Balance Sheet

at 31 March 2021

	<i>Note</i>	2021 £000	2020 £000
FIXED ASSETS			
Tangible assets	<i>10</i>	14,655	15,624
CURRENT ASSETS			
Debtors	<i>11</i>	2,313	4,003
Cash at bank and in hand		1,546	34
		3,859	4,037
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	<i>12</i>	(8,288)	(9,499)
NET CURRENT LIABILITIES		(4,429)	(5,462)
TOTAL ASSETS LESS CURRENT LIABILITIES		10,226	10,162
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	<i>13</i>	(5,758)	(4,879)
PROVISIONS FOR LIABILITIES	<i>14</i>	(220)	(275)
NET ASSETS		4,248	5,008
CAPITAL AND RESERVES			
Called up share capital	<i>15</i>	1	1
Share premium account		12	12
Capital contribution reserve		2,539	2,539
Retained earnings		1,696	2,456
SHAREHOLDERS' FUNDS		4,248	5,008

These financial statements were approved by the Board of Directors and authorised for issue on 28 February 2022 and were signed on its behalf by:



NSC Tompkins
Director

The notes on pages 13 to 23 form part of these financial statements

Statement of Changes in Equity

for the Year Ended 31 March 2021

	Called up share capital £000	Share premium account £000	Capital contribution reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2019	1	12	2,539	1,691	4,243
Changes in equity					
Total comprehensive income	-	-	-	765	765
Balance at 31 March 2020	1	12	2,539	2,456	5,008
Changes in equity					
Total comprehensive expense	-	-	-	(760)	(760)
Balance at 31 March 2021	1	12	2,539	1,696	4,248

The notes on pages 13 to 23 form part of these financial statements

Notes to the Financial Statements

for the Year Ended 31 March 2021

1 STATUTORY INFORMATION

Modus Subsea Services Limited (formerly Modus Seabed Intervention Limited) ("the Company") is a private company, limited by shares, registered in England and Wales. The Company's registered number and registered office can be found on the Company Information page.

2 ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("*FRS 102*") and the Companies Act 2006. These financial statements have been prepared under the historical cost convention.

The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's parent undertaking, Modus Subsea Group Limited (formerly Tompkins UK Limited) includes the Company in its consolidated financial statements, which are available to the public and may be obtained from Companies House, Crown Way, Cardiff CF14 3UZ. In these financial statements, the Company is considered to be a qualifying entity for the purposes of FRS 102 and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- The requirements of Section 7 Statement of cashflows; and
- Key Management Personnel compensation.

Going concern

Notwithstanding net current liabilities of £4,429,000 as at 31 March 2021, the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, through its overdraft facility, to meet its liabilities as they fall due for that period. The overdraft facility is due to be renewed in April 2022 and the Directors have no reason to believe this will not be renewed by the bank on similar terms.

Those forecasts are dependent on the Company's ultimate parent company, Modus Subsea Group Limited not seeking repayment of the amounts currently due to the Group, which at 31 December 2021 amounted to £1,363,000. Modus Subsea Group Limited has indicated that it does not intend to seek repayment of these amounts for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The Directors have also considered the impact of severe but plausible downside scenarios, including the possibility of another government-imposed lockdown in the forecast period due to a further peak of Covid-19 infection. Alongside the impact that further COVID-19 restrictions could have on utilisation and demand for the entity's assets. In practical terms this would cause logistical issues which would largely manifest itself in a delay of projects to later months.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Notes to the Financial Statements

for the Year Ended 31 March 2021

2 ACCOUNTING POLICIES (continued)

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the rates of exchange ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the rate of exchange at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at rates of exchange ruling at the dates the fair value was determined. Exchange differences arising on translation are recognised in the operating result.

Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in preference and ordinary shares

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognised through profit and loss. Other investments are measured at cost less impairment through profit and loss.

Notes to the Financial Statements

for the Year Ended 31 March 2021

2 ACCOUNTING POLICIES (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Tangible fixed assets include investment property whose fair value cannot be measured reliably without undue cost or effort.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described below.

The Company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- plant and equipment 3 – 15 years
- fixtures, fittings, tools, equipment and leasehold improvements 3 – 4 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the hire, management and operation of subsea construction equipment and associated engineering and support services to customers. Turnover is recognised over the period of hire, or as the services are provided, in accordance with the terms of the agreement.

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Operating leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation, in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in the profit and loss account over the term of the lease as an integral part of the total lease expense.

Notes to the Financial Statements

for the Year Ended 31 March 2021

2 ACCOUNTING POLICIES (continued)

Finance leases

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Interest payable

Interest payable and similar expenses include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit and loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

3 ANALYSIS OF TURNOVER

The turnover and profit before taxation are attributable to the principal activities of the Company. An analysis of turnover by geographical market is given below:

	2021	2020
	£000	£000
United Kingdom	5,801	2,896
Europe	5,966	11,859
Rest of World	1,990	2,031
	13,757	16,786

Notes to the Financial Statements

for the Year Ended 31 March 2021

4 OPERATING LOSS

Operating loss is stated after charging / (crediting):

	2021	2020
	£000	£000
Depreciation of tangible fixed assets	1,838	1,600
Operating leases on buildings	269	269
Profit on disposal of tangible fixed assets	(56)	-
Exceptional costs	1,097	-
Government Coronavirus Financial Assistance	(233)	-
Fees payable to the Company's auditor:		
for the audit of the Company's annual financial statements	30	26
for tax compliance and advisory services	8	-
	=====	=====

Exceptional costs incurred during the year include a provision made for a potential bad debt of £725,000 and the estimated legal and recovery costs in relation to the return of the asset of £372,000.

During the year, the Company received Government financial support of £233,000 in relation to the Coronavirus pandemic for furlough payments under the Coronavirus Job Retention Scheme ("CJRS").

5 EMPLOYEES AND DIRECTORS

	2021	2020
	£000	£000
Wages and salaries	3,604	3,429
Social security costs	392	389
Other pension costs (see note 16)	168	168
	=====	=====
	4,164	3,986

The average number of employees (including directors) during the year was as follows:

	2021	2020
Management and administration	32	33
Projects and engineering	17	16
Offshore operations	19	18
	=====	=====
	68	67

Notes to the Financial Statements

for the Year Ended 31 March 2021

6 DIRECTORS' EMOLUMENTS

	2021	2020
	£000	£000
Aggregate emoluments inclusive of benefits in kind	555	668
Pension contributions	50	54
	605	722
	3	3
Number of directors accruing benefits under defined contribution pension schemes	3	3

The aggregate emoluments of the highest paid director were £176,000 (2020: £257,000) and company pension contributions of £18,000 (2020: £18,000) were made to a money purchase scheme on his behalf.

7 INTEREST RECEIVABLE AND SIMILAR INCOME

	2021	2020
	£000	£000
Bank interest	2	-
Other interest receivable	50	-
	52	-

8 INTEREST PAYABLE AND SIMILAR EXPENSES

	2021	2020
	£000	£000
Bank interest	72	54
Loan interest	211	197
Finance charges payable in respect of finance leases	15	22
	298	273

9 TAXATION

Analysis of the tax (credit) / charge

The tax (credit) / charge on the loss / profit for the year was as follows:

	2021	2020
	£000	£000
Current tax:		
UK corporation tax	(363)	25
Deferred tax	(55)	185
Tax on (loss) / profit	(418)	210

UK corporation tax has been charged at 19.0% (2020: 19.0%).

Notes to the Financial Statements

for the Year Ended 31 March 2021

9 TAXATION (continued)**Reconciliation of total tax credit included in profit and loss**

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	2021	2020
	£000	£000
(Loss) / profit before tax	(1,178)	975
Loss / profit multiplied by the standard rate of corporation tax in the UK 19.0% (2020: 19.0%)	(224)	185
Effects of:		
Change in tax rate on deferred tax balances	-	8
Adjustments in respect of prior periods	(80)	4
Fixed asset differences	1	15
Expenses not deductible for tax purposes	-	1
Surrender of tax losses	52	-
Allowance for R&D expenditure	(125)	-
RDEC 2019	(42)	-
Tax exempt revenue	-	(15)
R&D expenditure credits	-	10
Other permanent differences	-	2
Total tax (credit) / charge	(418)	210

A UK corporation rate of 19.0% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19.0% to 17.0%. This will increase the Company's future current tax charge accordingly. The deferred tax liability at 31 March 2021 has been calculated at 19.0% (2020: 19.0%).

The UK Budget on 3 March 2021 included an announcement that the corporation tax rate will increase to 25.0% from 1 April 2023 for certain companies. However, this increase was not substantively enacted at the balance sheet date. Under FRS 102, deferred tax is required to be calculated using rates that have been substantively enacted at the balance sheet date, hence 19.0% has continued to be used.

Notes to the Financial Statements

for the Year Ended 31 March 2021

10 TANGIBLE FIXED ASSETS

Cost	Fixtures, fittings, tools, equipment and leasehold improvements £000	Plant and machinery £000	Total £000
At 1 April 2020	657	19,788	20,445
Additions	63	806	869
At 31 March 2021	720	20,594	21,314
Depreciation			
At 1 April 2020	442	4,379	4,821
Charge for year	68	1,770	1,838
At 31 March 2021	510	6,149	6,659
Net book value			
At 31 March 2021	210	14,445	14,655
At 1 April 2020	215	15,409	15,624

At the balance sheet date, there were no tangible fixed assets held under finance leases (2020: £1,094,000).

11 DEBTORS

	2021	2020
	£000	£000
Trade debtors	1,883	3,473
Other debtors	30	150
Corporation tax	141	-
Other taxation and social security	38	148
Prepayments and accrued income	221	232
	2,313	4,003

Amounts owed to parent undertaking are due on demand and bear no interest.

Notes to the Financial Statements

for the Year Ended 31 March 2021

12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2021 £000	2020 £000
Bank overdraft	3,252	2,135
Bank loans	886	1,450
Corporation tax	-	180
Obligations under finance leases	-	184
Trade creditors	1,306	3,072
Amounts owed to parent undertaking	1,363	1,416
Amounts owed to related parties	2	32
Other taxation and social security	147	133
Accruals and deferred income	1,153	718
Other creditors	179	179
	<u>8,288</u>	<u>9,499</u>

Obligations under finance leases were fully repaid during the year.

The overdraft is secured by debenture and guarantee over the assets of the Group. Interest on the overdraft is charged at 2.8% + Bank of England variable base rate.

A bank loan is secured over the plant and machinery held by the Company. Interest is charged at 3% + Bank of England variable base rate. Repayments are made monthly, with the final repayment due in April 2027.

A CBILS loan for £1,500,000 was secured during the year. Interest is charged at 4.1% with the first 12 months interest funded by the UK Government. Repayments commence in December 2021, with the final payment due in October 2026.

Amounts owed to parent undertaking are due on demand and bear no interest.

13 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2021 £000	2020 £000
Bank loans (see note 12)	5,598	4,558
Obligations under finance leases	-	51
Accruals and deferred income	160	270
	<u>5,758</u>	<u>4,879</u>

The maturity of obligations under terms of the bank loans is as follows:

	£000
Within one year	886
Between one and five years	4,492
In more than five years	1,106
	<u>6,484</u>

Notes to the Financial Statements

for the Year Ended 31 March 2021

14 PROVISIONS FOR LIABILITIES

	2021	2020
	£000	£000
Deferred tax	220	275
	<u> </u>	<u> </u>
		Deferred tax
		£000
Balance at 1 April 2020		275
Credit to Statement of Comprehensive Income during year		(55)
		<u> </u>
Balance at 31 March 2021		<u>220</u>

Deferred tax liabilities are attributable to the following:

	2021	2020
	£000	£000
Accelerated capital allowances	526	354
Unutilised tax losses	(302)	(76)
Other short term timing differences	(4)	(3)
	<u> </u>	<u> </u>
	220	275
	<u> </u>	<u> </u>

15 CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

			2021	2020
Number	Class	Nominal Value	£	£
1,247	Ordinary class A	£1	1,247	1,247
58	Ordinary class B	£1	58	58
			<u> </u>	<u> </u>
			1,305	1,305
			<u> </u>	<u> </u>

The 'A' Ordinary and 'B' Ordinary shares rank pari-passu in all respects other than that the 'B' Ordinary shares do not carry voting rights.

16 DEFINED CONTRIBUTION SCHEMES

The Company operates a defined contribution retirement benefit scheme for all qualifying employees. The total expense charged to the profit and loss in the year ended 31 March 2021 was £168,000 (2020: £168,000).

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Notes to the Financial Statements

for the Year Ended 31 March 2021

17 LEASING AGREEMENTS

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2021	2020
	£000	£000
Within one year	245	269
Between one and five years	324	568
	<u> </u>	<u> </u>

The operating leases relate to the lease of land and buildings.

18 CAPITAL COMMITMENTS

At the balance sheet date, the Company was contracted and committed to the purchase of fixed assets for £5,460,000 (2020: £Nil).

19 EVENTS AFTER THE BALANCE SHEET DATE

There are no significant events between the balance sheet date and the date of signing this report.

20 RELATED PARTY DISCLOSURES

At the balance sheet date, a trading balance of £2,000 was owed by Tompkins Investments Limited, a company controlled by AC Tompkins to the Company (2020: £32,000 creditor). During the year, the Company incurred administrative expenses of £344,000 (2020: £287,000), from Tompkins Investments Limited.

21 ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The Company is a subsidiary undertaking of Modus Subsea Group Limited. The ultimate controlling party is AC Tompkins.