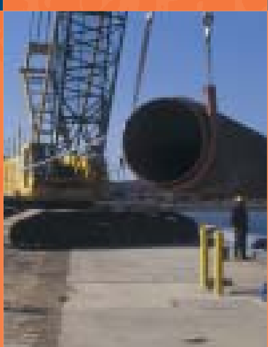
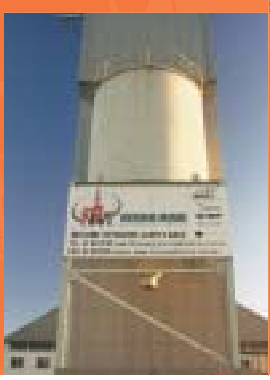
MERMAID MARINE
AUSTRALIA LIMITED

Annual Report 2003





MERMAID MARINE AUSTRALIA LIMITED
A.C.N. 083 185 693

CORPORATE DIRECTORY

DIRECTORS
Alan Birchmore, Chairman
Jeffrey Weber, Director, CEO
Mark Bradley, Director
James Carver, Non-Executive Director
Peter Chew, Non-Executive Director
Anthony Howarth, Non-Executive Director
Jeff Mews, Non-Executive Director
Richard Reid, Non-Executive Director

COMPANY SECRETARY
Brendan Gore

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Since my last report, Mermaid Marine Australia Limited ('Mermaid' or 'the Company') has joined forces with PSA Marine (Pte) Ltd ('PSAM'), now a major shareholder with 20.47 per cent of our company. The marine subsidiary of the Port of Singapore Authority, a global leader in waterfront operations and management, PSAM operates in a number of countries around the world. It is therefore encouraging that Mermaid was their preferred choice for entry into Australia. We will deliver on that decision as we in turn benefit from PSAM's experience and formidable market position as one of Asia's premier fleet owner and operator.

Mermaid encompasses a range of businesses, all with natural synergies. While each operates as a separate profit centre, the businesses are offered as an integrated service, with each activity drawing strength from and supporting the others. Our company meets spirited competition in every arena, but it is this package of complementary services that sets us apart and makes us increasingly tough to beat.

A few words on each activity will demonstrate the concept.

For 20 years now, Mermaid's fleet of utility boats and barges has offered services to offshore oil and gas operators, mainly by way of spot charters. A good business, it has nevertheless been exposed to cyclic fluctuations. This year, however, saw the advent of longer-term and more reliable contracts utilising larger, more powerful vessels. Backed by supply-base facilities that include a wharf, storage areas and dedicated maintenance, our seagoing services can use those advantages to grow, increasing revenue and becoming more competitive through this onshore support.

Although it is still early days for our largest asset, the Dampier supply base, the facility has so far attracted Halliburton and BHP Billiton Petroleum, two of the biggest names in oil and gas. Both are establishing their operations there, and others will surely follow as the benefits of around-the-clock access, security, a heavy load-out ('HLO') wharf, fast fuel and water supplies and a well-equipped, skilled work force translate into an efficient and cost-effective service.

Traditionally, earnings on infrastructure are slow to build, but other activities are enjoying immediate benefits as a result of improvements at the facility. Soon, each business operating at or from the base will not only support the others but also contribute independently earned profits.

Other additions to the Dampier base – such as an inner-harbour barge ramp operating at all tides in protected water, and user-pays cyclone pens – are being actively considered and, once constructed, will further increase revenue and complement the range of services already offered there.

Mermaid's slipway can handle vessels up to 4,000 tonnes, which includes most that operate off the north-west coast. Under the direction of slipway manager Dirk Verboon, this facility has won almost every contract for ship repair and maintenance in the area, providing safety and cost savings to all regional operators. For our own fleet, too, the slip has proved invaluable in the Company's campaign to offer vessels that are safe, reliable and well-maintained.

In anticipation of substantial future development in the Browse Basin, Mermaid established a small but profitable supply base in Broome. During the past three years, this base has supported every drilling operation in the region, including those of BHP Billiton, Santos, Woodside and Inpex (the Japanese major presently undertaking a $30 million drilling programme). The continued success of these operators supports Mermaid's earlier decision to build a presence in this area.

Mermaid has been awarded four of the last five shallowwater pipelay projects off the north-west coast. The latest, the Linda contract recently announced by Apache Energy Limited ('Apache'), commences in February 2004. Such projects are pursued in a joint venture with our other substantial shareholder, Clough Engineering. The Mermaid Clough Joint Venture ('MCJV') offers clients an impressive mix of talent and strategic assets. Clough Offshore is responsible for project management, which is supplied in cooperation with Mermaid director Mark Bradley, as general manager of the venture. The partners own the only pipelay barge resident on the west coast and this, in combination with Mermaid's fleet of utility vessels and waterfront engineering facilities, presents our customers with many advantages.

No lost time incidents/injuries ('LTIs') were sustained during the MCJV's work on the contracts undertaken this year (the 5.4-kilometre Victoria Platform pipeline bundle and the 7.2-kilometre Double Island Platform pipeline bundle off Varanus Island in the Carnarvon Basin). All the technical requirements were met and both finished ahead of schedule, earning the joint venture early completion bonuses.

In completing these contracts, a most important consideration was environmental management. Protecting the environment is crucial for oil companies, especially those operating offshore, and it was in this area that the MCJV excelled. Identified within the 12-kilometre pipeline corridors specified in the contracts were some 600 environmentally sensitive seabed coral outcrops. The joint venture worked closely with Apache in developing a specialised barge-anchoring procedure to minimise any impact, and demanding damage targets of less than 3 per cent were set for both projects. Inspection of each feature before work commenced, and again once operations were complete, showed that despite the dense population of outcrops none had been damaged. Together, these projects have been nominated for a suite of environmental awards. Having recently won the state's prestigious Golden Gecko Award, they are currently among the finalists for the federal Prime Minister's Award for Environmentalist of the Year.

Thus, from a shaky start in the first 12 months of offshore contracting, Mermaid ends the second year well established, with a strong partner, a solid track record, a growing market position and well-satisfied clients.

In 2000, Mermaid Labour & Management Pty Ltd ('MLM') was formed as a 50/50 joint venture with OIS–MOC, a group experienced in the supply of labour for construction. MLM went on to supply labour and successfully manage this workforce for the Allseas Bass Strait gas pipeline project. At the time, that venture was Australia's largest offshore undertaking, and we thank our partners Rick de Franck and Kevin Ponga for their considerable efforts. Construction work, however, does not enjoy the same continuity as marine manning. Further, as an established employer of seagoing crews, Mermaid has a natural advantage in marine labour hire. Thus, over time, this aspect of our business will sub-stantially outstrip revenues from the supply of labour for construction work. We have therefore taken full control of MLM through an issue of 800,000 shares.

The Directors' Report provides details of Mermaid's safety record, as well as the national awards we have won in the demanding company of our peers. Incurring no LTIs from any activity for the year is quite an achievement. Mermaid's increased safety awareness has prevented many injuries, perhaps even saved lives, and what could be more important?

On behalf of all those involved, we warmly recognise the dedication of our safety manager, Roy Graham Measor. For Roy, ensuring the safety of our employees is more than just a job and we all benefit from his success.

Since Mermaid listed in 1999, we have experienced a mixture of challenges and success, with every year recording progress and further development. All of our established business units have the potential to earn well above their present levels and a number of new opportunities are opening within our expanding company framework. Given the energy and professional leadership of Jeff Weber, our Chief Executive Officer, this process is in safe hands and will surely be rewarding for our shareholders. Upgrading equipment for improved operating efficiencies will generate greater reliability and better returns, and this program is being introduced as a priority, in line with market need, efficiency and financial prudence.

As noted, the shallow-water pipelay market remains active. Drilling continues off Varanus Island and the Company is gearing up for the recently awarded $10 million pipelay contract from Apache and partners. The market has been further strengthened by the recent shallow-water discoveries of Tap Oil (off Airlie Island) and Roc Oil (in the Perth Basin). Meanwhile, Hamersley Iron is undertaking a $1.5 billion production upgrade, including work to its loading wharf at Dampier, BHP Billiton is engaged in significant harbour works at Port Hedland and Phillips Petroleum recently gave the official go-ahead for its $1.9 billion gas-recycle project in the Timor Sea. Nearby, work on the $600 million Burrup fertiliser plant has commenced and, at Dampier, the West Australian government is carrying out harbour works costing more than $50 million, to facilitate the export of new gas-based products.

Also in the Pilbara area, the Gorgon project is now much in the news as Western Australia's State Government has given approval in principle to this mammoth project. Currently, ChevronTexaco operates a producing oilfield at Barrow Island and has achieved the highest standards of environmental management there. Chevron and its partners control a gas resource large enough to supply the whole of Australia for 40 years, or the United States for two, and they now intend to build a liquified natural gas ('LNG') plant on Barrow.

The Gorgon project involves the outlay of $11 billion for a plant to supply LNG to the United States, a new market for Australia. It is estimated that government royalties alone from the project will approach $20 billion over the next 30 years, with a commensurate boost in employment for both construction and operational labour. With such stunning credentials, the project will become a regional and national bonanza, providing a huge boost for our company.

With so much happening, it is important not to forget the trading loss sustained in the first half of this year. Although this was recovered in full during the six months that followed, it highlighted the importance of better balancing company earnings. With the Dampier base upgrade now behind us, it is also time to acknowledge the personal and financial pressures that were involved in undertaking that $30 million capital infrastructure project in-house.

Addressing the carrying values of the balance sheet at the half year, the directors elected to write down certain assets, including some older vessels. The Dampier supply base was also written down, to a figure below cost and sworn valuation, to better reflect the profile of its present earnings. However, shareholders can take comfort in the fact that the book value of this strategic asset is now very modest in relation to its future worth. While earnings from new infrastructure build at traditionally slow rates, our supply-base related businesses are growing and the new services and facilities at Dampier are winning strong acceptance.

This report has specifically acknowledged certain people for their efforts, but no less is owed to the rest of our employees, many of whom work long and hard in difficult and highly responsible situations. Their circumstances, both at sea and onshore, are well-understood and their efforts deeply appreciated. For small financial reward my co-directors have dedicated their skills wholeheartedly and with great enthusiasm; I could not ask for better. Others, while not directly employed by Mermaid, such as our bankers at the National, auditors, accountants, legal advisers, underwriters and insurance brokers, to name only a few, are worthy of special mention. We make a great team and on behalf of all at Mermaid I record our sincere thanks.

Alan Birchmore
Chairman

Mermaid bounced back with a trading profit of $2.5 million in the six months to 30 June 2003 to fully recover the ground lost in the first half and record an overall trading surplus for the year of $0.2 million.

As mentioned in the Chairman's Report, it was considered prudent to reduce carrying values on certain vessels and the new Dampier infrastructure. This has created considerable balance sheet comfort as the base grows in value. Total write-downs were $11.6 million, delivering a total after-tax loss for the year of $10.7 million.

The decision to bring forward repairs and maintenance programmes during the quiet period is standing us in good stead now, with the fleet in excellent shape, but the accelerated expense held down both the first-half and full-year results.

Group revenue for the year was $42.6 million, a 21 per cent decrease on last year. It included income of $27 million from ordinary activities. Revenues from manning and offshore construction projects, undertaken through incorporated joint ventures during the year, totalled $15.6 million.

Following the first-half results, the Board established a strategic review committee to assess the Company's operating models and strategic plan. The key findings of that review were as follows.

- The core business of the Company is soundly based on vessel and supply-base activities.
- The Company should reduce its debt overall, or in percentage terms in relation to earnings.
- Specific short-term actions were recommended to improve margins and consistency of earnings.
- The Company should examine the performance of all assets on an ongoing basis, divesting itself of those that fail to achieve acceptable returns or strategic objectives.

The committee's analysis established valuable measurement tools for the Company, producing a baseline document that will be revisited for regular benchmarking and assessment.

While the challenges encountered during the year are acknowledged, it is worthwhile noting the positives. The Company's safety performance has been exemplary, and we secured the benefits and experience of a new and active major shareholder, won a new vessel contract – resulting in the purchase of another vessel – and were successful in securing a contract with BHP Billiton Petroleum on the Dampier supply base, with the latter contract enabling us to further develop our supply-base infrastructure.

HEALTH SAFETY AND THE ENVIRONMENT

Full implementation of Mermaid's Safety Management Group ('SMG') safety program has delivered outstanding results. To date, the period free of LTIs for the vessel fleet, despite very challenging working conditions at sea, is 612 days. The Dampier supply base recorded 616 LTI-free days and the slipway 710 days, a clear record since start-up in July 2001. The supply base at Broome also has a perfect record of 1,245 LTI-free days since operations began. These results are a credit to both the Company's health, safety and environment ('HSE') department and our management and staff, all of whom have cooperated fully with a demanding system of safety management. The process is ongoing, with the HSE department now in the process of aligning our safety management system with Australian Standards 4801-2000.

At the inaugural Sea Safe-Work Awards ceremony, held in April 2003 by Seacare (the Seafarers' Safety, Rehabilitation and Compensation Authority), the Company was awarded the Offshore Employer OHS Achievement Award and the Small Shipping Employer OHS Achievement Award. Winning in both of the categories for which Mermaid qualified was not only a considerable achievement but also a tangible endorsement of the efforts made in this area.

Mermaid continues to meet the stringent requirements of its environmental management system at the Dampier supply base, essential elements of which include maintaining water quality in King Bay and monitoring and restoring the mangrove forests adjacent to the base. Compliance is audited annually by the Department of Environmental Protection.

Regular client audits of the Company's facilities and vessels to determine that we meet their requirements, together with our own procedures, ensure that potential impacts on the environment are closely managed, with zero tolerance. As Mermaid's licence to operate is predicated on our environmental performance, it is a critical element of the Company's overall management systems.

NEW SHAREHOLDER

During the year PSAM, the marine subsidiary of the Port of Singapore Authority, became a majority shareholder in Mermaid through the issue of 23.48 million new shares and six million options. Peter Chew, PSAM's Vice-President, joined the Mermaid Board and plays an important role in our ongoing development. We continue to explore options for leveraging PSAM's strengths into mutually beneficial opportunities.

VESSEL OPERATIONS

Revenue for the year from vessel operations was $19.7 million. While operating revenue for the first half was historically low at $7.7 million, the situation improved in the second half, with revenues increasing to $12 million. Before tax and write-downs, vessel operations delivered an operating profit of $1 million for the financial year, compared to last year's profit of $2.7 million. The variance was largely due to the decision to take advantage of lower activity levels by accelerating maintenance and refit programs at an extra cost of $1.9 million.

To expand vessel earnings, changes to the fleet configuration will occur over the next five years as we add to the historical spot-charter business. Mermaid will also increase its capability in the servicing of oil and gas companies that require tanker offtake support, platform supply, crew transfer services and geophysical/survey work in the north-west on a more regular and contracted basis.

During the year, the Company successfully tendered to provide tanker berthing and other support services for ChevronTexaco's Barrow and Thevenard Island operations. A longer-term agreement involving the acquisition of the *Mermaid Carver*, a new, 3500 bhp, offshore Z-drive tug, this contract was the first of its kind for Mermaid and represents a new focus towards such extended contracts.

Mermaid also played a major role in salvaging the bulk carrier *Hanjin Dampier*, which ran aground off the coast of Dampier in August 2002. Many of our vessels, including barges, were involved in the operation. In addition, we provided the equipment necessary to remove a large quantity of iron ore from the carrier. Mermaid's ability to mobilise diverse equipment under difficult conditions highlights the added capability of the Dampier supply base and sets us apart from other, conventional vessel operators in the region.

This year too, Seatrac engaged one of Mermaid's larger vessels in an experimental project for Woodside Petroleum. Involving an innovative system for the removal of old well-heads from the sea floor, this work saved time and offered many environmental advantages. Hopefully, in the future such procedures will become the norm for the removal of many such redundant installations.

Towards the end of the financial year, the Company placed the *Mermaid Explorer* overseas, into a 6-month contract with options. While it is not currently a key strategy to develop into the south-east Asian market, we will continue to take advantage of specific opportunities such as this when the Australian market is quiet.

SUPPLY BASES

The demand for supply-base activities continued to gain momentum, with the business reporting a loss before tax and write-downs of $0.3 million, a 57 per cent improvement on last year. Revenues of $3.8 million represented a 31 per cent improvement on the previous period, with lower operating costs, greater labour efficiencies and tighter controls on expenditure contributing to better and more sustainable operating margins.

The Company has invested in a range of infrastructure improvements this year, including the following.

- A new, 200,000 litre fast-fuel facility for the wharf.
- A fast water supply at the wharf.
- A 150-tonne crawler crane.
- A 900 m^2 undercover warehouse.
- A 10,000 m^2 hardstand improvement.
- A dedicated Dangerous Goods Facility.

We expect to further increase our undercover storage and will construct a washdown facility for the drilling industry to Australian Quarantine Standards.

In April 2003, BHP Billiton Petroleum became a major tenant at the Dampier supply base, to support its Griffin venture and increasingly successful exploration. A new warehouse with associated logistics support and ready access to road and sea has been established, and this represents good progress in the Company's supply-base strategy of providing regional operators with one-stop services.

This year too, the supply bases supported other major ventures in the region, including mobilisation of the Victoria and Double Island projects and the entire logistics operation of Saipem (the prime installation contractor for Woodside's TSEP project) from the Dampier base. Mermaid's contract with Saipem, which is due to continue into the 2004 financial year, is the largest single logistics contract to be undertaken at the Dampier base so far. In addition, we have provided supply-base services to Western Geco, United KG, Apache, Wandoo Alliance, Woodside, Covus, Technip Coflexip, Hamersley Iron, Transfield Worley and ChevronTexaco.

Other developments involved the drilling industry's use of the Dampier base, with Transocean becoming the first drilling client to use our laydown facilities. Future opportunities include the Santos' Mutineer Exeter Project and Hamersley Iron's wharf upgrade, both scheduled to begin early in 2004.

Interest in the HLO wharf continues to grow, with inquiries from major Burrup industry planning groups relating mainly to the roll-on/roll-off technology for unloading barges. During the year, Icon Engineering engaged the Dampier base to supply services linked to the fabrication and load-out of an offshore structure for Apache. That structure was the first such load to be dispatched over the HLO wharf.

As mentioned in the Chairman's Address, the economic impact of the Gorgon project on the region, and Mermaid in particular, will be immeasurable. Currently, the Company is working closely with ChevronTexaco, through their contractors, on early feasibilities into utilisation of the Dampier base for this huge undertaking.

All of Mermaid's drilling support is managed by Brian Philp, a highly experienced drilling manager in his own right. Under his direction, the Broome supply base continued to provide important support services for drilling operations in the Browse Basin. During the first half of the year, the base successfully supported a Woodside drilling operation. More recently, it completed servicing of a drilling programme for BHP Billiton Petroleum. Now the base has commenced a seven-month contract to support a drilling programme by Inpex. Since start-up in 1999, the Broome base has won contracts to support every offshore drilling campaign in the region. In servicing those contracts, it has earned a solid reputation for safety, efficiency and cost-effectiveness.

THE SLIPWAY

This financial year, slipway revenue was $5.2 million, down 12 per cent on that for the previous year. Profit was better at close to break-even, and the facility made a significant contribution to the upgrade of our fleet. A new business, it will improve steadily as the vessel population in both the construction and support sectors grows. While our market is based predominantly in the north-west, we did secure a vessel out of Darwin during the year, indicating that the business is professional and competitive. Our ship-repair personnel are also involved in major project mobilisations, which help to spread the demand profile. In addition, the slipway undertook a number of emergency repairs during the year, thereby demonstrating the benefit of the facility to vessel operators in the region and, ultimately, their offshore clients. Further opportunities – for example, in the military, professional fishing and tourism sectors – remain to be tapped as the ship-repair option at Dampier becomes better known and understood.

OFFSHORE CONSTRUCTION

The past year is the second in which the Company has participated in the offshore shallow-water pipelay construction market. Mermaid now operates through its 50/50 joint venture with Clough Engineering.

During the year, the MCJV completed two pipelay contracts for Apache, generating profitable revenue of approximately $25 million. The MCJV's successful technical completion of those projects, as well as its environmental management, safety record and back-up, were undoubtedly considerations when Apache awarded its latest Linda pipelay contract to the joint venture. That contract will be undertaken later this financial year.

LABOUR HIRE

Labour hire remains an integral part of Mermaid's business, through our subsidiary MLM. While competition in the industry is well-entrenched – especially in the rig and seismic-vessel markets – and winning a share of the sector will be difficult, we are well placed to do so and the potential of this business is significant. The Company has identified a number of targets and we expect to further develop our capability and experience in this area.

Jeffrey Weber
Chief Executive Officer

The directors are responsible for the Company's corporate governance practices. This statement sets out the main corporate governance practices in operation during the financial year.

BOARD OF DIRECTORS

The Board carries out its responsibilities in accordance with the following.

- The Board will comprise at least four directors.
- The Board will have a majority of non-executive directors.
- The roles of Chairman and Chief Executive Officer will be separate.
- The directors must between them possess a broad range of skills, qualifications and experience.
- The Board will meet no less frequently than bi-monthly.
- All available information in connection with items to be discussed at a meeting of the Board will be provided to each director prior to that meeting.

The primary responsibilities of the Board include:

- establishing Mermaid's goals and developing strategic plans to achieve them;
- reviewing and adopting annual budgets and cash flow forecasts for the financial performance and security of the Company, and monitoring the results on an ongoing basis;
- identifying business risks and implementing actions to manage those risks;
- developing an effective management and corporate system to ensure safety and quality, measure progress and exercise control;
- ensuring the employment and further development of efficient and qualified staff for the growth of the Company's business;
- keeping Mermaid shareholders appraised of all relevant information through continuous disclosure;
- identifying and developing strategic relationships for growth and access to specialist expertise, and
- developing clear and accurate annual and half-yearly financial reports for Mermaid shareholders.

Independent professional advice

Subject to the Chairman's prior approval (not to be unreasonably withheld), the directors, at Mermaid's expense, may obtain independent professional advice on issues arising in the course of their duties.

Composition of the Board

No formal nomination committee or procedures have been adopted for the identification, appointment and review of Board membership, but an informal assessment process facilitated by the Chairman operates in consultation with other directors and Mermaid's professional advisors.

In relation to Board membership, Mermaid is committed to:

- its Board comprising directors with a blend of skills, experience and attributes appropriate to the Company's business and stage of development, and
- the principal criterion for the appointment of new directors being their ability to add value to the Company's business through their professionalism, integrity and experience.

Audit committee

The Board has a separately constituted audit committee, which consists of the following non-executive directors.

- J A S Mews (Chairman)
- A G Birchmore
- A J Howarth

Remuneration and nomination committee

The Board has a separately constituted remuneration and nomination committee, which consists of the following non-executive directors.

- J A S Mews (Chairman)
- A J Howarth (appointed 23 July 2003)
- R M Reid
- A G Birchmore (resigned 23 July 2003)

The remuneration of executive directors will be decided by the Board without the affected executive director participating in that decision-making process.

The maximum remuneration of non-executive directors is the subject of shareholder resolution, in accordance with the Company's constitution, the Corporations Act and the Listing Rules of the Australian Stock Exchange ('ASX').

The apportionment of non-executive director remuneration within that maximum is made by the Board, having regard to the value to the Company of the contributions of the non-executive directors.

The Board may award additional remuneration to non-executive directors called upon to perform extra services or make special exertions on behalf of the Company.

Identification and management of risk

The Board's collective experience enables it to accurately identify the principal risks that may affect the Company's business, and these are recurring items for deliberation at Board meetings.

Ethical standards

The Board is committed to establishing and maintaining the highest ethical standards with which to underpin Mermaid's operations and corporate practices.

ASX corporate governance recommendations

The Board recognises the importance of the corporate governance principles underpinning the best practice recommendations released by the ASX Corporate Governance Council in March 2003. While the majority of these relate to practices already implemented by the Company, monitoring of Mermaid's compliance with ongoing recommendations of this type will continue.

Your directors submit their annual financial report for the financial year ended 30 June 2003. In order to comply with the provisions of the Corporations Act 2001, the Directors' Report is as follows.

Below are profiles of the directors in office during or since the end of the financial year.

ALAN GORDON BIRCHMORE

Chairman

(appointed 12 August 1998)

Alan has occupied senior management and board appointments in Australia, England, mainland Europe and the United States of America, with direct responsibility over a range of financial, industrial and mining operations. As Chief Executive of the New York-listed Bond International Gold, he was responsible for a worldwide work-force of 6,000 employees in Canada, the United States, South America and Australia. The company developed the Superpit at Kalgoorlie and successfully ran that as Australia's largest gold-mining operation, in joint venture with Homestake of the United States. Alan also sat on the Argyle joint venture, as one of the three principals during the period in which it developed the world's largest diamond mine. In 1990, as a major shareholder, he became Chairman of St Barbara Mines Limited. Once listed and during the time of his stewardship, the company became highly profitable, registering market capitalisation growth from $12 million to over $440 million. Alan, who retired from the board of St Barbara in 1997, was recently appointed Chairman of the Albany Port Authority. He is also Deputy Chairman of the West Australian Ballet Company and a Fellow of the Australian Institute of Company Directors.

JEFFREY ANDREW WEBER

Director, Chief Executive Officer

(appointed 31 December 2002)

Jeff began his career as a marine engineer with BHP Transport. He went on to complete a degree in this field in 1993 and in 1994 graduated with a Master's in Engineering and Technology Management from the University of Queensland. During his 19 years with BHP, Jeff gained comprehensive project management experience and helped develop new business for BHP Transport in Australia and south-east Asia. He also managed a major initiative with BHP's steel division, reviewing its logistics arrangements and developing processes to improve services and reduce costs. In 1998, Jeff joined Riverside Marine in Queensland and helped expand its operations Australia-wide. This included forming a joint venture company with Wijsmuller International Towage BV, RiverWijs and negotiating with Woodside Petroleum to take over that company's harbour towage operation in Dampier, Western Australia. As Chief Executive Officer of Mermaid Marine, Jeff oversees all of the Company's business lines.

MARK FRANCIS BRADLEY

Director

(appointed 22 September 2000)

A civil engineer with a track record in senior off-shore engineering management, Mark joined the J Ray McDermott Company in 1977 for service on Esso's Tuna/Mackerel project in Bass Strait. During the 14 years of technically challenging work that followed, Mark held senior positions with the company in Indonesia, Singapore, Malaysia, Dubai and Saudi Arabia. Still with McDermott, but returning to Australia, he then worked on new projects in Bass Strait and, finally, the Woodside North Rankin A and Goodwyn A platforms on the North-West Shelf in Western Australia. In 1991, Mark joined Clough Offshore as project manager of a number of North-West Shelf projects. Duties in Thailand, China and Indonesia followed, and by 1993 he was operations/project manager for BHP's Griffin project. In 1994 Mark became Managing Director of Clough Offshore. A highly talented manager, he then presided over the company's fivefold growth, which was to make it one of the most well-equipped, professional and competitive groups in the off-shore contracting business. In 1997, Mark joined the Board of Clough Engineering as an Executive Director, retiring and becoming a shareholder and director of Mermaid in 2000.

JAMES HENRY CARVER

Non-Executive Director
(appointed 29 June 1998)

Captain James Carver is a Ships' Master with over 30 years' direct experience in the marine industry. As Woodside Petroleum's first Ships' Master, he carried out marine operations in the LNG development. Captain Carver, who has been involved in exploration, construction and production for most of the oil and gas projects on the North-West Shelf, has in-depth knowledge of the industry, its needs and its future. Establishing the Company in 1982, he pursued a 'can do' attitude at sea and on shore. Under his direction, the fleet grew from one to 15 vessels and the base at Dampier was secured for its present expansion.

CHENG CHEW MING (PETER CHEW)

Non-Executive Director
(appointed 27 November 2002)

Peter graduated with first-class honours from the University of Glasgow in 1985, being awarded a Bachelor of Science in Naval Architecture and Ocean Engineering. In 1987 he obtained a Master's in Management Science from the Imperial College of Science and Technology, University of London. Peter, who is currently Vice-President of PSAM, has had overall responsibility for development of that company's growth strategy in the offshore oil and gas marine business since 1998. His other responsibilities include mergers and acquisitions, developing relationships with major oil and gas exploration and production companies, and taking charge of overseas joint venture operations. Peter sits on the boards of several companies.

ANTHONY JOHN HOWARTH AO

Non-Executive Director
(appointed 5 July 2001)

Tony, who has 30 years' experience in the banking and finance industry, has held a number of overseas appointments. He retired only recently as Chief Executive Officer of the Challenge Bank and is currently Chairman of Alinta Limited, a member of the St John of God Health Care Governing Board, a board member of the Home Building Society Limited and a director of the Australian Chamber of Commerce and Industry. Tony is also a member of numerous community organisations, among them the Prime Minister's Community Business Partnership and the Australia Council's Major Performing Arts Board.

JEFFREY ARTHUR SYDNEY MEWS

Non-Executive Director
(appointed 12 August 1998)

A Fellow of the Institute of Chartered Accountants in Australia, Jeff is also an Associate of the Australian Society of Certified Practising Accountants, a Fellow of the Australian Institute of Company Directors and a Fellow of the Taxation Institute of Australia.

Jeff spent more than 22 years as a partner in the taxation consulting division of PricewaterhouseCoopers before retiring from the partnership. His experience in the oil, gas and mining industries is extensive and he has been directly involved, at a senior level, with most major resource projects in Western Australia since the 1970s.

As well as being a past Chairman of the Western Australian division of the Taxation Institute of Australia, Jeff is currently a Member of the Salaries and Allowances Tribunal for the State of Western Australia and a Founding Governor of the Malcolm Sargent Cancer Fund for Children in Western Australia.

RICHARD MALCOLM REID

Non-Executive Director
[appointed 22 September 2000]

A Fellow of the Institute of Chartered Accountants, Richard has extensive experience in senior auditing positions in London, Belgium and Perth. He joined the Clough group in 1980 and is a director of a number of the group's subsidiaries, joint ventures and associates.

As Finance Director of the group Richard was intimately involved in all of the Clough group's major projects and acquisitions for over 20 years, as well as the successful listing of both the parent company, Clough Limited, on the ASX in 1998 and of its subsidiary, PT Petrosea Tbk, on the Jakarta Stock Exchange in 1990. His experience in engineering and construction, both within Australia and overseas, is significant, as is his knowledge of finance and management with respect to property and other investments.

CHAN KOK TEUN

Alternate Non-Executive Director
(appointed 27 November 2002)
Kok Teun is a member of the Institute of Certified Public Accountants of Singapore. He has held various senior finance positions in Singapore, the United States and Europe, among them positions with two US multinational corporations engaged in the oil and gas industry, as well as another with a large, Singapore-based engineering and marine services company. Kok Teun is currently Senior Corporate Services Manager of PSAM.

CHRISTOPHER GLEN SUTHERLAND

Alternate Non-Executive Director
(appointed 29 September 2000)
After graduating in 1985, Chris joined the Clough group, working mainly in site engineering during marine and plant construction. Actively involved in the development of Clough Offshore's sub-sea construction business, he secured and undertook major works for BHP in the Timor Sea. From 1990-1994, Chris worked for Sonsub (a sub-sea/remote-systems engineering company), first as its engineering manager then as Managing Director for the Asia-Pacific region. Rejoining Clough in 1995, he developed the company's strategic plan for its offshore business – which included the acquisition of a large dynamic positioning construction vessel – and managed this business for a number of years. Chris has also held senior positions in Clough as head of group strategy and various boards. In February 2002 he was appointed Chief Executive Officer of Clough Services, the company's newly developed services division.

PRINCIPAL ACTIVITIES

Mermaid's principal activities during the course of the financial year were as follows.

- Operating crewed vessel charters.
- Vessel manning, management and logistics.
- Operating the supply-base facilities and slipway.
- Engineering, pipelay and offshore contracting, and also labour hire.

There have been no significant changes to these activities during the financial year, other than those detailed in the Chairman's Report and/or Review of Operations and Activities.

DIVIDEND

No dividends have been paid or declared since the start of the financial year.

In respect of the financial year ended 30 June 2003, the directors have not recommended the payment of a dividend.

REVIEW OF OPERATIONS

A review of operations for the financial year, and the results of those operations, are set out in the Review of Operations and Activities.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Chairman's Report and Review of Operations and Activities set out matters that have had a significant effect on the state of affairs at Mermaid. Other than those, there were no significant changes in the Company's state of affairs during the financial year.

SUBSEQUENT EVENTS

During July 2003, the MCJV was awarded a further contract by Apache and its Carnarvon Basin partners, for the Linda offshore pipeline installation works.

The project is to commence in the new year but is subject to receipt by Apache of approval from the Harriet Joint Venture participants in the project, approval under environmental legislation, consolidation of agreements and the execution of contract documents.

With an award value of A$10 million, the project involves the installation and connection of 4.4 kilometres of 12-inch subsea pipeline. This will connect the Linda field with the Sinbad pipeline, allowing the transmission of oil to Varanus Island for holding and shipping. Linda will become the latest in the Carnarvon Basin network of producing wells, which are linked for efficient production of oil in the region.

The Linda installation, the third such contract carried out by the MCJV, will combine Clough's engineering and project management expertise with Mermaid's experience in operating the vessel, barge and engineering facilities provided at the Dampier base. Our dedicated presence in the north-west offers skilled personnel plus equipment for immediate back-up, and this has become a valuable element in such contracts, where the highest standards of safety and environmental compliance are required.

FUTURE DEVELOPMENTS

The Chairman's Report and Review of Operations and Activities give an indication, in general terms, of likely developments in the Company's operations in future financial years, and the expected results of those operations.

ENVIRONMENTAL REGULATION

Mermaid continues to maintain its environmental management system in accordance with the requirements of the Department of Environmental Protection.

SHARE OPTION

As at the date of this report the Company had a total of 7,895,000 unissued shares under option as follows.

PSAM Options

On 27 November 2002, shareholders at the Company's Annual General Meeting approved the issue of 23.48 million ordinary shares and 6 million options to PSAM. The PSAM Options are exercisable in two (2) tranches. A tranche of 3 million options is exercisable at 31 cents per share, with a term of 12 months from their issue date, and a further tranche of 3 million options is exercisable at 34 cents per share, with a term of 24 months from their issue date.

Director Options

At the beginning of the financial year, there were 150,000 Director Options on issue. These were granted on 24 July 2001 at an issue price of 80 cents per share, and had an expiry date of 24 July 2003.

On 24 July 2003, an aggregate of 150,000 Director Options lapsed in accordance with their terms.

As at the date of this report, there are no Director Options on issue.

Executive Share Options

At the beginning of the financial year, there were 220,000 Executive Share Options on issue. These were granted on 24 November 2000 at an issue price of 69 cents and expired on 24 November 2002.

During the financial year, the balance of the November 2002 Executive Officer Options (220,000) lapsed in accordance with their terms.

As at the date of this report, there are no Executive Share Options on issue.

Employee Share Options

At the beginning of the financial year, there were 852,500 November 2002 Employee Options and 2,260,000 May 2006 Employee Options on issue. The November 2002 Employee Options granted on 24 November 2001 at an issue price of 69 cents per share expired on 24 November 2002. The May 2006 Employee Options, granted on 17 May 2002 at an issue price of 44 cents per share, have an expiry date of 17 May 2006.

During the financial year, the balance of the November 2002 Employee Options (852,500) lapsed in accordance with their terms.

Also during the financial year, an aggregate of 365,000 May 2006 Employee Options granted on 17 May 2002 lapsed in accordance with their terms. At the end of the financial year, employees are entitled to purchase an aggregate of 1,895,000 ordinary shares in Mermaid on or before 17 May 2006.

Holders of options over unissued shares in the Company do not have the right, by virtue of the options, to participate in any share issue or interest issue of the Company or of any other body corporate or registered scheme.

Further details of the Employee Option Plan are disclosed in note 26 to the financial statements.

INDEMNITIES AND INSURANCE PREMIUMS FOR OFFICERS AND AUDITORS

During the financial year, Mermaid paid a premium for a contract insuring all of the directors of the Company, the company secretaries and all executive officers of Mermaid against any liability incurred by such director, secretary or executive officer during the course of their duties as such director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The policy does not allocate an identifiable part of the premium to specific directors or officers. Accordingly, the premium paid has not been apportioned to directors' remuneration.

The Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the Company against a liability incurred as such officer or auditor.

DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings held during the financial year and the number of meetings attended by each director while a director of the Company. During the financial year, six Board meetings, three audit committee meetings and three remuneration committee meetings were held.

Directors	Board of Directors		Audit Committee		Remuneration and Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended
A G Birchmore	6	6	3	3	3	3
J A Weber	3	3	-	-	-	-
M F Bradley	6	6	-	-	-	-
J H Carver	6	6	-	-	-	-
P Chew	3	1	-	-	-	-
A J Howarth	6	5	3	2	-	-
J A S Mews	6	5	3	3	3	3
R M Reid	6	4	-	-	3	3
C G Sutherland (Alternate)	6	3	-	-	-	-
K T Chan (Alternate)	3	-	-	-	-	-

DIRECTORS' SHAREHOLDINGS

As at the date of this report, directors' interests in shares and options of the Company are as follows.

Directors	Shares Direct	Shares Indirect	Share Options Direct	Share Options Indirect
A G Birchmore	524,000	11,143,094	-	-
J A Weber	-	-	400,000	-
M F Bradley	6,666,666	-	-	-
J H Carver	9,891,665	-	-	-
P Chew	-	-	-	-
A J Howarth	-	200,000	-	-
J A S Mews	-	1,500,000	-	-
R M Reid	-	-	-	-

DIRECTORS' REMUNERATION

The Board reviews the remuneration packages of all directors and executive officers on an annual basis. Remuneration packages may contain as key elements:

a. salary;

b. benefits – including the provision of a motor vehicle and superannuation, and

c. incentive schemes – including share options.

The table immediately below sets out the total remuneration of directors of the Company for the financial year.

Name	Office	Salary $	Benefits (i) $	Options Granted (ii) $	Total $
A G Birchmore	Chairman	70,000	10,877	-	80,877
J A Weber	Chief Executive Officer	180,653	16,259	28,667	225,578
M F Bradley	Executive Director	165,770	14,919	-	180,689
J H Carver	Non-Executive Director	143,326	10,940	-	154,266
P Chew	Non-Executive Director	20,417	-	-	20,417
A J Howarth	Non-Executive Director	35,000	3,150	-	38,150
J A S Mews	Non-Executive Director	35,000	3,150	-	38,150
R M Reid	Non-Executive Director	35,000	3,150	-	38,150
C G Sutherland	(Alternate)	-	-	-	-
K T Chan	(Alternate)	-	-	-	-

(i) 'Benefits' includes superannuation, provision of motor vehicles and related fringe benefits tax.

(ii) 'Options Granted' – the 'Value Placed on Options' in the table above is based on the valuation at the date of issue using the Black-Scholes model, prorated over the period from grant date to vesting date. It should be noted that the options referred to were all issued in previous financial years and their full value disclosed in the Directors' Reports of previous financial years. The Company did not issue any options to directors during the financial year ended 30 June 2003. The above disclosure is made in order to comply with the requirements of the Australian Securities and Investment Commission.

EXECUTIVE OFFICERS' REMUNERATION

The table immediately below sets out the total remuneration of the three (3) most highly remunerated executive officers of Mermaid during the financial year. These three (3) are the only executive officers who meet the disclosure criteria.

Name	Office	Salary $	Benefits (i) $	Options Granted (ii) $	Total $
B Gore	Chief Financial Officer/Company Secretary	151,153	12,600	10,750	174,508
D Verboon	General Manager – Slipway	148,376	9,900	7,167	165,443
E Graham	General Manager – Development	143,888	12,500	7,167	163,555

(i) 'Benefits' includes superannuation, provision of motor vehicles and related fringe benefits tax.

(ii) 'Options Granted' – includes the executive and employee share plan as disclosed in note 26 to the financial statements. The "Value Placed on Options" in the table above is based on the valuation at the date of issue using the Black-Scholes model, prorated over the period from grant date to vesting date. It should be noted that the options referred to were all issued in previous financial years and their full value disclosed in the Directors' Reports of previous financial years. The Company did not issue any options to executives or employees during the financial year ended 30 June 2003. The above disclosure is made in order to comply with the requirements of the Australian Securities and Investment Commission.

Signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.
On behalf of the Directors.

Alan Birchmore
Chairman
Fremantle, 19 September 2003

Statement of Financial Performance

For the financial year ended 30 June 2003

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Revenue from ordinary activities		27,031,298	49,319,598	2,829,900	11,760,165
Share of revenue from associates' activities		15,580,226	4,787,942	-	-
Group revenue		42,611,524	54,107,540	2,829,900	11,760,165
Share of revenue from associates' activities		(15,580,226)	(4,787,942)	-	-
Total Revenue From Ordinary Activities		**27,031,298**	**49,319,598**	**2,829,900**	**11,760,165**
Share of net profits of associates' accounted for using the equity method	11	523,005	594,454	-	-
Vessel expenses		(23,644,012)	(13,234,954)	-	-
Supply-base expenses		(10,942,441)	(9,719,112)	-	-
Engineering and labour-hire expenses		(291,895)	(22,352,603)	-	(10,145,324)
Administrative expenses		(2,230,928)	(3,092,308)	(20,448)	(2,020)
Corporate expenses		-	-	(10,209,260)	-
Borrowing costs		(1,920,649)	(1,485,050)	(73,936)	(42,251)
Profit/(Loss) From Ordinary Activities Before Income Tax Expense	2,3	**(11,475,622)**	**30,025**	**(7,473,744)**	**1,570,570**
Income tax benefit relating to ordinary activities	4	802,870	54,971	3,765	-
Profit/(Loss) From Ordinary Activities After Related Income Tax Expense		**(10,672,752)**	**84,996**	**(7,469,979)**	**1,570,570**
Net Profit/(Loss)		**(10,672,752)**	**84,996**	**(7,469,979)**	**1,570,570**
Net Profit/(Loss) Attributable to Members of the Parent Entity		**(10,672,752)**	**84,996**	**(7,469,979)**	**1,570,570**
Total Changes in Equity Other Than Those Resulting From Transactions with Owners as Owners	22	**(10,672,752)**	**84,996**	**(7,469,979)**	**1,570,570**
Earnings Per Share					
– Basic (cents per share)	28	**(10.23)**	**0.10**		
– Diluted (cents per share)	28	**(10.23)**	**0.10**		

Notes to the financial statements are included in pages 23 to 52.

Statement of Financial Position

As at 30 June 2003

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Current Assets					
Cash assets		5,791,997	2,729,535	4,617,017	1,505,091
Receivables	6	7,065,470	5,487,603	34,920	948,828
Inventories	7	407,923	641,558	-	-
Other financial assets	8	-	167,918	-	-
Current tax assets	9	2,871	57,954	2,871	-
Other	10	733,100	647,144	2,083	3,333
Total current Assets		**14,001,361**	**9,731,712**	**4,656,891**	**2,457,252**
Non-current Assets					
Investments accounted for using the equity method	11	230,876	846,194	-	-
Other financial assets	8	-	-	29,421,263	32,058,166
Property, plant and equipment	12	59,517,250	64,819,724	-	-
Intangibles	14	256,338	-	-	-
Deferred tax assets	9	-	518,220	-	-
Total Non-current Assets		**60,004,464**	**66,184,138**	**29,421,263**	**32,058,166**
Total Assets		**74,005,825**	**75,915,850**	**34,078,154**	**34,515,418**
Current Liabilities					
Payables	15	4,555,037	3,541,682	5,729	55,000
Interest-bearing liabilities	16	5,920,911	2,068,209	-	-
Provisions	17	501,777	425,761	-	-
Current tax liabilities	18	-	-	-	14,225
Total Current Liabilities		**10,977,725**	**6,035,652**	**5,729**	**69,225**
Non-current Liabilities					
Payables	15	75,600	112,950	-	-
Interest-bearing liabilities	16	26,842,533	28,701,872	-	-
Provisions	17	95,536	132,930	-	-
Deferred tax liabilities	18	-	1,341,474	-	-
Total Non-current Liabilities		**27,013,669**	**30,289,226**	**-**	**-**
Total Liabilities		**37,991,394**	**36,324,878**	**5,729**	**69,225**
Net Assets		**36,014,431**	**39,590,972**	**34,072,425**	**34,446,193**
Equity					
Contributed equity	20	39,658,553	32,562,342	39,658,553	32,562,342
Reserves	21	3,763,956	3,763,956	-	-
Retained profits/(Accumulated losses)	22	(7,408,078)	3,264,674	(5,586,128)	1,883,851
Total Equity		**36,014,431**	**39,590,972**	**34,072,425**	**34,446,193**

Notes to the financial statements are included in pages 23 to 52.

Statement of Cash Flows

For the financial year ended 30 June 2003

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Cash Flows From Operating Activities					
Receipts from customers		28,108,859	55,315,290	2,719,089	10,619,987
Interest received		145,430	291,634	140,868	246,348
Payments to suppliers and employees		(23,952,696)	(51,918,099)	(59,762)	(10,673,168)
Income tax paid		157,962	(725,652)	(7,975)	(34,492)
Interest and other costs of finance paid		(1,920,649)	(1,624,946)	(85,132)	(42,251)
Dividends received		880,985	-	880,985	-
Net Cash Provided By Operating Activities	23(a)	**3,419,891**	**1,338,227**	**3,588,073**	**116,424**
Cash Flows From Investing Activities					
Payments for property, plant and equipment		(5,062,620)	(21,199,762)	-	-
Proceeds from sale of property, plant and equipment		128,683	30,200	-	-
Amounts received from (advanced to) related parties		167,918	72,523	(7,432,358)	(13,434,519)
Net Cash Provided By/(Used In) Investing Activities		**(4,766,019)**	**(21,097,039)**	**(7,432,358)**	**(13,434,519)**
Cash Flows From Financing Activities					
Proceeds from issue of shares		7,047,500	5,991,890	7,047,500	5,991,888
Payment of share issue costs		(91,289)	(173,098)	(91,289)	(173,097)
Proceeds from borrowings		-	9,114,320	-	-
Hire-purchase principal payments		(2,547,621)	(1,877,694)	-	-
Dividends paid		-	(1,506,648)	-	(1,506,648)
Net Cash Provided By/(Used In) Financing Activities		**4,408,590**	**11,548,770**	**6,956,211**	**4,312,143**
Net Increase/(Decrease) In Cash Held		**3,062,462**	**(8,210,042)**	**3,111,926**	**(9,005,952)**
Cash at the Beginning of the Financial Year		**2,729,535**	**10,939,577**	**1,505,091**	**10,511,043**
Cash at the End of the Financial Year	23(b)	**5,791,997**	**2,729,535**	**4,617,017**	**1,505,091**

Notes to the financial statements are included in pages 23 to 52.

1. SUMMARY OF ACCOUNTING POLICIES

Financial reporting framework

The financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

The financial report has been prepared on the basis of historical cost and, except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Significant accounting policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

(a) Accounts Payable

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(b) Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

(c) Capital Gains Tax

No provision has been made for capital gains tax which may arise in the event of sale of revalued assets as no decision has been made to sell any of these assets.

(d) Capitalisation of Borrowing Costs

Borrowing costs directly attributable to capital assets under construction are capitalised as part of the cost of those assets.

(e) Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two (2) workings days, net of outstanding bank overdrafts.

(f) Depreciation

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land and investment properties. Depreciation is calculated so as to write off the net cost or other revalued amount of each asset over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter. The following rates are used in the calculation of depreciation.

• Leasehold buildings and improvements	2.38 per cent prime costs.
• Vessels	4 per cent diminishing value.
• Vessel refits	10 per cent diminishing value.
• Plant and equipment	4-40 per cent prime costs.
• Motor vehicles	22.5 per cent diminishing value

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(g) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave, sick leave, and other employee entitlements that are expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of other employee entitlements that are not expected to be settled with 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the reporting date.

(h) Financial Instruments Issued by the Company

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate.

Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been used.

(i) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, in which case it is recognised as part of the cost of acquisition of an asset or as part of an item of expense, or
ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities that is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(j) Income Tax

Tax-effect accounting principles are adopted, whereby income tax expense is calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rate in deferred tax assets and deferred tax liabilities, as applicable.

(k) Interest-bearing Liabilities

Bills of exchange are recorded at an amount equal to the net proceeds received, with the premium or discount amortised over the period until maturity. Interest expense is recognised on an effective yield basis.

Debentures, bank loans and other loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accrual basis.

Ancillary costs incurred in connection with the arrangement of borrowings are deferred and amortised over the period of the borrowings.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(l) Inventory

Inventory is valued at the lower of cost and net realisable value.

(m) Investments

Investments in controlled entities are recorded at the lower of cost and recoverable amount. Investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the Company financial statements. Other investments are recorded at the lower of cost and recoverable amount.

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on an accrual basis.

(n) Leased Assets

Hire-purchase leased assets classified as finance leases are recognised as assets. The amount initially brought to account is the present value of minimum lease payments.

A hire-purchase lease is one which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property.

Capitalised hire-purchase leased assets are depreciated on a reducing balance basis.

Hire-purchase lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

Operating lease payments are recognised as an expense on a basis that reflects the pattern in which economic benefits from the leased asset are consumed.

(o) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its controlled entities as defined in accounting standard AASB 1024 'Consolidated Accounts'. A list of controlled entities appears in note 34 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all inter-company balances and transactions, and unrealised profits arising within the consolidated entity, are eliminated in full.

(p) Receivables

Trade and other receivables are recorded at amounts due, less any provision for doubtful debts.

Bills of exchange are recorded at amortised cost, with revenue recognised on an effective yield basis.

(q) Recoverable Amount of Non-current Assets

Non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have not been discounted to their present value.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(r) Revenue Recognition

Sale of goods and disposal of assets

Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed control of the goods or other assets to the buyer.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Contribution of assets

Revenue arising from the contribution of assets is recognised when the consolidated entity gains control of the contribution or the right to receive the contribution.

Liabilities forgiven

The gross amount of a liability forgiven by a credit provider is recognised as revenue.

(s) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable net assets acquired, is amortised on a straight line basis over a period of 10 years.

(t) Project Development Costs

Project development costs are recognised as an expense when incurred, except to the extent that such costs, in relation to the project, are expected, beyond any reasonable doubt, to be recoverable.

Any deferred project development costs are amortised over the period in which the corresponding benefits are expected to arise, commencing with the commercial operation of the project.

(u) Joint Venture Operations

Interests in joint venture operations are reported in the financial statements by including the consolidated entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the share of any expenses incurred in relation to joint ventures in their respective classification categories.

(v) Foreign Currency

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date.

Exchange differences are recognised in net profit or loss in the period in which they arise.

1. SUMMARY OF ACCOUNTING POLICIES (continued)

(w) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be achieved and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Dividends

A provision for dividends is recognised when they have been declared, determined or publicly recommended by the directors.

(x) Changes in Accounting Policies

In accordance with Accounting Standard AASB 1028 'Employee Benefits', on 1 July 2002 the consolidated entity changed its policy for recognising provisions for annual leave. Under the new policy the amount of the provision is calculated using the remuneration rate expected to apply at the time of settlement, rather than the remuneration rate that applies at reporting date. The effect of this change in accounting policy is not material to the financial statements for 30 June 2002 or 30 June 2003.

In accordance with Accounting Standard AASB 1044 'Provision, Contingent Liabilities and Contingent Assets', on 1 July 2002 the consolidated entity changed its policy for providing for dividends. Under the new policy, a provision for dividend is recognised when the directors have declared, determined or publicly recommended the dividend.

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
2. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES					
Profit/(Loss) from ordinary activities before income tax includes the following items of revenue and expense					
Operating Revenue					
Rendering of services		25,234,474	47,678,036	1,773,130	11,493,453
Rental revenue		590,762	1,202,421	-	-
Net foreign exchange gain		-	907	-	-
Interest – other entities		145,430	257,519	140,868	246,347
Interest – associated entities		-	20,365	-	20,365
Dividend from associate entity		-	-	915,902	-
Equity share of associates' profits		523,005	594,454	-	-
		26,493,671	49,753,702	2,829,900	11,760,165
Non-operating Revenue					
Proceeds from partial surrender of lease and easement		900,000	-	-	-
Proceeds from sale of assets					
property, plant and equipment		128,683	30,200	-	-
Net transfers from provisions					
employee benefits		31,949	130,150	-	-
		1,060,632	160,350	-	-
Expenses					
Depreciation of non-current assets					
Leasehold buildings and improvements		950,335	337,222	-	-
Vessels		416,008	502,394	-	-
Vessels – hire purchase		921,353	712,441	-	-
Plant and equipment		695,967	661,799	-	-
Plant and equipment – hire purchase		50,157	69,377	-	-
Net bad and doubtful debts arising from:					
other entities		54,441	113,834	-	-
Net foreign exchange loss		8,023	-	-	-
Borrowing costs:					
Interest expense – other entities		1,214,661	773,107	73,936	42,251
Finance charges – lease finance charges		705,988	711,943	-	-
Operating leases – rental expenses		245,223	235,953	-	-
Recoverable amount write-down on non-current assets					
Vessels		6,376,279	-	-	-
Supply base		5,272,729	-	-	-
Loans to controlled entities		-	-	10,209,260	-

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
3. SALES OF ASSETS					
Sales of assets in the ordinary course of business have given rise to the following profits and losses					
Net Profits					
Property, plant and equipment		937,350	-	-	-
Net Losses					
Property, plant and equipment		49,285	23,710	-	-
4. INCOME TAX					
(a) The prima facie income tax (expense) benefit on pre-tax accounting profit/(loss) reconciles to the income tax (expense) benefit in the financial statements as follows.					
Profit/(Loss) from ordinary activities		(11,475,622)	30,025	(7,473,744)	1,570,570
Income tax (expense)/benefit calculated at 30 per cent of operating profit/(loss)		3,442,686	(9,008)	2,242,123	(471,171)
Permanent differences					
Permanent depreciation differences		8,261	(77,762)	-	-
Entertainment		(9,661)	(10,608)	-	-
Legal		(14,097)	(7,561)	-	-
Other items		(9,090)	(18,426)	(1,200)	-
Tax losses transferred from a controlled entity for no consideration		-	-	-	471,171
Future income tax benefit no longer required		(518,220)	-	-	-
Future income tax benefit not meeting recognition criteria		(3,602,585)	-	561,324	-
Provision for deferred income tax no longer required		1,341,474	-	-	-
Non-deductible provision on inter-company loans		-	-	(3,062,778)	-
Equity share of associates' profit		164,102	178,336	-	-
Rebatable dividend		-	-	264,296	-
		802,870	54,971	3,765	-
Income tax (expense)/benefit attributable to operating profit/(loss)		802,870	54,971	3,765	-
(b) Future income tax benefits not bought to account as assets					
Tax losses – revenue		1,386,225	-	-	-
Timing differences		821,015	-	-	-
		2,207,240	-	-	-

4. INCOME TAX (continued)

The taxation benefit of tax losses and timing differences not bought to account will only be obtained if:

(i) the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realised;

(ii) the Company continues to comply with the conditions for deductibility imposed by tax legislation, and

(iii) no changes in tax legislation adversely affect the Company in realising the benefit from the deductions for the loss.

Tax consolidation system

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the Company. The impact of the mandatory elements of the tax consolidation system on existing deferred tax balances of the economic entity and parent entity has been reflected in the financial statements.

At the date of this report the directors have not assessed the financial effect, if any, the legislation may have on the Company and the consolidated entity and, accordingly, the directors have not made a decision whether or not to elect to be taxed as a single entity. The financial effect of the implementation of the tax consolidation system on the economic entity has not been recognised in the financial statements.

In the event that the tax consolidation system is implemented, the head entity has also agreed to compensate its wholly-owned subsidiaries for the carrying amount of their deferred tax balances. Where this agreement has resulted in an onerous contract, the head entity has recognised a provision and income tax expense.

5. DIVIDENDS PROVIDED FOR OR PAID

No dividends were paid or declared during the financial year (2002: nil)

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Adjusted franking account balance		3,693,525	3,449,240	3,520,505	1,305,437

Due to changes in Australian income tax legislation, from 1 July 2002 franking accounts are maintained on a 'tax paid' rather than an 'after tax distributable profits' basis. The comparative franking account balance as at 30 June 2002 has been restated on the 'tax paid basis' so as to be comparable with disclosure as at 30 June 2003.

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
6. CURRENT RECEIVABLES					
Trade receivables		4,504,941	4,686,104	-	948,828
Provision for doubtful debts		(592)	(100,000)	-	-
Other receivables		2,386,725	693,529	34,920	-
GST recoverable		174,396	207,970	-	-
		7,065,470	5,487,603	34,920	948,828
7. INVENTORIES					
Consumables – at cost		407,923	641,558	-	-

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
8. OTHER FINANCIAL ASSETS					
CURRENT					
Loans – related parties		-	167,918	-	-
		-	167,918	-	-
NON-CURRENT					
Loans – wholly-owned controlled entities		-	-	36,805,912	29,373,555
Recoverable amount write-down of loans to controlled entities		-	-	(10,209,260)	-
Shares in associate entity		-	-	-	240,000
Shares in controlled entities		-	-	2,824,611	2,444,611
		-	-	29,421,263	32,058,166
9. TAX ASSETS					
CURRENT					
Income tax receivable		2,871	57,954	2,871	-
DEFERRED					
Future income tax benefit					
Timing differences		-	242,847	-	-
Tax losses – revenue		-	275,373	-	-
		-	518,220	-	-
10. OTHER CURRENT ASSETS					
Prepayments		733,100	647,144	2,083	3,333
		733,100	647,144	2,083	3,333

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Name of Entity	Principal Activity	2003 %	2002 %	2003 $	2002 $
Associates					
Mermaid Labour & Management Pty Ltd (i) (ii)	Labour supply and industrial relations management	99	50	-	846,194
Mermaid Clough Pty Ltd (iii) (iv)	Shallow-water pipeline installation	50	-	230,876	-
				230,876	846,194

(i) The reporting date of Mermaid Labour & Management Pty Ltd ('MLM') is 30 June. The company acquired an additional 49 per cent ownership interest in MLM during May 2003 for $140,000 by issue of 800,000 shares, bringing the ownership interest in MLM at reporting date of the company to 99 per cent. MLM became a controlled entity on 7 May 2003 (note 34).
(ii) Pursuant to a shareholder agreement, the Company has the right to cast 99 per cent of the votes (2002: 50 per cent) at MLM shareholder meetings.
(iii) The reporting date of Mermaid Clough Pty Ltd ('MCJV') is 30 June. The Company acquired a 50 per cent ownership interest in MCJV in August 2002.
(iv) Pursuant to a shareholder agreement, the Company has the right to cast 50 per cent of the votes at MCJV shareholder meetings.

	Consolidated 2003 $	Consolidated 2002 $
Movement in Investments in Associates		
Equity accounted amount of investment at the beginning of the financial year	846,194	251,740
Transfer of interests in associate to consolidated entity (note 34)	(222,422)	-
Share of profit from ordinary activities before income tax expense	757,436	859,506
Share of income tax expense related to ordinary activities	(234,431)	(265,052)
Share of dividend	(915,901)	-
Equity accounted amount of investment at the end of the financial year	230,876	846,194
Summarised Financial Position of Associates		
Current assets		
Cash	327,488	3,102,453
Receivables	756,735	11,552,282
Prepayments	26,649	-
Non-current assets		
Plant and equipment	-	8,664
Deferred tax assets	-	41,509
Current liabilities		
Payables	(451,125)	(6,888,457)
Tax Liabilities	(197,894)	(70,382)
Provisions	-	(3,361,608)
Other	-	(2,538,015)
Non-current liabilities		
Deferred tax liabilities	-	(538,053)
Net Assets	461,853	1,308,393
Net Profit	461,753	1,236,909
Share of reserves attributable to associates		
Retained profits		
At the beginning of the financial year	606,194	11,740
At the end of the financial year	230,876	606,194

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

Contingent liabilities and capital commitments

The consolidated entity's share of the contingent liabilities, capital commitments and other expenditure commitments of the associate entity are nil.

12. PROPERTY, PLANT AND EQUIPMENT

Consolidated	Capital works in progress – leasehold buildings and improvements	Leasehold buildings and improvements – at cost	Vessels – at cost	Vessels – hire purchase – at cost	Plant and equipment – at cost	Plant and equipment - hire purchase – at cost	TOTAL
	$	$	$	$	$	$	$
Gross carrying amount							
Balance at 30 June 2002	29,990,916	8,500,000	8,735,450	18,540,056	4,625,717	599,321	70,991,460
Additions	824,543	545,664	51,597	6,664,363	552,096	882,712	9,520,975
Disposals	-	(23,203)	-	-	(630,436)	(60,627)	(714,266)
Transfers	(30,815,459)	30,432,741	961,291	(950,191)	606,392	(234,774)	-
Recoverable amount write-downs	-	(6,081,929)	(1,757,285)	(6,632,918)	-	-	(14,472,132)
Balance at 30 June 2003	-	33,373,273	7,991,053	17,621,310	5,153,769	1,186,632	65,326,037
Accumulated depreciation							
Balance at 30 June 2002	(135,813)	(707,219)	(943,103)	(2,240,593)	(1,891,176)	(253,832)	(6,171,736)
Disposals	-	552	-	-	563,643	9,450	573,645
Transfers	135,813	(135,813)	(155,132)	153,405	(142,559)	144,286	-
Depreciation expense	-	(950,335)	(416,008)	(921,353)	(695,967)	(50,157)	(3,033,820)
Recoverable amount write-downs	-	809,200	724,610	1,289,314	-	-	2,823,124
Balance at 30 June 2003	-	(983,615)	(789,633)	(1,719,227)	(2,166,059)	(150,253)	(5,808,787)
Net book value							
As at 30 June 2002	29,855,103	7,792,781	7,792,347	16,299,463	2,734,541	345,489	64,819,724
As at 30 June 2003	-	32,389,658	7,201,420	15,902,083	2,987,710	1,036,379	59,517,250

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in note 2 of the financial statements.

Leasehold buildings and improvements now carried at cost were valued during 2003 using an independent valuer, which assessed the value at $36.2 million. The valuation was based on a depreciated replacement cost basis.

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
12. PROPERTY, PLANT AND EQUIPMENT (continued)					
Assets written down to recoverable amount					
Leasehold buildings and improvements					
At recoverable amount		2,418,071	-	-	-
Less subsequent depreciation		(28,539)	-	-	-
		2,389,532	-	-	-
At cost		30,000,126	7,792,781	-	-
Total leasehold buildings and improvements		32,389,658	7,792,781	-	-
Vessels – at cost					
At recoverable amount		1,266,573	-	-	-
Less subsequent depreciation		(54,249)	-	-	-
		1,212,324	-	-	-
At cost		5,989,096	7,792,347	-	-
Total vessels – at cost		7,201,420	7,792,347	-	-
Vessels – hire purchase – at cost					
At recoverable amount		8,214,198	-	-	-
Less subsequent depreciation		(247,667)	-	-	-
		7,966,531	-	-	-
At cost		7,935,552	16,299,463	-	-
Total – vessels – hire purchase – at cost		15,902,083	16,299,463	-	-

Assumptions made in respect of recoverable amount

In determining recoverable amount, the expected future cash flows associated with the grouping of vessel and supply-base activities have been projected for the next five years, based on current and future forecasts.

13. ASSETS PLEDGED AS SECURITY

In accordance with the security arrangements of liabilities, as disclosed in note 16 to the financial statements, effectively all non-current assets of the consolidated entity have been pledged as security, except future income tax benefits.

The consolidated entity does not hold title to the equipment under finance lease pledged as security.

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
14. INTANGIBLES					
Goodwill		256,338	-	-	-
Accumulated amortisation		-	-	-	-
		256,338	-	-	-

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
15. PAYABLES					
CURRENT					
GST payable		214,688	277,730	-	55,000
Trade payables		2,636,072	1,979,758	-	-
Other payables and accruals		1,704,277	1,284,194	5,729	-
		4,555,037	3,541,682	5,729	55,000
NON-CURRENT					
Other payables and accruals		75,600	112,950	-	-
		75,600	112,950	-	-
16. INTEREST-BEARING LIABILITIES					
CURRENT					
Hire-purchase liability – secured (i)	25(a)	3,830,911	2,068,209	-	-
Bank loan – secured (ii)		2,090,000	-	-	-
		5,920,911	2,068,209	-	-
NON-CURRENT					
Hire-purchase liability – secured (i)	25(a)	8,152,533	7,801,872	-	-
Bank loan – secured (ii)		18,690,000	20,900,000	-	-
		26,842,533	28,701,872	-	-

(i) The hire-purchase liability is secured by a charge over the respective assets.

(ii) The bank loan is secured by mortgage debentures over the assets and undertakings of certain controlled entities, registered ships' mortgages over the vessels of certain controlled entities and a registered mortgage by way of sub-demise of the King Bay base lease.

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
17. PROVISIONS					
CURRENT PROVISIONS					
Employee benefits (i)		431,206	425,761	-	-
Other		70,571	-	-	-
		501,777	425,761	-	-
NON-CURRENT PROVISIONS					
Employee benefits (i)		95,536	132,930	-	-

(i) Employee Benefits

The aggregate employee benefits liability recognised and included in the financial statements is as follows.

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Provision for employee benefits:				
Current	431,206	425,761	-	-
Non-current	95,536	132,930	-	-
Accrued wages and salaries (i)	-	-	-	-
	526,742	558,691	-	-

(i) Accrued wages and salaries are included in the current trade payables balance, as disclosed in note 15 to the financial report.

	Consolidated 2003 No.	Consolidated 2002 No.	Company 2003 No.	Company 2002 No.
Number of employees at end of financial year	134	94	-	-

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
18. TAX LIABILITIES					
CURRENT TAX LIABILITIES					
Income tax payable		-	-	-	14,225
DEFERRED TAX LIABILITIES					
Provision for deferred income tax		-	1,341,474	-	-
19. CAPITALISED BORROWING COSTS					
Borrowing costs capitalised during the financial year		-	775,786	-	-

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
20. CONTRIBUTED EQUITY					
Contributed equity					
114,682,285 fully paid ordinary shares (2002:90,402,285)		39,658,553	32,562,342	39,658,553	32,562,342
		39,658,553	32,562,342	39,658,553	32,562,342

Fully paid ordinary shares carry one vote per share and carry the right to dividends

	2003 No.	2003 $	2002 No.	2002 $
Fully paid ordinary share capital				
Balance at beginning of financial year	90,402,285	32,562,342	75,227,380	23,825,850
Issue of shares under listed option plan	-	-	5,769,905	4,154,332
Issue of shares under Director Options (note 26)	-	-	2,400,000	1,392,000
Issue of shares under Executive and Employee Share Option plan (note 26)	-	-	505,000	272,461
Issue of shares	24,280,000	7,096,211	6,500,000	2,860,000
Option premium on options exercised	-	-	-	57,699
Balance at end of financial year	114,682,285	39,658,553	90,402,285	32,562,342

Fully paid ordinary share capital

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Share capital issued during the financial year

During the financial year, shareholders at the Company's Annual General Meeting approved the issue of 23,480,000 ordinary shares, each fully paid to PSA Marine (Pte) Ltd. Refer to the Directors' Report for details.

During the financial year, the Company issued 800,000 ordinary shares, each fully paid, to acquire a further 49 per cent interest in Mermaid Labour & Management Pty Ltd.

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Share options					

During the financial year, shareholders at the Company's Annual General Meeting approved the issue of 6 million options to PSA Marine (Pte) Ltd. Refer to the Directors' Report for details.

Refer to note 26 for details of the Employee Share Option Incentive Plan.

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Option premium				
Balance at beginning of financial year	-	57,699	-	57,699
Transfer to contributed equity	-	(57,699)	-	(57,699)
Balance at end of financial year	-	-	-	-

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
21. RESERVES					
Reserves comprise					
General reserve		3,763,956	3,763,956	-	-
		3,763,956	3,763,956	-	-
22. RETAINED PROFITS					
Balance at beginning of financial year		3,264,674	3,179,678	1,883,851	313,281
Net profit/(loss)		(10,672,752)	84,996	(7,469,979)	1,570,570
Balance at end of financial year		(7,408,078)	3,264,674	(5,586,128)	1,883,851

23. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of Profit/(Loss) From Ordinary Activities After Related Income Tax to Net Cash Flows From Operating Activities

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Profit/(Loss) from ordinary activities after related income tax	(10,672,752)	84,996	(7,469,979)	1,570,570
Depreciation of non-current assets	3,033,820	2,283,233	-	-
Provision for employee entitlements	(31,948)	(130,150)	-	-
(Profit)/Loss on sale of property, plant and equipment	(888,065)	23,710	-	-
Dividend receivable from controlled entity	-	-	(34,920)	-
Share of associates' (profit)/loss (less dividends)	392,896	(594,454)	-	-
Recoverable amount write-down	11,649,008	-	10,209,260	-
Increase/(Decrease) in provision for income tax	-	(570,711)	(14,225)	(34,483)
(Increase)/Decrease in future income tax benefit	518,219	(292,281)	-	-
Increase/(Decrease) in provision for deferred tax	(1,341,474)	74,865	-	-
Changes in net assets and liabilities				
(Increase)/Decrease in assets:				
Current and other receivables	(677,865)	2,362,348	945,959	(948,830)
Prepayments	(85,957)	(142,354)	1,250	(3,333)
Deferred project development costs	-	128,144	-	-
Current inventories	233,635	(157,675)	-	-
Increase/(Decrease) in liabilities:				
Provisions	125,654	430,787	-	-
Current payables	1,164,720	(2,162,231)	(49,272)	(467,500)
Net cash flows from operating activities	3,419,891	1,338,227	3,588,073	116,424

(b) Reconciliation of Cash

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Cash balance comprises:				
cash at bank	5,791,997	2,729,535	4,617,017	1,505,091

(c) Non-cash Financing and Investing Activities

During the financial year, the consolidated entity acquired property, plant and equipment through hire purchase to the value of $4,540,983. These acquisitions are not reflected in the statement of cash flows.

During the financial year, the consolidated entity acquired a further 49 per cent of Mermaid Labour & Management Pty Ltd for $140,000 by the issue of shares. This acquisition is not reflected in the statement of cash flows.

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
23. NOTES TO THE STATEMENT OF CASH FLOWS (continued)					
(d) Financing Facilities					
Secured loan facilities with various maturing dates through to 2004 and which may be extended by mutual agreement:					
– Amount used		20,780,000	20,900,000	-	-
– Amount unused		-	-	-	-
		20,780,000	20,900,000	-	-
Secured overdraft facility, reviewed annually and payable at call:					
– Amount used		-	-	-	-
– Amount unused		2,500,000	2,500,000	-	-
		2,500,000	2,500,000	-	-
(e) Controlled Entity Acquired					
Consideration					
800,000 ordinary shares		140,000	-	-	-
		140,000	-	-	-
Fair value of net assets acquired					
Current assets					
Receivables		44,973	-	-	-
Non-current assets					
Receivables		2,441	-	-	-
Deferred tax assets		41,691	-	-	-
Current liabilities					
Payables		(37,443)	-	-	-
Net assets acquired		51,662	-	-	-
Goodwill on acquisition		88,338	-	-	-
		140,000	-	-	-
Net cash outflow on acquisition					
Cash consideration		-	-	-	-
Less cash balances acquired		-	-	-	-
		-	-	-	-

24. EXPENDITURE COMMITMENTS

Lease commitments

Hire-purchase liabilities and non-cancellable operating lease commitments are disclosed in note 25 to the financial statements.

	Note	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
25. LEASES					
(a) Hire-purchase Contracts					
Not later than 1 year		4,499,064	2,657,731	-	-
Later than 1 year and not later than 5 years		8,746,719	8,402,265	-	-
Later than 5 years		-	-	-	-
Minimum future payments		13,245,783	11,059,996	-	-
Less future finance charges		(1,262,339)	(1,189,915)	-	-
Hire-purchase liability		11,983,444	9,870,081	-	-
Included in the financial statements as:					
Interest-bearing liability – current (note 16)		3,830,911	2,068,209	-	-
Interest-bearing liability – non-current (note 16)		8,152,533	7,801,872	-	-
		11,983,444	9,870,081	-	-
(b) Operating Leases					
Not later than 1 year		225,511	242,401	-	-
Later than 1 year and not later than 5 years		348,023	458,412	-	-
Later than 5 years		897,460	859,619	-	-
Aggregate lease expenditure contracted for at balance date		1,470,994	1,560,432	-	-
Aggregate operating lease commitments comprise:					
Office rental commitments		130,801	287,763	-	-
Supply-base rental commitments		1,287,660	1,203,467	-	-
Other		52,533	69,202	-	-
		1,470,994	1,560,432	-	-

CORPORATE OFFICE PREMISES

The Company's Mews Road premises is committed under a 5-year plus 5-year option arrangement commencing 1 May 1999 with an annual rental of $156,961 per annum.

SUPPLY BASE

Supply-base rental commitments represents the lease of the King Bay supply base for a term of 21 years commencing 1 January 1999, with an option to renew the term for a further period of 21 years.

The Company was obliged to obtain the required approvals under the lease for certain development of works (Development Works) in connection with the expansion of the Dampier supply base, within 3 years of January 1999, being the date of commencement. During the year, the Company successfully sought an extension of 2 years from the lessor for the provision of cyclone moorings at the Dampier supply base.

The approved use of the site is for the purpose of conducting a multi-purpose marine service facility and supply base, including but not limited to open and covered laydown and storage, warehousing, production and storage of drilling mud and other drilling supplies, and operating and maintaining vessels and floating plant, together with associated docking, maintenance and engineering works. Any other uses require the prior written consent of the lessor.

Restrictions apply to the assignment or subletting of the site (or any part) without prior consent of the lessor, although that consent cannot unreasonably be withheld (subject to 'usual' prudential requirements common to leases in Western Australia).

26. SHARE OPTION INCENTIVE PLAN

A Share Option Incentive Plan has been established whereby executives and employees of the consolidated entity with appropriate seniority and length of service have been issued with options over ordinary shares of Mermaid Marine Australia Limited.

The options cannot be transferred and are not quoted on the ASX.

Director Options

At the beginning of the financial year, there were 150,000 Director Options on issue. These were granted on 24 July 2001 at an issue price of 80 cents per share and had an expiry date of 24 July 2003.

On 24 July 2003, an aggregate of 150,000 Director Options lapsed in accordance with their terms.

As at the date of this report there are no Director Options on issue.

Executive Share Options

At the beginning of the financial year, there were 220,000 Executive Share Options on issue. These were granted on 24 November 2000 at an issue price of 69 cents and expired on 24 November 2002.

During the financial year, the balance of the November 2002 Executive Officer Options (220,000) lapsed in accordance with their terms.

As at the date of this report there are no Executive Share Options on issue.

Employee Share Options

At the beginning of the financial year, there were 852,500 November 2002 Employee Options and 2,260,000 May 2006 Employee Options on issue. The November 2002 Employee Options were granted on 24 November 2001 at an issue price of 69 cents per share and expired on 24 November 2002. The May 2006 Employee Options were granted on 17 May 2002 at an issue price of 44 cents per share and have an expiry date of 17 May 2006.

During the financial year the balance of the November 2002 Employee Options (852,500) lapsed in accordance with their terms.

During the financial year an aggregate of 365,000 May 2006 Employee Options granted on 17 May 2002 lapsed in accordance with their terms. At the end of the financial year, employees are entitled to purchase an aggregate of 1,895,000 ordinary shares in the Company on or before 17 May 2006.

The difference between the total market value of options issued during a financial year, at the date of issue, and the total amount received from directors, executives and employees is not recognised in the financial statements except for the purposes of determining directors' and executives' remuneration in respect of that financial year, as disclosed in notes 29 and 30 to the financial statements.

Holders of options over unissued shares in the Company do not have the right, by virtue of the option, to participate in any share issue or interest issue of the Company or of any other body corporate or registered scheme.

The market value of Mermaid Marine Australia Limited's ordinary shares at 30 June 2003 was 15.5 cents.

27. SUBSEQUENT EVENTS

During July 2003, the MCJV was awarded a further contract by Apache and its Carnarvon Basin partners, for the Linda offshore pipeline installation works.

With an award value of A$10 million, the project involves the installation and connection of 4.4 kilometres of 12-inch subsea pipeline. This will connect the Linda field with the Sinbad pipeline, allowing transmission of oil to Varanus Island for holding and shipping. Linda will become the latest in the Carnarvon Basin network of producing wells, which are linked for efficient production of oil in the region.

The Linda installation, the third such contract carried out by the MCJV, will combine Clough's engineering and project management expertise with Mermaid Marine's experience in operating the vessel, barge and engineering facilities provided at the Dampier supply base. A dedicated and experienced presence in the north-west offers personnel and equipment for immediate back-up, and this has become a valuable element in such contracts, where the highest standards of safety and environmental compliance are required.

28. EARNINGS PER SHARE

	2003 Cents per share	2002 Cents per share
Basic earnings per share	(10.23)	0.10
Diluted earnings per share	(10.23)	0.10

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows.

	2003 $	2002 $
Earnings (a)	(10,672,752)	84,996

	2003 No.	2002 No.
Weighted average number of ordinary shares (b)	104,289,189	82,241,767

(a) Earnings used in the calculation of basic earnings per share reconciles to net profit in the statement of financial performance as follows.

	2003 $	2002 $
Net profit/(loss)	(10,672,752)	84,996
Earnings used in the calculation of basic EPS	(10,672,752)	84,996

(b) The options are considered to be potential ordinary shares and are therefore excluded from the weighted average number of ordinary shares used in the calculation of basic earnings per share. Where dilutive, potential ordinary shares are included in the calculation of diluted earnings per share (refer below).

Diluted earnings per share

The earnings and weighted average number of ordinary and potential ordinary shares used in the calculation of diluted earnings per share are as follows.

	2003 $	2002 $
Earnings (a)	(10,672,752)	84,996

	2003 No.	2002 No.
Weighted average number of ordinary shares and potential ordinary shares (b)	104,289,189	82,241,767

(a) Earnings used in the calculation of diluted earnings per share reconciles to net profit in the statement of financial performance as follows.

	2003 $	2002 $
Net profit/(loss)	(10,672,752)	84,996
Earnings used in the calculation of diluted EPS	(10,672,752)	84,996

(b) Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows.

	2003 No.	2002 No.
Weighted average number of ordinary shares used in the calculation of basic EPS	104,289,189	82,241,767
Shares deemed to be issued for no consideration in respect of:		
Employee Options	-	-
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS	104,289,189	82,241,767

28. EARNINGS PER SHARE (continued)

	2003 No.	2002 No.
(c) The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share.		
Options	6,000,000	-
Director Options	150,000	150,000
Employee Options	1,895,000	3,332,500
Employee Options – lapsed	1,437,500	-
	9,482,500	3,482,500

29. REMUNERATION OF DIRECTORS

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
The directors of Mermaid Marine Australia Limited during the year were:				
A G Birchmore				
J A Weber				
M F Bradley				
J H Carver				
P Chew				
A J Howarth				
J A S Mews				
R M Reid				
C G Sutherland (Alternate)				
K T Chan (Alternate).				
The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities of which they are directors or any related party.	776,277	993,502		
The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all directors of Mermaid Marine Australia Limited, directly or indirectly, by the Company or any related party.			776,277	993,502

The number of directors of Mermaid Marine Australia Limited whose income (including superannuation contributions, provision of a motor vehicle and options granted) falls within the following bands.

	Company 2003 No	Company 2002 No
$ 0 - $ 9,999	2	1
$ 20,000 - $ 29,999	1	-
$ 30,000 - $ 39,999	3	2
$ 40,000 - $ 49,999	-	1
$ 80,000 - $ 89,999	1	-
$110,000 - $119,999	-	1
$150,000 - $159,999	1	-
$180,000 - $189,999	1	-
$190,000 - $199,999	-	1
$220,000 - $229,999	1	-
$240,000 - $249,999	-	1
$320,000 - $329,999	-	1

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
30. REMUNERATION OF EXECUTIVES				
Aggregate remuneration received or due and receivable by executive officers of the consolidated entity working mainly in Australia whose remuneration is $100,000 or more, from entities in the consolidated entity or a related party, in connection with the management of the affairs of the entities in the consolidated entity, whether as an executive officer or otherwise.	503,506	828,761		
Remuneration received or due and receivable by executive officers of the Company whose remuneration is $100,000 or more, from the Company or any related party, in connection with the management of the affairs of the Company or any related party, whether as an executive officer or otherwise.			503,506	828,761

The number of executives of the consolidated entity and the Company whose remuneration falls within the following bands.

	Consolidated 2003 No.	Consolidated 2002 No.	Company 2003 No.	Company 2002 No.
$140,000 - $149,999	-	1	-	1
$150,000 - $159,999	-	2	-	2
$160,000 - $169,999	2	1	2	1
$170,000 - $179,999	1	-	1	-
$210,000 - $219,999	-	1	-	1

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
31. AUDITORS' REMUNERATION				
(a) Auditor of the parent entity				
Auditing the financial report	89,000	69,995	-	-
Other services	151,825	197,320	-	-
	240,825	267,315	-	-

32. RELATED PARTY TRANSACTIONS

The directors of Mermaid Marine Australia Limited during the financial year were:
A G Birchmore
J A Weber
M F Bradley
J H Carver
P Chew
A J Howarth
J A S Mews
R M Reid
C G Sutherland (Alternate)
K T Chan (Alternate)

32. RELATED PARTY TRANSACTIONS (continued)

Interest in the shares of the Company held by directors and their director-related entities as at 30 June 2003.

	Mermaid Marine Australia Limited			
	Ordinary Shares		Options Over Ordinary Shares	
	2003 No.	2002 No.	2003 No.	2002 No.
A G Birchmore	11,667,094	11,667,094	-	-
J A Weber	-	-	400,000	400,000
M F Bradley	6,666,666	6,666,666	-	-
J H Carver	9,891,665	9,891,665	-	-
P Chew	-	-	-	-
A J Howarth	200,000	200,000	150,000	150,000
J A S Mews	1,500,000	1,500,000	-	-
R M Reid	-	-	-	-
C G Sutherland (Alternate Non-Executive Director)	-	-	-	-
K T Chan (Alternate Non-Executive Director)	-	-	-	-

The following related party transactions occurred during the financial year.

Transactions with directors and director-related entities

(a) Directors' fees

(i) During the year, a total of $80,877 (2002: $112,901) for directors' fees was paid to J P Birchmore, a related entity of A G Birchmore. This is reflected in full in note 29 – Remuneration of Directors.

(ii) During the year, a total of $38,150 (2002: $37,800) for directors' fees was paid to Clough Engineering Limited. R M Reid is an Executive Director of Clough Engineering Limited. This is reflected in full in note 29 – Remuneration of Directors.

(iii) During the year, a total of $20,417 (2002: Nil) for directors' fees was paid to PSA Marine (Pte) Ltd. P Chew is Vice-President of PSA Marine (Pte) Ltd. This is reflected in full in note 29 – Remuneration of Directors.

(b) Fremantle premises

(i) The Achiever Partnership, a related entity of A G Birchmore and J A S Mews, and the Company entered into a formal lease agreement for the lease to the entity of its registered office at 20 Mews Road, Fremantle. The lease agreement contains all other usual contractual provisions that would be expected to be found in a commercial lease of like nature.

(ii) The term of the lease is 5 years, with a 5-year option of renewal in favour of the Company, commencing 1 May 1999.

(iii) The Company is responsible for all fitting-out, maintenance (except capital works items), rates, taxes, insurance, and other usual variable outgoings.

(iv) The annual rental is $156,961 per annum plus outgoings. Rental is subject to market reviews every $2^1/_2$ years during the term, although the rental may not decrease.

(v) Rental and outgoings paid during the financial year amounted to $171,597 (2002: $197,251).

(c) During the year, Business Analysts – Australia, an entity of which J H Carver is a director and shareholder, provided consultancy services to the Company on negotiated commercial terms. Consultancy services paid during the financial year amounted to $108,326 (2002: $144,074). This is reflected in full in Note 29 – Remuneration of Directors.

Transactions with other related parties

Mermaid Labour & Management Pty Ltd

During the financial year loans amounting to $167,918 were repaid by Mermaid Labour & Management Pty Ltd ('MLM"). There were no loans outstanding at 30 June 2003.

During the year the Company was entitled to a dividend from MLM amounting to $915,902. During the financial year it received $880,985 of this dividend.

MLM was an associate up to 7 May 2003, at which time it became a controlled entity. Refer to note 34 for details.

Mermaid Clough Pty Ltd

During the financial year the Company received from Mermaid Clough Pty Ltd ('MCJV') amounts totalling $5,921,160 for various vessel charters, supply base and other services. These services were provided at commercial rates.

Transactions within wholly owned group

The wholly owned group includes:

- the ultimate parent entity in the wholly-owned group, and
- wholly-owned controlled entities.

The ultimate parent entity in the wholly owned group is Mermaid Marine Australia Limited.

Amounts receivable from and payable to entities in the wholly owned group are disclosed in note 8 to the financial statements.

Other transactions that occurred during the financial year between entities in the wholly owned group were the provision of services at commercial rates.

Mermaid Marine Australia Limited is the ultimate Australian parent entity.

33. SEGMENT REPORTING

	Vessels		Supply Base		Engineering and Labour Hire		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	$	$	$	$	$	$	$	$
Segment Revenues								
Sales to outside customers	19,038,904	17,044,608	5,941,129	6,089,955	-	25,611,082	24,980,033	48,745,645
Inter-segment revenue	650,353	2,934,173	3,080,949	2,759,882	-	-	3,731,302	5,694,055
Share of net profit of equity accounted investments	-	-	-	-	523,005	594,454	523,005	594,454
Total	19,689,257	19,978,781	9,022,078	8,849,837	523,005	26,205,536	29,234,340	55,034,154
Eliminations							(3,731,302)	(5,694,055)
Unallocated							2,051,265	573,953
Total consolidated revenue							27,554,303	49,914,052

Inter-segment services are provided for amounts equal to competitive market prices charged to external customers for similar services

	Vessels		Supply Base		Engineering and Labour Hire		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Segment Results								
Segment result	(4,605,109)	3,622,791	(4,879,744)	(615,133)	223,809	1,171,283	(9,261,044)	4,178,941
Eliminations							(114,268)	(186,011)
Total							(9,375,312)	3,992,930
Unallocated							(2,100,310)	(3,962,905)
Profit/(Loss) from ordinary activities before income tax expenses							(11,475,622)	30,025
Income tax (expense)/benefit relating to ordinary activities							802,870	54,971
Profit/(Loss) from ordinary activities after related income tax expense							(10,672,752)	84,996
Net profit/(loss)							(10,672,752)	84,996
Segment Assets and Liabilities								
Assets								
Segment assets	33,118,493	32,716,442	35,301,697	40,867,292	4,858,608	4,986,268	73,278,798	78,570,002
Eliminations	-	(2,196,002)	(1,902)	-	(3,926,029)	(3,491,582)	(3,927,931)	(5,687,584)
	33,118,493	30,520,440	35,299,795	40,867,292	932,579	1,494,686	69,350,867	72,882,418
Unallocated assets							4,654,958	3,033,432
							74,005,825	75,915,850
Liabilities								
Segment liabilities	4,465,596	3,502,104	4,477,859	6,341,843	206,700	1,960	9,150,155	9,845,907
Eliminations	(1,054,954)	(618,605)	(2,872,977)	(5,068,979)	-	-	(3,927,931)	(5,687,584)
	3,410,642	2,883,499	1,604,882	1,272,864	206,700	1,960	5,222,224	4,158,323
Unallocated liabilities							32,769,170	32,166,555
							37,991,394	36,324,878

33. SEGMENT REPORTING (continued)

	Vessels 2003 $	Vessels 2002 $	Supply Base 2003 $	Supply Base 2002 $	Engineering & Labour Hire 2003 $	Engineering & Labour Hire 2002 $	Unallocated 2003 $	Unallocated 2002 $	Total 2003 $	Total 2002 $
Other segment information										
Carrying value of equity accounted investments included in segment assets	-	-	-	-	230,876	846,194	-	-	230,876	846,194
Share of net profit of associates accounted for under the equity method	-	-	-	-	523,005	594,454	-	-	523,005	594,454
Acquisition of segment assets	7,055,000	7,264,621	2,403,250	13,020,994	2,500	504,100	60,225	43,038	9,520,975	20,832,753
Depreciation and amortisation of segment assets	1,625,115	1,594,983	1,121,985	498,259	132,018	66,010	154,702	123,981	3,033,820	2,283,233

Geographical segments

The consolidated entity conducted its business mainly within Australia during both financial years. Work conducted outside of Australia during both financial years was immaterial.

For a description of services within each business segment, please refer to the Review of Operations and Activities contained within the Directors' Report.

34. CONTROLLED ENTITIES

		Country of Incorporation	Ownership Interest 2003 (%)	Ownership Interest 2002 (%)
Parent entity				
Mermaid Marine Australia Limited	(i)	Australia		
Controlled entities				
Mermaid Marine Group Pty Ltd	(ii) (iv)	Australia	100	100
Mermaid Marine Vessel Operations Pty Ltd	(ii) (iv)	Australia	100	100
Mermaid Marine Pty Ltd	(ii) (iv)	Australia	100	100
Mermaid Marine Offshore Pty Ltd	(ii) (iv)	Australia	100	100
Mermaid Marine Charters Pty Ltd	(ii) (iv)	Australia	100	100
Mermaid Supply Base Pty Ltd	(ii) (iv)	Australia	100	100
Dampier Stevedoring Pty Ltd	(ii)	Australia	100	100
Mermaid Manning and Management Pty Ltd	(ii)	Australia	100	100
Mermaid Labour & Management Pty Ltd	(iii)	Australia	99	50

(i) Mermaid Marine Australia Limited is the head entity within the tax consolidated group.

(ii) These companies are members of the tax consolidated group.

(iii) Mermaid Labour & Management Pty Ltd ('MLM') became a controlled entity on 7 May 2003, prior to which it was equity accounted for. Refer to note 11 for details.

(iv) Pursuant to ASIC Class Order 98/1418, relief has been granted to these wholly owned controlled entities from the Corporations Law requirements for preparation, audit and lodgement of the financial report. As a condition of the Class Order, Mermaid Marine Australia Limited and the controlled entities entered into a Deed of Cross Guarantee on 24 June 1999.

The consolidated statement of financial performance and statement of financial position of entities which are party to the deed of cross guarantee are as follows.

STATEMENT OF FINANCIAL PERFORMANCE

	2003 $	2002 $
Revenue from ordinary activities	27,031,298	49,319,598
Share of net profits of associate accounted for using the equity method	523,005	594,454
Vessel expenses	(23,644,012)	(13,234,954)
Supply-base expenses	(10,942,441)	(9,719,112)
Engineering and labour expenses	(291,895)	(22,352,603)
Administrative expenses	(2,230,458)	(3,091,605)
Borrowing costs	(1,920,649)	(1,485,050)
Profit/(Loss) from ordinary activities before income tax expense	(11,475,152)	30,728
Income tax (expense) benefit relating to ordinary activities	788,288	54,760
Profit/(Loss) from ordinary activities after related income tax expense	(10,686,864)	85,488
Net profit/(loss)	(10,686,864)	85,488
Net profit/(loss) attributable to members of the parent entity	(10,686,864)	85,488
Total changes in equity other than those resulting from transactions with owners as owners	(10,686,864)	85,488

STATEMENT OF FINANCIAL POSITION

	2003 $	2002 $
Current assets		
Cash assets	5,788,955	2,729,530
Receivables	6,973,689	5,487,603
Inventories	407,923	641,558
Other financial assets	-	167,918
Current tax assets	2,871	57,954
Other	733,100	647,144
Total Current Assets	13,906,538	9,731,707
Non-current assets		
Investments accounted for using the equity method	230,876	846,194
Other financial assets	1,133,924	1,133,824
Property, plant and equipment	59,517,250	64,819,724
Intangibles	256,338	-
Deferred tax assets	-	514,402
Total Non-current Assets	61,138,388	67,314,144
TOTAL ASSETS	75,044,926	77,045,851
Current liabilities		
Payables	4,473,662	3,541,682
Interest-bearing liabilities	5,920,911	2,068,209
Current tax liabilities	-	-
Provisions	501,777	425,761
Total Current Liabilities	10,896,350	6,035,652
Non-current liabilities		
Payables	1,218,002	1,250,766
Interest-bearing liabilities	26,842,533	28,701,872
Deferred tax liabilities	-	1,341,474
Provisions	95,536	132,930
Total Non-current Liabilities	28,156,071	31,427,042
TOTAL LIABILITIES	39,052,421	37,462,694
Net Assets	35,992,505	39,583,157
Equity		
Contributed equity	39,658,553	32,562,342
Reserves	3,763,956	3,763,956
Retained profits /(Accumulated losses)	(7,430,004)	3,256,859
TOTAL EQUITY	35,992,505	39,583,157

35. FINANCIAL INSTRUMENTS

(a) Terms, Conditions and Accounting Policies

The consolidated entity's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, are as follows.

Recognised Financial Instruments	Statement of Financial Position Notes	Accounting Policies	Terms and Conditions
(i) Financial Assets			
Trade receivables, Other receivables	6	Trade receivables are carried at nominal amounts due, less any provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full nominal amount is no longer probable.	Credit sales are on 30-day terms.
Loans – related parties	8	Amounts receivable from related parties are carried at nominal amounts due. Interest (when charged) is taken up as income on an accrual basis.	Details of the terms and conditions are set out in note 32.
Shares in controlled entities and associates	8	Investments are recorded at the lower of cost and recoverable amount.	
(ii) Financial Liabilities			
Trade payables	15	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.	Trade payables are normally settled by terms ranging from 7 to 30 days.
Other payables and accruals	15	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.	Other payables and accruals are normally settled by terms ranging from 7 to 30 days.
Hire-purchase liability	16	The hire-purchase liability is accounted for in accordance with AASB 1008.	At balance date, the consolidated entity had hire purchase agreements with an average lease term of 3 years at an average discount rate of 7.07 per cent. The security over the respective assets under the hire-purchase agreements is disclosed in note 16.
Bank loan – secured	16	The bank loans are carried at the principal amount. Interest is charged as an expense as it accrues, except to the extent that the borrowings relate to the construction of a capital asset. Where interest accrues on borrowings relating to an asset, the interest is capitalised as part of the cost of the asset.	The bank loans have maturity dates through to 2004, which may be extended by mutual agreement. Interest is charged at the bank's floating rate. Details of the security over the bank loans are set out in note 16.
(iii) Contributed Equity			
Ordinary shares	20	Ordinary share capital is recognised at the fair value of the consideration received by the company.	Details of shares on issue at balance date are set out in note 20.

There are no unrecognised financial instruments.

35. FINANCIAL INSTRUMENTS (continued)

(b) Interest Rate Risk

The consolidated entity's exposure to interest-rate risks and the effective interest rates of financial assets and financial liabilities as at 30 June 2003 are as follows.

Financial instruments	Floating interest rate	Fixed interest rate maturing in 1 year or less	Fixed interest rate maturing in 1 to 5 years	Fixed interest rate maturing in over 5 years	Non-interest bearing	Total carrying amount as per Statement of Financial Position	Weighted average interest rate
	$	$	$	$	$	$	%
(i) Financial Assets							
Cash	5,791,997	-	-	-	-	5,791,997	3.55
Trade receivables	-	-	-	-	4,504,349	4,504,349	n/a
Other receivables	-	-	-	-	2,386,725	2,386,725	n/a
Loans – related parties	-	-	-	-	-	-	n/a
Total Financial Assets	5,791,997	-	-	-	6,891,074	12,683,071	
(ii) Financial Liabilities							
Trade payables	-	-	-	-	2,636,072	2,636,072	n/a
Other payables and accruals	-	-	-	-	1,779,877	1,779,877	n/a
Hire-purchase liability	-	3,830,911	8,152,533	-	-	11,983,444	7.20
Bank loan – secured	20,780,000	-	-	-	-	20,780,000	4.89
Employee entitlements	-	-	-	-	526,742	526,742	n/a
Total Financial Liabilities	20,780,000	3,830,911	8,152,533	-	4,942,691	37,706,135	

n/a: not applicable for non-interest bearing financial instruments

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities as at 30 June 2002 are as follows.

Financial instruments	Floating interest rate	Fixed interest rate maturing in 1 year or less	Fixed interest rate maturing in 1 to 5 years	Fixed interest rate maturing in over 5 years	Non-interest bearing	Total carrying amount as per Statement of Financial Position	Weighted average interest rate
(i) Financial Assets							
Cash	2,729,535	-	-	-	-	2,729,535	3.58
Trade receivables	-	-	-	-	4,586,104	4,586,104	n/a
Other receivables	-	-	-	-	693,529	693,529	n/a
Loans – related parties	-	-	-	-	167,918	167,918	n/a
Total Financial Assets	2,729,535	-	-	-	5,447,551	8,177,086	
(ii) Financial Liabilities							
Trade payables	-	-	-	-	1,979,758	1,979,758	n/a
Other payables and accruals	-	-	-	-	1,397,144	1,397,144	n/a
Hire-purchase liability	-	2,068,209	7,801,872	-	-	9,870,081	7.07
Bank loan – secured	20,900,000	-	-	-	-	20,900,000	5.03
Employee entitlements	-	-	-	-	558,691	558,691	n/a
Total Financial Liabilities	20,900,000	2,068,209	7,801,872	-	3,935,593	34,705,674	

n/a: Not applicable for non-interest bearing financial instruments

35. FINANCIAL INSTRUMENTS (continued)

(c) Net Fair Values

The aggregate net fair values of financial assets and liabilities are identical to the carrying amount in the Statement of Financial Position.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

Cash and cash equivalents

The carrying amount approximates fair value because of their short term to maturity.

Trade receivables, other receivables and loans

The carrying amount approximates fair value.

Investments

For investments where there is no quoted market price, a reasonable estimate of the fair value is calculated based on the underlying net asset base of the investment.

Trade payables, other payables and accruals

The carrying amount approximates fair value.

(d) Credit Risk Exposures

The consolidated entity does not have any significant credit risk exposure to any single counter party or any group of counter parties having similar characteristics.

36. CONTINGENT LIABILITIES

	2003 $	2002 $
(a) Guarantees arising from the deed of cross guarantee with other entities in the wholly-owned group.	37,904,290	36,359,472

As detailed in note 34, the Company has entered into a deed of cross guarantee with certain wholly-owned controlled entities. The amount disclosed as a contingent liability represents total liabilities of the group of companies party to that class order less the liabilities of the Company. The extent to which an outflow of funds will be required is dependent on the future operations of the entities that are party to the deed of cross guarantee being more or less favourable than currently expected. The deed of cross guarantee will continue to operate indefinitely.

(b) An entity in the consolidated entity is a defendant in a legal action involving a claim for damages for personal injury arising from an alleged incident in 1998. The directors are presently obtaining legal advice in relation to the matter and intend to vigorously defend the action bought against the entity concerned.

37. JOINT VENTURE OPERATIONS

Name of Entity	Principal Activity	Output Interest 2003 %	Output Interest 2002 %
Challenge laybarge	Shallow-water pipeline installation	50	50

The consolidated entity's interest in assets employed in the above joint venture operations is detailed below. The amounts are included in the financial statements and consolidated financial statements under their respective asset categories.

	Consolidated 2003 $	Consolidated 2002 $
Non-current assets		
Property, plant and equipment	2,710,396	2,860,000
Total Assets	2,710,396	2,860,000

Contingent liabilities and capital commitments

The consolidated entity's share of the contingent liabilities, capital commitments and other expenditure commitments of the joint venture operation are nil.

Directors' Declaration

The directors declare that:

a) the attached financial statements and notes thereto comply with Accounting Standards;

b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the Company and the consolidated entity;

c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, and

d) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

At the date of this declaration, the Company is within the class of companies affected by the ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 34 to the financial statements, will as a group be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the directors

Alan Birchmore
Chairman

Fremantle, 19 September 2003

Additional Stock Exchange Information

As at 16 September 2003

ORDINARY SHARE CAPITAL

• 114,682,285 fully paid ordinary shares are held by 1,833 individual shareholders. All issued ordinary shares carry one vote per share.

SUBSTANTIAL SHAREHOLDERS

	Number of Shares	% of Issued Capital
Sealion Australia Pte Ltd	23,480,000	20.47
Clough Engineering Limited	20,807,385	18.14
Delmark Investments Pty Ltd	11,115,300	9.69
Mr James Henry Carver	9,891,665	8.62
Mr Mark Bradley	6,666,666	5.81

DISTRIBUTION OF MEMBERS AND THEIR HOLDINGS

Size of Holding	Number of Ordinary Shareholders
1 to 1,000	94
1,001 to 5,000	519
5,001 to 10,000	449
10,001 to 100,000	711
100,001 and over	60
Total	1,833

20 LARGEST SHAREHOLDERS

	Number of Shares	% of Issued Capital
Sealion Australia Pte Ltd	23,480,000	20.47
Clough Engineering Limited	20,807,385	18.14
Delmark Investments Pty Ltd	11,115,300	9.69
Mr James Henry Carver	9,891,665	8.62
Mr Mark Bradley	6,666,666	5.81
JAS & BL Mews	1,500,000	1.31
Commonwealth Custodial Services Limited	1,000,000	0.87
Mr John Haddon Mitchell	884,567	0.77
Neja Pty Ltd	600,000	0.52
Mrs Mitsuko Sunshine Luestner	508,880	0.44
Mr Alan Gordon Birchmore	500,000	0.44
Jeslands Investments Pty Ltd (Jerusalem Retirement Pty Ltd)	453,500	0.40
Invia Custodian Pty Limited (Kasebta Pty Ltd A/C)	400,000	0.35
Malla Pty Ltd	400,000	0.35
Marine Offshore Contractors	400,000	0.35
Offshore Installation Services Pty Ltd	400,000	0.35
Chriswall Holdings Pty Limited	360,000	0.31
Justin Paul Birchmore	340,000	0.29
Invia Custodian Pty Limited (White A/C)	310,000	0.27
Benom Pty Limited	300,000	0.26
Total	80,317,963	70.01

Additional Stock Exchange Information

As at 16 September 2003

VOTING RIGHTS

All ordinary shares carry one vote per share without restriction.

SHAREHOLDER ENQUIRIES

Shareholders can obtain information about their shareholding by contacting the Company's share registry:

Computershare Investor Services
Level 2, 45 St Georges Terrace
Perth Western Australia 6000
GPO Box D182
Perth Western Australia 6840
Telephone: (08) 9323 2000
Facsimile: (08) 9323 2033.

CHANGE OF ADDRESS

Shareholders should notify the share registry in writing immediately there is a change to their registered address.

STOCK EXCHANGE LISTING

Shares in Mermaid Marine Australia Limited are listed on the ASX.

PUBLICATIONS

The Annual Report is the main source of information for shareholders.

Deloitte Touche Tohmatsu

Independent Audit Report

To the Members of Mermaid Marine Australia Limited

SCOPE

The financial report and directors' responsibility

The financial report comprises the Statement of Financial Position, Statement of Financial Performance, Statement of Cash Flows, accompanying Notes to the Financial Statements and the Directors' Declaration for both Mermaid Marine Australia Limited ('the Company') and the consolidated entity, for the financial year ended 30 June 2003, as set out on pages 20 to 53. The consolidated entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

AUDIT APPROACH

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards, and other mandatory professional reporting requirements in Australia, so as to present a view that is consistent with our understanding of the Company's and the consolidated entity's financial position and performance as represented by the results of their operations and cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

INDEPENDENCE

In conducting our audit, we followed the applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

AUDIT OPINION

In our opinion, the financial report of Mermaid Marine Australia Limited is in accordance with:

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2003 and of their performance for the year ended on that date;
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001, and

(b) other mandatory professional reporting requirements in Australia.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

K F Jones
Partner
Chartered Accountants

Perth, 19 September 2003

The liability of Deloitte Touche Tohmatsu, is limited by, and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW).