

CONSOLIDATED WATER CO LTD

Form 10-K/A

June 30, 2003

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-K/A

(Amendment No. 3)

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the fiscal year ended **December 31, 2002**

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: **0-25248**

CONSOLIDATED WATER CO. LTD.

(Exact name of Registrant as specified in its charter)

CAYMAN ISLANDS

N/A

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

**Trafalgar Place, West Bay Road, P.O.
Box 1114GT, Grand Cayman, B.W.I.**

N/A

(Address of principal executive offices)

(Zip Code)

Registrant's Telephone number, including area code: **(345) 945-4277**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

ORDINARY SHARES, PAR VALUE CI\$1.00

(Title of Class)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this 10-K or any amendments to this Form 10-K. [**Not Applicable**]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of common stock held by non-affiliates of the registrant, based on the closing sales price for the registrant's ordinary shares, as reported on the Nasdaq National Market on June 25, 2003, was \$47,691,472.

As at June 26, 2003, there were 4,275,568 shares of the registrant's ordinary shares outstanding.

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PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

EX-99.1 Certification of Chief Executive Officer

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Explanatory Note

This annual report on Form 10-K/A is being filed to amend Item 8. Financial Statements and Supplementary Data. Accordingly, pursuant to Rule 12b-15 under the Securities Act of 1934, as amended, this Form 10-K/A contains the complete text of Item 8. Financial Statements and Supplementary Data. as amended.

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Item 8. *Financial Statements and Supplementary Data*

CONSOLIDATED WATER CO. LTD.

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INDEPENDENT AUDITORS REPORT

The Board of Directors and Stockholders

Consolidated Water Co. Ltd

We have audited the accompanying consolidated balance sheets of Consolidated Water Co. Ltd. and subsidiaries (the Company) as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material aspects, the financial position of Consolidated Water Co. Ltd. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and cash flows for each of the three years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG Chartered Accountants

George Town, Cayman Islands

March 18, 2003 except for notes 2, 8, 10, 12 and 21
which are dated June 26, 2003

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CONSOLIDATED WATER CO. LTD.

CONSOLIDATED BALANCE SHEETS

(Expressed in United States dollars)

	December 31,	
	2002	2001
ASSETS		
Current assets		
Cash and cash equivalents (Note 3)	\$ 568,304	\$ 516,446
Accounts receivable (Note 4)	1,406,947	1,323,156
Inventory	388,131	319,511
Prepaid expenses and other assets	370,429	319,900
Deferred expenditures (Note 21)	887,856	
	<hr/>	<hr/>
Total current assets	3,621,667	2,479,013
Property, plant and equipment (Note 5)	20,253,646	18,414,935
Intangible asset (Note 6)	1,619,874	1,814,780
Investment	12,450	12,450
	<hr/>	<hr/>
Total assets	\$25,507,637	\$22,721,178
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Dividends payable (Note 7)	508,444	499,383
Accounts payable and other liabilities	1,143,850	1,087,470
Current portion of long term debt (Note 8)	518,275	355,840
	<hr/>	<hr/>
Total current liabilities	2,170,569	1,942,693
Long term debt (Note 8)	2,074,609	1,213,804
Security deposits	100,959	52,763
Advances in aid of construction	35,276	37,494
	<hr/>	<hr/>
Total liabilities	4,381,413	3,246,754
	<hr/>	<hr/>
Stockholders equity		
Redeemable preferred stock, \$1.20 par value. Authorized 100,000 shares; issued and outstanding 19,740 shares in 2002 and 25,195 shares in 2001	23,688	30,234
Class A common stock, \$1.20 par value. Authorized 9,870,000 shares; issued and outstanding 3,993,419 shares in 2002 and 3,920,064 shares in 2001	4,792,103	4,704,077
Class B common stock, \$1.20 par value. Authorized 30,000 shares; issued and outstanding nil shares for 2002 and nil shares for 2001		
Stock and options earned but not issued	424,841	210,324
Additional paid-in capital	7,354,395	6,896,753
Retained earnings	8,531,197	7,633,036
	<hr/>	<hr/>
Total stockholders equity	21,126,224	19,474,424
	<hr/>	<hr/>

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Commitments (Note 14)

Total liabilities and stockholders equity	\$25,507,637	\$22,721,178
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The accompanying notes are an integral part of these financial statements.

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(Expressed in United States dollars)

	For the Year Ended December 31,		
	2002	2001	2000
Water sales	\$ 12,154,689	\$ 11,248,105	\$ 9,795,751
Cost of water sales (Note 10)	(6,882,177)	(6,109,117)	(5,423,297)
Gross profit	5,272,512	5,138,988	4,372,454
Indirect expenses (Note 10)	(2,644,004)	(2,500,060)	(2,061,722)
Income from operations	2,628,508	2,638,928	2,310,732
Other income (expenses)			
Interest income	14,711	28,584	32,314
Interest expense	(103,986)	(99,956)	(135,847)
Other income	37,077	197,017	197,621
	(52,198)	125,645	94,088
Net income	\$ 2,576,310	\$ 2,764,573	\$ 2,404,820
Basic earnings per share (Note 11)	\$ 0.65	\$ 0.71	\$ 0.68
Diluted earnings per share (Note 11)	\$ 0.63	\$ 0.69	\$ 0.67
Weighted average number of common shares used in the determination of:			
Basic earnings per share (Note 11)	3,969,861	3,897,969	3,532,501
Diluted earnings per share (Note 11)	4,087,532	3,999,691	3,616,271

The accompanying notes are an integral part of these financial statements.

Table of Contents**CONSOLIDATED WATER CO. LTD.**

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
For Each of the Three Years in the Period Ended December 31, 2002
(Expressed in United States dollars)

	Redeemable Preferred Stock		Common Stock		Stock and options earned but not issued	Additional Paid-in Capital	Retained Earnings	Total Stockholders Equity
	Shares	Dollars	Shares	Dollars				
Balance at December 31, 1999	41,058	\$ 49,270	3,051,715	\$ 3,662,058	\$ 338,006	\$ 2,765,407	\$ 5,301,564	\$ 12,116,305
Public offering of ordinary shares, \$7.05, net of issue costs			773,000	927,600		4,035,131		4,962,731
Issue of share capital	3,415	4,098	106,890	128,269	(81,928)	325,666		376,105
Conversion of preferred shares	(10,639)	(12,767)	10,639	12,767				
Redemption of preferred shares	(200)	(240)						(240)
Repurchase and cancellation of ordinary shares			(79,100)	(94,920)		(399,455)		(494,375)
Net income							2,404,820	2,404,820
Dividends declared							(1,262,675)	(1,262,675)
Issue of options and shares grants					124,772			124,772
Balance at December 31, 2000	33,634	\$ 40,361	3,863,144	\$ 4,635,774	\$ 380,850	\$ 6,726,749	\$ 6,443,709	\$ 18,227,443
Issue of share capital	5,821	6,985	67,860	81,431	(340,125)	411,599		159,890
Conversion of preferred shares	(14,260)	(17,112)	14,260	17,112				
Repurchase and cancellation of ordinary shares			(25,200)	(30,240)		(241,595)		(271,835)
Net income							2,764,573	2,764,573
Dividends declared							(1,575,246)	(1,575,246)
Issue of options and shares grants					169,599			169,599
Balance at December 31, 2001	25,195	\$ 30,234	3,920,064	\$ 4,704,077	\$ 210,324	\$ 6,896,753	\$ 7,633,036	\$ 19,474,424
Issue of share capital	3,330	3,996	67,456	80,947	(227,980)	490,889		347,852
Conversion of preferred shares	(8,083)	(9,700)	8,083	9,700				
Redemption of preferred shares	(702)	(842)				(2,999)		(3,841)
Repurchase and cancellation of ordinary shares			(2,184)	(2,621)		(30,248)		(32,869)
Net income							2,576,310	2,576,310
Dividends declared							(1,678,149)	(1,678,149)
Issue of options and shares grants					442,497			442,497
Balance at December 31, 2002	19,740	\$ 23,688	3,993,419	\$ 4,792,103	\$ 424,841	\$ 7,354,395	\$ 8,531,197	\$ 21,126,224

The accompanying notes are an integral part of these financial statements.

Table of Contents**CONSOLIDATED WATER CO. LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Expressed in United States dollars)

For the Year Ended December 31,

	2002	2001	2000
Net income	\$ 2,576,310	\$ 2,764,573	\$ 2,404,820
Adjustments to reconcile net income to net cash			
Depreciation	1,269,126	1,113,041	1,071,455
Amortization of intangible asset	194,906	193,703	64,979
Stock compensation on share grants	175,330	289,174	51,579
Loss on sale of fixed assets		7,702	
(Increase) decrease in accounts receivable	(83,791)	165,573	(56,259)
(Increase) decrease in inventory	(68,620)	(165,278)	20,043
(Increase) decrease in prepaid expenses and other assets	(50,529)	(20,401)	1,647
Increase in accounts payable and other liabilities	56,380	19,956	320,183
Increase in security deposits	48,196		
Decrease in advances in aid of construction	(2,218)	(3,596)	(3,994)
Net cash provided by operating activities	<u>4,115,090</u>	<u>4,364,447</u>	<u>3,874,453</u>
Cash flows from investing activities			
Deferred expenditures	(460,886)		
Purchase of property, plant and equipment	(3,107,837)	(1,892,147)	(2,301,759)
Proceeds from sale of property, plant and equipment		360	
Purchase of investment		(12,450)	
Purchase of subsidiary, net of cash acquired			(3,966,979)
Net cash used in investing activities	<u>(3,568,723)</u>	<u>(1,904,237)</u>	<u>(6,268,738)</u>
Cash flows from financing activities			
Deferred expenditures	(426,970)		
Dividends paid	(1,669,088)	(1,477,828)	(1,127,295)
Proceeds from credit facility	1,500,000	500,000	
Principal repayments of long term debt	(476,760)	(281,922)	(885,355)
Net proceeds from issuance of stock	615,019	40,075	5,417,204
Payment to acquire common stock	(32,869)	(271,595)	(494,375)
Payment to acquire redeemable preferred shares	(3,841)		
(Decrease) increase in bank overdraft		(703,331)	32,938
Principal payments under water purchase agreement			(320,141)
Net cash (used in) provided by financing activities	<u>(494,509)</u>	<u>(2,194,601)</u>	<u>2,622,976</u>
Net increase in cash and cash equivalents	51,858	265,609	228,691
	516,446	250,837	22,146

Cash and cash equivalents at beginning of year

Cash and cash equivalents at end of year	\$ 568,304	\$ 516,446	\$ 250,837
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The accompanying notes are an integral part of these financial statements.

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CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principal Activity

Consolidated Water Co. Ltd. and its wholly-owned subsidiaries (together the Company) use reverse osmosis technology to produce fresh water from seawater. The Company processes and supplies water to its customers in Grand Cayman, Cayman Islands; Ambergris Caye, Belize; and South Bimini, Bahamas. The Company's exclusive license in Grand Cayman allows it to process and supply water to certain areas of Grand Cayman for a period of twenty years from July 11, 1990 in addition to having a right of first refusal on the extension or renewal thereof. The Company has a contract with Belize Water Services Ltd. (BWSL) of Belize, formally known as Water and Sewerage Authority of Belize, to supply water to BWSL in Ambergris Caye expiring in 2011. At the expiry of the contract, BWSL may at its option extend the term of the agreement or purchase the plant outright. In addition, on July 11, 2001 the Company commenced supplying water under a ten year agreement to South Bimini International Ltd., a Bahamian company that owns and operates resort properties on South Bimini Island, Bahamas. The base price of water supplied by the Company, and adjustments thereto, are generally determined by the terms of the license and contracts, which provide for adjustments based upon the movement in the government price indices specified in the license and contracts respectively, as well as monthly adjustments for changes in the cost of energy.

2. Accounting Policies

Basis of preparation: The financial statements presented are prepared in accordance with the accounting principles generally accepted in the United States of America.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company's significant accounting policies are:

Basis of consolidation: The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries Belize Water Limited, Hurricane Hide-A-Way Ltd. and Cayman Water Company Limited. The operating results of Belize Water Limited have been included in the financial statements since the date of the acquisition being July 21, 2000. All inter-company balances and transactions have been eliminated. There are no operating results for Hurricane Hide-A-Way Ltd. and Cayman Water Company Limited as these companies have been dormant since inception and have no assets and liabilities.

Foreign currency: The functional currency of the Company and its foreign subsidiaries are their respective local currencies. The consolidated operations are reported in United States dollars. The exchange rates between the Cayman Islands dollar, the Belize dollar and the Bahamian dollar have been fixed to the United States dollar during all periods presented.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Foreign currency transactions are translated at the rate ruling on the date of the transaction.

Cash and cash equivalents: Cash and cash equivalents comprise cash at bank on call and highly liquid deposits with an original maturity of three months or less.

Trade accounts receivable: Trade accounts receivable are recorded at invoiced amounts based on meter readings. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable balance. The Company determines the allowance for doubtful accounts based on historical write-off experience and monthly review of delinquent accounts. Past

Table of Contents**CONSOLIDATED WATER CO. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****2. Accounting Policies (continued)**

due balances are reviewed individually for collectibility and disconnection. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered by management to be remote.

Inventory: Inventory primarily includes replacement spares and parts that are valued at the lower of cost and net realizable value on a first-in, first-out basis. Inventory also includes potable water held in the Company's reservoirs. The value of the water inventory is the lower of the average cost of producing and purchasing water during the year and net realizable value.

Deferred expenditures: Deferred expenditures represent direct costs incurred in connection with planned business combinations and financing transactions.

Property, plant and equipment: Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using a straight line method with an allowance for estimated residual values. Rates are determined based on the estimated useful lives of the assets as follows:

Buildings	5 to 40 years
Plant and equipment	4 to 25 years
Distribution system	3 to 40 years
Office furniture, fixtures and equipment	3 to 10 years
Vehicles	3 to 10 years
Leasehold improvements	Shorter of 5 years and operating lease term outstanding
Lab Equipment	3 to 10 years

Additions to property, plant and equipment are comprised of the cost of the contracted services, direct labour and materials. Assets under construction are recorded as additions to property, plant and equipment upon completion of the projects. Depreciation commences in the month of addition.

During the year ended December 31, 2001, the Company carried out an extensive engineering analysis of its potable water production and distribution equipment in Grand Cayman. The Company's analysis concluded that certain assets would not need to be replaced or relocated as early as previously planned. As a result of these circumstances, management considered it appropriate to reassess the estimated useful economic life of these assets. The reassessment of the useful economic lives of these assets resulted in decreased depreciation expense on an annual basis in the amount of \$197,472, which increased basic and fully diluted earnings per share by \$0.05 for the year ended December 31, 2001.

Intangible asset: The Company adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, as of January 1, 2002. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*. The adoption of SFAS No. 142 had no impact on the Company's consolidated financial statements.

Prior to the adoption of SFAS No. 142, the intangible asset recorded by the Company was amortized on a straight-line over the remaining period of the contract. The impairment of the intangible asset, if any, was measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds.

Table of Contents**CONSOLIDATED WATER CO. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****2. Accounting Policies (continued)**

Investment: Investments are recorded at cost. The Company recognizes an impairment loss on declines in value that are other than temporary.

Security deposits: Security deposits are received from large customers as security for trade receivables.

Advances in aid of construction: The Company recognizes a liability when advances are received from condominium developers in the licensed area to help defray the capital expenditure costs of the Company. These advances do not represent loans to the Company and are interest free. However, the Company allows a discount of ten percent on future supplies of water to these developments until the aggregate discounts allowed are equivalent to advances received. Discounts are charged against advances received.

Shares repurchased: Under Cayman Islands law, ordinary shares repurchased must be cancelled upon redemption. The Company's issued share capital is reduced by the par value of those shares, with the difference being adjusted to additional paid in capital.

Stock and stock option incentive plans: The Company issues stock under incentive plans that form part of employees and non-executive Directors' remuneration and grants options to purchase ordinary shares as part of remuneration for certain long-serving employees and the executive officers.

The Company applies the intrinsic-value-based method of accounting prescribed by APB Opinion No. 25 Accounting for Stock Issued to Employees, and related interpretations to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. SFAS No. 123 Accounting for Stock-Based Compensation established accounting and disclosure requirements using a fair-valued-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company continues to apply the intrinsic-value method of accounting described above and has adopted the disclosure requirements of SFAS No. 123. The following table illustrates the effect on net income if the fair-value-based method has been applied to all outstanding and unvested awards in each period.

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net income, as reported	\$2,576,310	\$2,764,573	\$2,404,820
Add stock-based employee compensation expense included in reporting net income	442,497	169,599	124,772
Deduct total stock-based employee compensation expense determined under fair-value-based method for all rewards	(622,702)	(645,290)	(417,837)
Pro forma net income	<u>\$2,396,105</u>	<u>\$2,288,882</u>	<u>\$2,111,755</u>
Earnings per share:			
Basic as reported	\$ 0.65	\$ 0.71	\$ 0.68
Basic pro forma	\$ 0.60	\$ 0.59	\$ 0.59
Diluted as reported	\$ 0.63	\$ 0.69	\$ 0.67
Diluted pro forma	\$ 0.58	\$ 0.57	\$ 0.58

The cost of stock options granted to employees is recorded in stockholders' equity and is expensed to the consolidated statements of income based on the vesting period of the options. On issue of options, proceeds up to the par value of the stock issued are credited to ordinary share capital; any proceeds in excess of the par value of the stock issued are credited to additional paid in capital in the period in which the options are exercised.

Table of Contents**CONSOLIDATED WATER CO. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****2. Accounting Policies (continued)**

Water sales and cost of water sales: Customers are billed monthly based on meter readings performed at or near each month end and in accordance with agreements which stipulate minimum monthly charges for water service. An accrual, where necessary, is made for water delivered but unbilled at year end when readings are not performed at the year end date. The accrual is matched with the direct costs of producing, purchasing and delivering water.

Repairs and maintenance: All repair and maintenance costs are expensed as incurred.

Reclassifications: The Company has included amounts accrued under the non-executive Directors' share plan and directors and senior management stock compensation plans in stockholders' equity. In prior years, these amounts had been recorded as a current liability, however, management determined it more appropriate to reflect these amounts in stockholders' equity based on the nature of the amounts and the related plans. The effect of this reclassification was an increase in stockholders' equity and a decrease in current liabilities of \$424,841 and \$210,324 at December 31, 2002 and 2001, respectively. There is no impact on earnings per share since the Company had always included these amounts in the statements of operations and its determination of earnings per share.

The Company has included meter rental charges, water sales by truck, and connection and re-connection charges in water sales. In prior years, these amounts had been recorded as other income, however, management determined it more appropriate to reflect these amounts as water sales based on the nature of the amounts and their association with water sales. The effect of this reclassification was an increase in water sales and a decrease in other income of \$243,969, \$221,182, and \$218,792 for the years ended December 31, 2002, 2001, and 2000, respectively. There is no impact on earnings per share since the Company had always included these amounts in the statements of operations and its determination of earnings per share.

The Company has included interest expense in other income and expenses. In prior years, these amounts had been recorded as indirect expenses, however, management determined it more appropriate to reflect these amounts as other expenses based on the nature of the amounts. The effect of this reclassification was a decrease in indirect expenses and other income and expenses of \$103,986, \$99,956, and \$135,847 for the years ended December 31, 2002, 2001, and 2000, respectively. There is no impact on earnings per share since the Company had always included these amounts in the statements of operations and its determination of earnings per share.

3. Cash and Cash Equivalents

Cash and cash equivalents are not restricted as to withdrawal or use. At December 31, 2002, the equivalent of \$395,897 (2001: \$372,688) is denominated in Belize dollars. The Company has a guarantee from the Government of Belize to repatriate any and all of the Belize Water Limited earnings in United States dollars.

4. Accounts Receivable

Accounts receivable comprise receivables from customers and are shown net of an allowance for doubtful accounts of \$12,000 (2001: \$12,000). Significant concentrations of credit risk are disclosed in Note 18.

5. Property, Plant and Equipment

	December 31,	
	2002	2001
Cost:		
Land	\$ 475,679	\$ 475,679
Buildings	2,211,200	2,147,417

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Plant and equipment	11,288,460	9,531,739
Distribution system	13,237,043	13,007,223
Office furniture, fixtures and equipment	715,539	675,450
Vehicles	607,230	580,213
Leasehold improvements	39,480	39,480
Lab equipment	41,035	37,909
Assets under construction	1,202,058	284,906
	<u>29,817,724</u>	<u>26,780,016</u>
Accumulated depreciation	(9,564,078)	(8,365,081)
	<u>\$20,253,646</u>	<u>\$18,414,935</u>

At December 31, 2002, the Company had outstanding capital commitments of \$1,080,000 (2001: \$1,620,000). It is the Company's policy to maintain adequate insurance for loss or damage to all fixed assets that in management's assessment may be susceptible to loss. The Company does not insure the costs of its underground distribution system which total \$9,806,663 (2001: \$9,471,931) or plant and equipment insured by third parties with a total cost of \$3,633,997 (2001: \$3,633,997).

Table of Contents**CONSOLIDATED WATER CO. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****6. Intangible Asset**

On July 21, 2000, the Company acquired all of the issued and outstanding capital stock of Seatec Belize Ltd., a company organized under the laws of Belize, for a total purchase price, less cash and cash equivalents acquired, of \$3,966,979. Of this amount, \$2,073,462 was attributed to the water purveyor contract (the contract) that the acquired company had with Belize Water Services Ltd. Seatec Belize Ltd., now renamed Belize Water Limited, owns and operates a reverse osmosis plant in Ambergris Caye, Belize. This acquisition was accounted for by the purchase method and the intangible asset is being amortized on a straight line basis over the remaining period of the contract, which expires in April 2011.

	December 31,	
	2002	2001
Intangible asset	\$2,073,462	\$2,073,462
Accumulated amortisation	(453,588)	(258,682)
Net book value	\$1,619,874	\$1,814,780

Amortization for each of the next five years is estimated to be \$195,000 per year.

7. Dividends

Quarterly interim dividends were declared in respect of Class A common stock and preference shares as follows:

	2002	2001	2000
March 31	\$0.105	\$0.10	\$0.08
June 30	\$0.105	\$0.10	\$0.08
September 30	\$0.105	\$0.10	\$0.08
December 31	\$0.105	\$0.10	\$0.10

Interim dividends for the first three quarters were paid during each respective year. The interim dividend for the fourth quarter was declared by the Board of Directors in October of each respective year. These quarterly interim dividends are subject to no further ratification and consequently the fourth quarter interim dividends have been recorded as a liability in each respective year. Included in dividends payable at December 31, 2002 are unclaimed dividends of \$85,671 (2001: \$100,160).

8. Long Term Debt

	December 31,	
	2002	2001
European Investment Bank loan bearing interest at 3.36%, repayable in semi annual installments, due June 20, 2006	\$ 905,384	\$1,132,144
Royal Bank of Canada loan bearing interest at six month LIBOR plus 1.5%, repayable in semi annual installments of \$62,500 plus interest, due April 27, 2005	312,500	437,500
	1,375,000	

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Royal Bank of Canada loan bearing interest at monthly LIBOR plus 1.5%, repayable in monthly installments of \$12,500 plus interest, due February 2, 2007

Total long term debt	2,592,884	1,569,644
Less current portion	(518,275)	(355,840)
Long term debt, excluding current portion	\$2,074,609	\$1,213,804

Table of Contents**CONSOLIDATED WATER CO. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****8. Long Term Debt (continued)**

At December 31, 2002, the total lending facility made available by the Royal Bank of Canada comprised: a) a revolving line of credit with a limit of \$1,000,000, bearing interest at New York Prime plus 1%, which is convertible in \$100,000 increments into a monthly revolving LIBOR note, bearing interest at LIBOR plus 1.5%, and b) term loans with a limit of \$3,500,000, bearing interest at LIBOR plus 1.5%. Any amounts drawn down under the line of credit and any term loans are collateralised by a fixed and floating charge of \$3,000,000. The fixed charge covers land owned by the Company and the floating charge covers all other assets of the Company, except a reverse osmosis plant charged in connection with the water purchase agreement.

The European Investment Bank loan is guaranteed by the Overseas Development Administration (ODA) of the Foreign and Commonwealth Office of the Government of the United Kingdom. The Government of the Cayman Islands has, for a fee of 1% per annum, provided a counter guarantee to the ODA. The Company, with the approval of the Royal Bank of Canada has agreed to secure the counter guarantee by a second charge over all assets of the Company.

The above loans and other credit facilities are subject to certain restrictive covenants, the most restrictive of which are as follows:

Royal Bank of Canada loan:

- (a) The Company's debt to equity ratio shall not exceed 0.85;
- (b) The Company must maintain a debt-servicing ratio of not less than 1.25

European Investment Bank loan:

- (a) The Company shall not take any shareholding in any company without the prior written consent of the bank, and shall not grant any loans or advances except for granting credit to its employees such as it customarily grants.

In event of default, the bank may immediately withdraw any remaining credit, and demand immediate repayment of all amounts outstanding.

During the year ended 2002 and for the years ended December 31, 2001 and 2000, the Company was in compliance with these covenants.

The aggregate capital repayment obligations over the next five years are as follows:

2003	\$ 518,276
2004	530,286
2005	480,564
2006	288,758
2007	150,000
	<hr/>
	\$ 1,967,884
	<hr/>

9. Share Capital and Additional Paid in Capital

Redeemable preferred stock (preference shares) is issued under the Company's Employee Share Incentive Plan as discussed in Note 15 and carries the same voting and dividend rights as ordinary shares of common stock (ordinary share). Preference shares vest over four years and convert to common stock on a share for share basis on the fourth anniversary of each grant date. Preference shares are only redeemable with the Company's agreement. Upon liquidation preference shares rank in preference to the ordinary shares to the extent of the par value of the

preference shares and any related additional paid in capital.

The Company has a Class B stock option plan designed to deter coercive takeover tactics. Pursuant to this plan, holders of ordinary shares and preference shares were granted options which entitle them to purchase 1/100 of a share of Class B stock at an exercise price of \$37.50 if a person or group acquires or commences a tender offer for 20% or more of the Company's ordinary shares. Option holders (other than the acquiring person or group) will also be entitled to buy, for the \$37.50 exercise price, ordinary shares with a then market value of \$75.00 in the event a person or group actually acquires 20% or more of the Company's ordinary shares. Options may be redeemed at \$0.01 under certain circumstances. 30,000 of the Company's authorized but unissued ordinary shares have been reserved for issue as Class B stock. The Class B stock ranks pari passu with ordinary shares for dividend and voting rights. No Class B stock options have been exercised or redeemed up to December 31, 2002.

Table of Contents**CONSOLIDATED WATER CO. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****10. Expenses**

	For the Year Ended December 31,		
	2002	2001	2000
Cost of water sales comprise the following:			
Water purchases	\$ 1,952,331	\$ 2,074,759	\$ 2,062,582
Depreciation	1,175,349	1,018,541	992,410
Amortisation of intangible asset (Note 6)	194,906	193,703	64,979
Employee costs	1,042,192	939,976	741,789
Fuel oil	179,275	91,842	81,102
Royalties (Note 14)	737,064	694,351	641,428
Electricity	710,168	534,919	316,135
Insurance	124,404	89,808	64,160
Other direct costs	766,488	471,218	458,712
	<u>\$ 6,882,177</u>	<u>\$ 6,109,117</u>	<u>\$ 5,423,297</u>
Indirect expenses comprise the following:			
Employee costs	1,427,182	1,299,877	1,045,244
Depreciation	93,777	94,500	79,045
Professional fees	278,433	280,297	275,589
Insurance	141,650	89,328	34,829
Directors fees and expenses	157,877	107,184	104,149
Other indirect costs	545,085	628,874	522,866
	<u>\$ 2,644,004</u>	<u>\$ 2,500,060</u>	<u>\$ 2,061,722</u>

Table of Contents**CONSOLIDATED WATER CO. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****11. Earnings Per Share**

Basic earnings per share is calculated by dividing the net profit attributable to common stockholders by the weighted average number of ordinary shares in issue during the year.

The net income, weighted average number of ordinary shares and potential ordinary shares figures used in the determination of the basic and diluted earnings per ordinary share are summarized as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net income	\$2,576,310	\$2,764,573	\$2,404,820
Less:			
Dividends declared and earnings attributable on preference shares	(8,913)	(10,794)	(14,220)
Net income available to holders of ordinary shares in the determination of basic earnings per ordinary share	<u>\$2,567,397</u>	<u>\$2,753,779</u>	<u>\$2,390,600</u>
Weighted average number of ordinary shares in the determination of basic earnings per ordinary share	3,969,861	3,897,969	3,532,501
Plus:			
Weighted average number of preference shares outstanding during the year	23,801	31,213	37,145
Potential dilutive effect of unexercised options and warrants	<u>93,870</u>	<u>70,509</u>	<u>46,625</u>
Weighted average number of shares used for determining diluted earnings per ordinary share	<u>4,087,532</u>	<u>3,999,691</u>	<u>3,616,271</u>

12. Segmented Information

The supply of water to the Cayman Islands, Belize and Bahamas are considered by management as separate business segments. The basis of measurement of segment information is similar to that adopted for the financial statements.

Water sales from Belize Water Limited for the three years ending December 31, 2002 were earned from one customer.

Table of Contents**CONSOLIDATED WATER CO. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****12. Segmented Information (continued)**

As at December 31 and for the Year then Ended

	Cayman Islands			Belize(*)			Bahamas(**)			Total		
	2002	2001	2000	2002	2001	2000	2002	2001	2000	2002	2001	2000
Water sales	\$ 10,565,567	\$ 9,990,997	\$ 9,330,823	\$ 1,471,098	\$ 1,230,775	\$ 464,928	\$ 118,024	\$ 26,333	\$	\$ 12,154,689	\$ 11,248,105	\$ 9,795,751
Other income												
(expenses)	(60,492)	96,739	94,088	8,290	28,463		4	443		(52,198)	125,645	94,088
Cost of water sales	5,871,118	5,344,370	5,172,945	862,455	718,121	250,352	148,604	46,626		6,882,177	6,109,117	5,423,297
Indirect expenses	2,409,440	2,305,112	2,028,300	225,627	190,822	33,422	8,937	4,126		2,644,004	2,500,060	2,061,722
Cost of water sales and direct expenses include:												
Depreciation	1,043,397	932,029	1,009,420	180,105	160,825	62,035	45,624	20,187		1,269,126	1,113,041	1,071,455
Net income (loss)	2,224,517	2,438,254	2,223,666	391,306	350,295	181,154	(39,513)	(23,976)		2,576,310	2,764,573	2,404,820
Property, plant and equipment	17,698,944	15,770,560	15,735,330	1,440,673	1,541,795	1,601,166	1,114,029	1,102,580	307,395	20,253,646	18,414,935	17,643,891
Total assets	22,214,167	21,595,627	19,421,195	2,160,107	2,310,772	2,117,082	1,133,363	1,125,551	307,395	25,507,637	22,721,178	21,845,672

(*) The Company acquired 100% of the outstanding shares in Belize Water Limited and began operations on July 21, 2000.

(**) On December 18, 2000, the Company entered into a water supply agreement with South Bimini International Ltd. Operations began on July 11, 2001.

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13. Related Party Transactions

A professional service firm, of which a Director is a partner, provided professional services during the year ended December 31, 2002 for which it charged \$225,400 (2001: \$275; 2000: \$12,916).

14. Commitments

The Company has committed to purchase a 13.5% equity interest in Waterfields Company Limited, a Bahamian company, from Bacardi and Company Ltd. for approximately BAH\$1.4 million. Completion of this purchase is subject to the fulfillment of certain conditions, including the receipt of government approvals and the commitment of at least 51% of Waterfields' shareholders to sell their shares to the Company. In furtherance of this purchase agreement, on December 20, 2002, the Company made a tender offer of BAH\$690 per share to the remaining shareholders of Waterfields. This tender offer, which is contingent on completion of the share purchase agreement with Bacardi and Company Ltd., closed on January 31, 2003, by which time the Company had received acceptances from another 64.7% of Waterfields' shareholders.

The Company has committed to sell 165,000 Class C shares in Ocean Conversion (BVI) Ltd., a British Virgin Islands company, to Sage Water Holdings (BVI) Ltd. for approximately US\$2.1 million. The Company acquired these shares on February 7, 2003 as disclosed in Note 22.

The Company is party to a water purchase agreement with Ocean Conversion (Cayman) Limited (OCL) under which an annual minimum amount of water is required to be purchased. At December 31, 2002, accounts payable includes \$208,556 (2001: \$192,340) outstanding under the agreement. Water purchases for the three years ended December 31, 2002 are disclosed in Note 10.

From the acquisition date of Belize Water Limited in the year ended December 31, 2000, the Company has been under contract to supply a minimum of 135,000 US Gallons of water per day to BWSL of Belize. The price of water is adjusted annually based on government indices. Water sales under this contract for the three years ended December 31, 2002 comprise total sales as disclosed in Note 12.

The Company is obligated to supply water, where feasible, to customers in the Cayman Islands within its licence area in accordance with the terms of the licence. Royalties are paid to the Government of the Cayman Islands at the rate of 7.5% of gross water sales.

The Company has committed to lease premises in the Cayman Islands for a period of one year from February 1, 2003 to January 31, 2004 at approximately \$82,000 per annum.

15. Stock Compensation

The Company operates various stock compensation plans that form part of employees' remuneration. Stock compensation expense of \$442,497 (2001: \$169,599; 2000: \$124,772) is recorded in accordance with APB Opinion No. 25 and included within employee costs. Had compensation cost for the Company's stock based compensation plans been determined based on the fair value at the grant dates for awards under those

Table of Contents**CONSOLIDATED WATER CO. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****15. Stock Compensation (continued)**

plans consistent with the method of SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts below:

		For the Year Ended December 31,		
		2002	2001	2000
Net income	As reported	\$2,576,310	\$2,764,573	\$2,404,820
Net income	Pro Forma	\$2,396,105	\$2,288,882	\$2,111,755
Basic earnings per ordinary share	As reported	\$ 0.65	\$ 0.71	\$ 0.68
Basic earnings per ordinary share	Pro Forma	\$ 0.60	\$ 0.59	\$ 0.59
Diluted earnings per ordinary share	As reported	\$ 0.63	\$ 0.69	\$ 0.67
Diluted earnings per ordinary share	Pro Forma	\$ 0.58	\$ 0.57	\$ 0.58

In calculating the fair value for these options under SFAS 123 the Black-Scholes model was used with the following weighted average assumptions:

Options granted with an exercise price below market price on the date of grant:

	2002	2001	2000
Exercise price	\$ 12.17	\$ 10.55	\$ 6.70
Grant date market value	\$ 14.71	\$ 10.97	\$ 6.97
Risk free interest rate	2.24%	3.93%	6.56%
Expected life	3.23 years	3.21 years	3.0 years
Expected volatility	42.91%	52.79%	62.64%
Expected dividend yield	2.85%	3.67%	4.59%

Options granted with an exercise price above market price on the date of grant:

	2002	2001	2000
Exercise price			\$ 7.10
Grant date market value			\$ 7.00
Risk free interest rate			5.0%
Expected life			3.2 years
Expected volatility			62.57%
Expected dividend yield			4.57%

Employee Share Incentive Plan (Preference shares)

The Company awards preference shares for \$nil consideration under the Employee Share Incentive Plan as part of compensation for eligible employee services, excluding Directors and Executive Officers, that require future services as a condition to the delivery of the ordinary shares. In addition options are granted to purchase preference shares at a fixed price, determined annually, which will typically represent a discount to

the market value of the ordinary shares. In consideration for preference shares, the Company issues ordinary shares on a share for share basis. Under the plan the conversion is conditional on the grantee s satisfying requirements outlined in the award agreements. Preference shares are only redeemable with the Company s agreement.

Table of Contents**CONSOLIDATED WATER CO. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****15. Stock Compensation (continued)**

The details of preferred shares and preferred share options granted and exercised under the Employee Share Incentive Plan is as follows:

	<u>Year of Grant</u>	<u>Granted</u>	<u>Strike Price</u>	<u>Options Exercised</u>	<u>Options Expired</u>
Preferred shares	2000	2,279	\$ nil	N/A	N/A
	2001	3,963	\$ nil	N/A	N/A
	2002	2,713	\$ nil	N/A	N/A
Preferred share options	2000	2,279	\$5.47	1,136	1,143
	2001	3,963	\$5.32	1,858	2,105
	2002	2,713	\$8.13	617	2,096

Each employee's option to purchase preferred shares must be exercised within 40 days of the annual general meeting of the Company following the date of grant.

Employee Share Option Plan (Ordinary Stock Options)

In 2001, the Company introduced an employee stock option plan for certain long-serving employees of the Company. Under the plan these employees are granted in each calendar year, as long as the employee is a participant in the Employee Share Incentive Plan, options to purchase ordinary shares. The price at which the option may be exercised will be the closing market price on the grant date, which is 40 days after the date of the Company's annual general meeting. The number of options each employee is granted is equal to five times the sum of (i) the number of preference shares which that employee receives for \$nil consideration and (ii) the number of preference share options which that employee exercises in that given year. Options may be exercised during the period commencing on the fourth anniversary of the grant date and ending on the thirtieth day after the fourth anniversary of the grant date.

Non-Executive Directors' Share Plan

In 1999, the Company introduced a stock grant plan, which forms part of Directors' remuneration. Under the plan Directors receive a combination of cash and ordinary shares in consideration of remuneration for their participation in Board meetings. All Directors are eligible except Executive Officers, who are covered by individual employment contracts and the Government elected board member. Ordinary shares granted are calculated with reference to a strike price that is set by the Board of Directors on October 1 of the year preceding the grant. Stock granted during the year ended December 31, 2002 totaled 6,305 shares (2001: 7,860) at a strike price of \$10.70 (2001: \$7.25).

Directors and senior management stock compensation

Certain members of senior management are entitled to receive, as part of the compensation for their services to the Company, options to purchase ordinary shares. One other director was granted options as remuneration for services rendered to the Company during the year ended December 31, 2001. In addition, another member of senior management is entitled to receive, as part of compensation for services to the Company, ordinary shares of the Company. As at December 31, 2002, 2,405 shares (2001: 3,172) were due to this employee.

Non-employee

As part of an agreement for market representation, the Company issued options to purchase ordinary shares to an investment company for \$nil consideration. These options had an expiry date of one year

Table of Contents**CONSOLIDATED WATER CO. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****15. Stock Compensation (continued)**

commencing on the termination of the agreement, which management formally terminated on April 3, 2002. The fair value of these options was determined by management to be \$30,000, based on the fair value of the services to be received. The Company also issued warrants in conjunction with a private placement in 1995. These warrants were exercised in full in January and February 2000.

The following table summarizes information about the Company's stock option plans as of December 31, 2002, 2001 and 2000, and changes during the years ended on those dates.

	2002		2001		2000	
	Number	Exercise Price	Number	Exercise Price	Number	Exercise Price
Outstanding at beginning of year	341,136	\$ 8.59	243,045	\$ 5.73	127,786	\$ 4.58
Granted	114,086	\$ 12.17	162,054	\$ 10.55	117,538	\$ 6.98
Exercised	(58,596)	\$ 5.94	(61,858)	\$ 2.58	(1,136)	\$ 5.47
Forfeited	(2,096)	\$ 8.14	(2,105)	\$ 5.32	(1,143)	\$ 5.47
Outstanding and exercisable at end of year	394,530	\$ 10.02	341,136	\$ 8.59	243,045	\$ 5.73

The following summarizes the weighted average grant-date fair value of options granted during the year:

	For the Year Ended December 31,		
	2002	2001	2000
Options granted with an exercise price below market price on the date grant:			
Senior management	\$ 4.93	\$ 3.78	
Non executive Director		\$ 3.89	\$ 2.69
Employees preferred shares	\$ 5.72	\$ 3.88	\$ 2.66
Employees ordinary share options	\$ 4.41	\$ 3.08	
Overall weighted average	\$ 4.89	\$ 3.71	\$ 2.69
Options granted with an exercise price above market price on the date of grant:			
Senior management			\$ 2.57

Summary of Options Outstanding at December 31, 2002

At December 31, 2002, the range of exercise prices on outstanding options was \$6.75 \$14.69. Accordingly the following information is presented on options outstanding, which are all exercisable, at December 31, 2002:

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	Exercise Prices from		Exercise Prices from	
	\$6.75	\$9.20	\$10.84	\$14.69
Number of options outstanding at December 31, 2002	147,671		246,859	
Weighted average exercise price	\$ 7.51		\$ 11.52	
Weighted average remaining contractual life	1.13 years		2.64 years	

Table of Contents**CONSOLIDATED WATER CO. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****15. Stock Compensation (continued)**

The weighted average fair value per share under SFAS 123 for shares issued during the year below market price on the date of grant follows:

	2002		2001		2000	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Employee Share Incentive Plan	2,713	\$ 13.88	3,963	\$ 9.00	2,279	\$ 7.00
Directors Share Plan	6,056	\$ 10.70	7,860	\$ 7.25	6,889	\$ 7.13
Senior management	3,172	\$ 9.55				
Overall weighted average	11,941	\$ 11.12	11,456	\$ 7.86	9,168	\$ 7.09

16. Taxation

Under current laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Company. The Company has received a tax exemption with respect to its Belize operations. The exemption expires in 2006 and is renewable in accordance with the provisions of the BWSL contract. Services to the customer in the Bahamas are provided by the Company, which is a Cayman Islands company that is not subject to taxation in the Commonwealth of the Bahamas.

17. Pension Benefits

A staff pension plan is offered to all employees. The plan is administered by the Cayman Islands Chamber of Commerce and is a defined contribution plan whereby the Company matches the contribution of the first 5% of each participating employee's salary. The total amount recognized as an expense under the plan during the year ended December 31, 2002 was \$70,210 (2001: \$63,740; 2000: \$67,760).

18. Financial Instruments***Credit Risk:***

The Company is not exposed to significant credit risk on the vast majority of customer accounts as the policy is to cease supply of water to customers' accounts that are more than 45 days overdue. The Company's exposure to credit risk is concentrated on receivables from one customer in Belize. The balance from this customer is current as at December 31, 2002 and management does not anticipate any losses on this concentration.

Interest Rate Risk:

The interest rates and terms of the Company's loans are presented in Note 8 of these financial statements. The Company is subject to interest rate risk to the extent that LIBOR changes.

Foreign Exchange Risk:

All relevant foreign currencies have fixed exchange rates to the United States dollar as detailed under the foreign currency accounting policy note. If any of these fixed exchange rates become floating exchange rates, the Company's results of operations could be adversely affected.

Table of Contents**CONSOLIDATED WATER CO. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****18. Financial Instruments (continued)***Fair Values:*

At December 31, 2002 and 2001, the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and other liabilities and dividends payable approximate fair values due to the short term maturities of these assets and liabilities. The Directors consider that the carrying amount for long term debt due to Royal Bank of Canada approximates fair value. The fair value for long term debt due to European Investment Bank is approximately \$840,720 (2001: \$1,041,000) although this does not necessarily indicate that the Company could extinguish this debt for an amount lower than the carrying value. Fair value of this long term debt for which no market value is readily available is determined by the Company using predetermined future cash flows discounted at an estimated current incremental rate of borrowing for a similar liability. In establishing an estimated incremental rate, the Company has evaluated the existing transactions, as well as comparable industry and economic data and other relevant factors such as pending transactions, subsequent events and the amount the Company would have to pay a credit worthy third party to assume the liability, with the creditors legal consent.

19. Non-Cash Transactions

The Company made the following non-cash transactions:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Redemption of preference shares and issue of replacement ordinary shares at \$nil consideration	\$ 9,700	\$ 17,112	\$ 12,767
Preference shares issued to employees at \$nil consideration (Note 15)	\$ 3,256	\$ 4,756	\$ 2,735
Redemption of preference shares at \$nil consideration			(240)
Ordinary shares issued under the Non-executive Directors Share Plan at \$nil consideration (Note 15)	66,600	56,998	49,084
Ordinary shares issued under senior management employment agreements at \$nil consideration (Note 15)	30,303		
Additional paid in capital from exercise of stock options	75,171	227,420	
	<u>\$ 175,330</u>	<u>\$ 289,174</u>	<u>\$ 51,579</u>
Reduction in ordinary shares and additional paid in capital from cancellation of shares repurchased	\$ 36,710	\$ 271,595	\$ 494,375
Dividends declared but not paid (Note 7)	\$ 508,444	\$ 499,383	\$ 401,965

20. Impact of Recent Issued Accounting Standards

The Financial Accounting Standards Board issued four standards and one interpretation that affect the Company. A summary of these standards and interpretation is given below:

In June 2001, the FASB issued SFAS No. 143, Accounting for Assets Retirement Obligations. SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Company

also records a corresponding asset that is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The

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CONSOLIDATED WATER CO. LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Impact of Recent Issued Accounting Standards (continued)

Company is required to adopt SFAS No. 143 on January 1, 2003. The Company adopted SFAS No. 143 early during the year ended December 31, 2001. The adoption did not have a material effect on the Company's financial statements.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections. SFAS No. 145 amends existing guidance on reporting gains and losses from extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. SFAS No. 145 also amends FASB Statement No. 13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of the Statement related to the rescission of Statement No. 4 is applied in fiscal years beginning after May 15, 2002. Earlier application of these provisions is encouraged. The provisions of the Statement related to Statement No. 13 were effective for transactions occurring after May 15, 2002, with early application encouraged. The adoption of SFAS No. 145 is not expected to have a material effect on the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue 94-3 Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 is not expected to have a material effect on the Company's financial statements.

In November 2002, the FASB issued Interpretation No. 45 Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, as interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The initial recognitions and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company's financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statements No. 123. This Statement amends FASB Statement No. 123 Accounting for Stock-Based Compensation, to provide alternative methods of transition for voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition the Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to these consolidated financial statements.

21. Deferred Expenditures

Costs associated with the acquisitions disclosed in note 22 and the financing thereof have been capitalized in the amounts of \$426,970 and \$460,886, respectively, as these transactions had not closed at the balance sheet date. Acquisition related costs are taken into account in the purchase price allocation upon the completion of transactions and financing costs are amortized over the term of the related debt.

22. Subsequent Events

The following events occurred subsequent to December 31, 2002:

On February 7, 2003, the Company purchased interests in the following companies: DesalCo Limited, its wholly owned subsidiary DesalCo (Barbados) Limited, Ocean Conversion (Cayman) Limited, Ocean Conversion (BVI) Ltd. and Waterfields Company Limited. The purchase has provided the Company with a desalination facility management and engineering services firm, as well as facilities and contracts to supply

Table of Contents**CONSOLIDATED WATER CO. LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****22. Subsequent Events (continued)**

additional potable water services in the Cayman Islands, the Bahamas, Barbados and the British Virgin Islands. The total consideration under the purchase agreements was \$27,800,000, comprised of \$25,500,000 in cash and 185,714 ordinary shares of the Company.

The following table summarizes the unaudited condensed balance sheets of the acquired entities as of December 31, 2002:

	DesalCo Limited	Ocean Conversion (Cayman) Limited	Waterfields Company Limited	Ocean Conversion (BVI) Ltd.
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current assets	\$ 1,798,068	\$ 3,023,479	\$ 1,912,344	\$ 3,867,233
Property, plant and equipment	14,849	1,234,962	7,764,895	3,608,175
Other non-current assets	1,571,131	4,313,291		
Total assets	3,384,048	8,571,732	9,677,239	7,475,408
Current liabilities	174,924	2,712,862	246,985	1,636,007
Long term debt and liabilities		1,180,000	1,884,293	1,739,379
Total liabilities assumed	174,924	3,892,862	2,131,278	3,375,386
Net assets	\$ 3,209,124	\$ 4,678,870	\$ 7,545,961	\$ 4,100,002
% of equity acquired	100%	100%	12.7%	56.5%
% of voting shares acquired	100%	100%	12.7%	50.0%

In order to finance the purchase, the Company entered into a credit facility with Scotiabank (Cayman Islands) Ltd. for a term loan of \$20,000,000, an operating line of credit of \$2,000,000 and a bridge financing loan of \$17,100,000. Scotiabank was given a fixed and floating charge on all assets for \$22,000,000. In conjunction with the receipt of this financing, the Royal Bank of Canada credit facilities were extinguished, the loans were fully repaid and the fixed and floating charges held by the bank were released. The second charge held by the Government of the Cayman Islands, as described in Note 8, was cancelled and replaced with a \$1,000,000 letter of credit from Scotiabank.

The Company also cancelled the remaining term of the water purchase agreement with Ocean Conversion (Cayman) Limited as a result of the purchase.

The Government of the Cayman Islands amended the Company's license to remove a five percent restriction on share ownership and transfer. As part of the amended license, the Company is required to comply with certain aesthetic quality improvements in the water supplied to the customers in the Cayman Islands. Management estimates that the capital cost of complying with the new water quality requirements in accordance with the amended license will amount to approximately \$500,000.

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PART IV

Item 15. Exhibits, Financial Statements Schedules, and Reports on Form 8-K

(a) 1. Financial Statements

The financial statements found in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA for the year ended December 31, 2002 is incorporated herein by reference.

2. Financial Statement Schedules

None

3. Exhibits

Exhibit Number	Exhibit Description
99.1	Chief Executive Officer Certification under Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Chief Financial Officer Certification under Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CONSOLIDATED WATER CO. LTD.

By: /s/ Frederick McTaggart

Frederick McTaggart
President, Chief Operating Officer
and Chief Financial Officer

Dated: June 27, 2003

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**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Consolidated Water Co. Ltd. (the Company) on Form 10-K/A for the year ended December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof, I, Jeffrey M. Parker, the Chief Executive Officer of the Company, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed this annual report on Form 10-K/A of the Company;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and

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b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 27, 2003

By: /s/ Jeffrey M. Parker
Name: Jeffrey M. Parker
Title: Chief Executive Officer

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**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Consolidated Water Co. Ltd. (the Company) on Form 10-K/A for the year ended December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof, I, Frederick McTaggart, the Chief Financial Officer of the Company, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed this annual report on Form 10-K/A of the Company;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and

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b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 27, 2003

By: /s/ Frederick McTaggart
Name: Frederick McTaggart
Title: Chief Financial Officer

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