Company Registration No. SC085639

Deloitte & Touche

FORTH ESTUARY ENGINEERING LIMITED

Report and Financial Statements

30 June 2002

Deloitte & Touche LLP
Edinburgh

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REPORT AND FINANCIAL STATEMENTS 2002

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REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J Adams
C G Rolaston
G J Hughes

SECRETARY

HBJ Secretarial Limited

REGISTERED OFFICE

Exchange Tower
19 Canning Street
Edinburgh
EH3 6EH

BANKERS

Bank of Scotland
PO Box 10
38 St Andrew Square
Edinburgh
EH2 2YR

SOLICITORS

Henderson Boyd Jackson
Exchange Tower
19 Canning Street
Edinburgh
EH3 6EH

AUDITORS

Deloitte & Touche LLP
Edinburgh

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2002.

ACTIVITIES

The company's principal activity during the year was the repair of ships.

On 8 May 2002, the Company and all its interests were acquired by BUE Marine Limited and HPPF Limited from the previous owners, Semple Cochrane plc. Details of the acquisition are disclosed in the financial statements of these companies.

RESULTS, DEVELOPMENTS AND FUTURE PROSPECTS

The profit for the period after taxation is £999,667 (2001 – loss of £384,000). The current year profit is after an exceptional release of intercompany creditor balances of £1,610,310, the payment of which was waived by the former owners of the business, an exceptional provision for irrecoverable intercompany debt of £573,000 and an exceptional provision for impairment of investments in subsidiary undertakings of £274,000.

No dividend was paid or proposed in respect of the current or preceding years. The remaining profit of £999,667 (2001 – loss of £384,000) has been transferred to reserves.

Subsequent to the change in ownership referred to above, the directors are continuing to seek appropriate trading opportunities to enhance the profitability of the Company.

DIRECTORS AND THEIR INTERESTS

The present membership of the board is set out on page 1. All of the present directors were appointed on 8 May 2002. RJ Hynd resigned from the board as of the same date.

None of the directors in office at 30 June 2002 held shares in the Company. The interests of J Adams and C G Rolaston in the shares of the parent company, BUE Marine Limited, are disclosed in the financial statements of that company.

AUDITORS

The previous auditors of the Company, Ernst & Young LLP, resigned with effect from 8 May 2002 and Deloitte & Touche were appointed to fill the casual vacancy.

On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to formally appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

C G Rolaston

Director

10 September 2003

Deloitte & Touche

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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& Touche

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORTH ESTUARY ENGINEERING LIMITED

We have audited the financial statements of Forth Estuary Engineering Limited for the year ended 30 June 2002 which comprise the profit and loss account, the balance sheet and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board, except that the scope of our audit was limited as explained below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.

However the evidence available to us was limited as set out below:

1. We were not appointed auditors until 8 May 2002 and did not report on the financial statements for the year ended 30 June 2001. The financial information available to us in respect of the period prior to our appointment was limited and, in consequence, we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the deficit on shareholders' funds of £516,000 in the balance sheet at 30 June 2001. Any adjustment to this figure would have a consequential effect on the profit for the year ended 30 June 2002;

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FORTH ESTUARY ENGINEERING LIMITED (Continued)

Basis of opinion (continued)

2. The accounting records for the period from 1 July 2001 to 8 May 2002 did not disclose all transactions relating to turnover, costs of sales and administrative expenses before exceptional items and the personnel responsible for the related accounting entries are no longer employed by the Company. In these circumstances we were unable to carry out all the auditing procedures necessary to obtain adequate assurance regarding the turnover of £4,033,446, cost of sales of £3,011,882 and administrative expenses before exceptional items of £672,095 for the year ended 30 June 2002; and

3. We were unable to carry out all the auditing procedures necessary on the prior year deferred tax disclosures regarding the implementation of FRS 19 in the current year. Any adjustments that would have arisen may have a consequential effect on the results for the year ended 30 June 2001.

In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from limitation in scope

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 30 June 2002. Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning net liabilities at the beginning of the year and the potential adjustments that may be necessary to the prior year deferred tax disclosures resulting from the implementation of FRS 19, turnover, cost of sales and administrative expenses before exceptional items for the year then ended, in our opinion the financial statements give a true and fair view of the Company's profit for the year ended 30 June 2002 and have been properly prepared in accordance with the Companies Act 1985.

In respect of the limitations on our work with regard to the balance sheet at 30 June 2001 the prior year deferred tax disclosures arising on the implementation of FRS19 and the turnover, cost of sales and administrative expenses before exceptional items for the year ended 30 June 2002:

1. we have not obtained all the information and explanations that we considered necessary for the purposes of our audit; and

2. proper accounting records have not been kept in respect of profit and loss transactions in the period from 1 July 2001 to 8 May 2002.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Edinburgh

10 September 2003

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PROFIT AND LOSS ACCOUNT
For the year ended 30 June 2002

	Note	2002 £	2001 £
TURNOVER: continuing operations	2	4,033,446	3,581,000
Cost of sales		(3,011,882)	(2,942,000)
Gross profit		1,021,564	639,000
Administrative expenses before exceptional items		(777,095)	(1,162,000)
Exceptional release of intercompany payables	7	1,610,310	-
Exceptional provision for irrecoverable intercompany receivables		(573,000)	-
Total administrative expenses		260,215	(1,162,000)
OPERATING PROFIT/(LOSS): continuing operations	6	1,281,779	(523,000)
Interest receivable and similar income	5	-	99,000
Amounts written off investments	9	(274,000)	-
Bank loan and overdraft interest payable		(8,112)	(18,000)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		999,667	(442,000)
Tax on profit/(loss) on ordinary activities	7	-	58,000
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL PERIOD	16	999,667	(384,000)

There have been no recognised gains and losses attributable to the shareholders other than the profit/(loss) for the current and preceding financial periods and, accordingly, no Statement of Total Recognised Gains and Losses is shown.

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BALANCE SHEET
As at 30 June 2002

	Note	2002 £	2001 £
FIXED ASSETS			
Tangible assets	8	92,706	204,000
Investments	9	14,000	288,000
		106,706	492,000
CURRENT ASSETS			
Stocks	10	211,302	89,000
Debtors	11	1,037,833	2,652,000
Cash at bank and in hand		-	14,000
		1,249,135	2,755,000
CREDITORS: amounts falling due within one year	12	(950,174)	(3,756,000)
NET CURRENT ASSETS/(LIABILITIES)		298,961	(1,001,000)
CREDITORS: amounts falling due after more then one year	13	-	(7,000)
NET ASSETS/(LIABILITIES)		405,667	(516,000)
CAPITAL AND RESERVES			
Called up share capital	15	18,000	18,000
Capital reserve	17	2,000	2,000
Revaluation reserve	17	-	78,000
Profit and loss account	17	385,667	(614,000)
EQUITY SHAREHOLDERS' FUNDS/(DEFICIT)	18	405,667	(516,000)

These financial statements were approved by the Board of Directors on 10 September 2003.

Signed on behalf of the Board of Directors

C G Rolaston

Director

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention subject to the revaluation of certain fixed assets.

The Company is exempt from the requirement of Financial Reporting Standard 1 (Revised) to prepare a cashflow statement as, with effect from 8 May 2002, it is a wholly owned subsidiary of BUE Marine Limited and its cashflows are included in the consolidated cashflow statement in the accounts of that company. Prior to 8 May 2002, the Company was a wholly owned subsidiary of Semple Cochrane plc and its cashflows were included in the consolidated cashflow statement of that company.

Non-consolidation

The Company is not required to prepare group accounts under section 249 of the Companies Act 1985 as it qualifies as a medium-sized group. Accordingly, the financial statements present information about the Company as an individual undertaking and not as a group.

Tangible fixed assets

Depreciation is provided on cost or valuation in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Fixtures & fittings	20% reducing balance
Motor vehicles	25% reducing balance
Plant and machinery	20% reducing balance

Stocks

Stocks are stated at the lower of cost and net realisable value.

Investments

Investments held as fixed assets are stated at cost less any provision for impairment.

Deferred taxation

The Company has adopted FRS19 (deferred tax) in the period to 30 June 2002. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets, where there is commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. There is no financial impact on the results for the current or prior year following the adoption of FRS19.

Foreign currency transactions

Where foreign currency transactions are not covered by forward contracts, they are translated at the rate prevailing at the date of the transaction. Foreign currency balances at the year end are translated into sterling at the rate of exchange ruling at the balance sheet date. Gains and losses on translation are taken to the profit and loss account in the period in which they arise.

Pension costs

The Company pays pension contributions to third party personal pension scheme funds on behalf of its employees. Costs are charged as they fall due.

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

2. TURNOVER

Turnover arises wholly from the principal activity of the Company in the United Kingdom area and is stated net of Value Added Tax.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

None of the directors received any remuneration in respect of their services to the Company in the current or preceding years.

	2002 £	2001 £
Staff costs during the year		
Wages and salaries	1,423,017	1,128,000
Social security costs	93,893	98,000
Pension costs	8,850	9,000
	1,525,760	1,235,000

	No	No
Average number of persons employed		
Administration	12	8
Production	48	40
	60	48

4. PENSION COSTS

The Company pays pension contributions to third party personal pension scheme funds on behalf of its employees.

Contributions made by the Company during the year amounted to £8,850 (2001 - £9,000). No contributions were payable at the year end.

5. INTEREST RECEIVABLE AND SIMILAR INCOME

Interest receivable and similar income represents interest receivable on bank deposits.

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

6. OPERATING PROFIT

		2002 £	2001 £
Operating profit is after charging:			
Depreciation			
Owned assets		51,754	29,000
Leased assets		-	4,000
Provision for impairment of fixed assets		3,946	-
Auditors' remuneration		12,000	12,000
Operating lease rentals	- Land and buildings	68,116	48,000
	- Other	-	27,000

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	2002 £	2001 £
UK corporation tax	-	(58,000)

The standard rate of tax for the period, based on the UK standard rate of corporation tax, is 30%. The actual tax charge for the period exceeds the standard rate for the reason set out in the following reconciliation:

	2002 £	2001 £
Profit/(loss) on ordinary activities before tax	999,667	(442,000)
Tax on profit on ordinary activities at standard rate	(299,900)	132,600
Factors affecting charge for the period:		
Expenses not deductible for tax purposes	(111,801)	(73,535)
Income not chargeable for tax purposes	483,093	-
Capital allowances in excess of depreciation	(8,426)	(1,065)
Deferred tax asset not provided for	(62,966)	-
Total actual amount of current tax	-	58,000

On 8 May 2002 the intercompany payables of £1,610,310, due to the previous parent company, were waived and released to the profit and loss account. The directors are of the opinion that the original payable balances arose from non-trading activities, consequently, no provision has been made for any associated corporation tax arising on the release.

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

8. *TANGIBLE FIXED ASSETS*

	Fixtures & fittings £	Motor vehicles £	Plant & machinery £	Total £
Cost				
At 1 July 2001	20,000	87,000	468,000	575,000
Additions	8,073	3,397	10,936	22,406
At 30 June 2002	28,073	90,397	478,936	597,406
Accumulated depreciation				
At 1 July 2001	8,000	67,000	296,000	371,000
Charge for the period	20,073	23,397	8,284	51,754
Provision for impairment	-	-	81,946	81,946
At 30 June 2002	28,073	90,397	386,230	504,700
Net book value				
At 30 June 2002	-	-	92,706	92,706
At 30 June 2001	12,000	20,000	172,000	204,000

9. INVESTMENTS HELD AS FIXED ASSETS

	Investments in subsidiaries £	Other Investments £	Total £
Cost			
At 1 July 2001 and 30 June 2002	274,000	14,000	288,000
Provision			
At 1 July 2001	-	-	-
Impairment in the year	274,000	-	274,000
At 30 June 2002	274,000	-	274,000
Net book value			
At 30 June 2002	-	14,000	14,000
At 30 June 2001	274,000	14,000	288,000

Subsidiary undertakings

The company has the following investments:-

	Country of Incorporation	Activity	Proportion of Ordinary Shares Held
Firth Painters Limited	Scotland	Dormant	100%
Marine Propeller Services Limited	Scotland	Dormant	100%
Scott Reuter Limited	Scotland	Dormant	100%
Grangemouth Ship Repairs Limited	Scotland	Dormant	100%

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

10. STOCKS

	2002 £	2001 £
Work in progress	211,302	89,000

11. DEBTORS

	2002 £	2001 £
Trade debtors	998,510	1,162,000
Amounts due by group undertakings	-	1,182,000
Other debtors and prepayments	39,323	308,000
	1,037,833	2,652,000

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £	2001 £
Bank overdraft	161,031	482,000
Trade creditors	467,368	690,000
Amounts due to group undertakings	33,801	2,146,000
Obligations under finance lease and hire purchase contracts	8,926	-
Other creditors and accruals	279,048	438,000
	950,174	3,756,000

The bank overdraft is secured by a bond and floating charge over the assets of the Company and subsidiary companies.

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2002 £	2001 £
Obligations under finance lease and hire purchase contracts	-	7,000

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

14. DEFERRED TAX

The amounts of deferred taxation unprovided are as follows:

	2002 £	2001 £
Depreciation in excess of capital allowances	34,787	2,961
Revenue losses	(329,337)	(266,371)
Deferred tax asset	(326,376)	(231,584)

The above deferred tax assets are not recognised as there is no certainty of when they will be recovered. The assets will be recognised against future trading profits.

15. CALLED UP SHARE CAPITAL

	2002 £	2001 £
Authorised		
Ordinary shares of £1 each	20,000	20,000
Called up, allotted and fully paid		
Ordinary shares of £1 each	18,000	18,000

16. PROFIT AND LOSS ACCOUNT

	£
At 1 July 2001	(614,000)
Retained profit for the period	999,667
At 30 June 2002	385,667

17. STATEMENT OF RESERVES

	Capital reserve £	Revaluation reserve £	Profit and loss account £	Total £
Balance at 1 July 2001	2,000	78,000	(614,000)	(534,000)
Profit retained for the financial period	-	-	999,667	999,667
Impairment of tangible assets	-	(78,000)	-	(78,000)
Balance at 30 June 2002	2,000	-	385,667	387,667

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS/(DEFICIT)

	2002 £	2001 £
Profit/(loss) for the financial year	999,667	(384,000)
Net addition/(reduction) to shareholders' funds/(deficit)	999,667	(384,000)
Impairment of tangible assets	(78,000)	-
Opening shareholders' deficit	(516,000)	(132,000)
Closing shareholders' funds/(deficit)	405,667	(516,000)

19. RELATED PARTIES

HPPF Limited and all the companies in the BUE Marine Limited group are related parties of Forth Estuary Engineering Limited.

The Company has taken advantage of the exemptions available under Financial Reporting Standard number 8 with regard to non-disclosure of transactions between group companies which are eliminated in the ultimate parent company's consolidated financial statements.

20. ULTIMATE PARENT COMPANY

The Company's ultimate parent undertaking is BUE Marine Limited, a company registered in Scotland for which consolidated financial statements are prepared. Copies of the consolidated financial statements are available from BUE Marine Limited, Imperial House, Albert Dock, Edinburgh, EH6 7DN.