

**FORTH ESTUARY ENGINEERING
LIMITED**

Report and Financial Statements

31 December 2004



FORTH ESTUARY ENGINEERING LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

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FORTH ESTUARY ENGINEERING LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

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 8EH

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 8EH

INDEPENDENT AUDITORS

Deloitte & Touche LLP
Edinburgh

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

ACTIVITIES

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

RESULTS, DEVELOPMENTS AND FUTURE PROSPECTS

The profit for the year after taxation is £37,950 (18 month period ended 31 December 2003 – £8,581).

No dividend was paid or proposed in respect of the current year or preceding 18 month period ended 31 December 2003. The retained profit of £37,950 (2003 – £8,581) has been transferred to reserves.

The directors are satisfied with the results for the year and will continue to seek appropriate trading opportunities to improve the results in the forthcoming year.

DIRECTORS AND THEIR INTERESTS

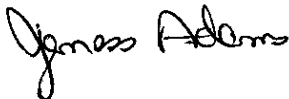
The present membership of the board is set out on page 1.

The directors held no interests in the shares of the company at 31 December 2003 or 31 December 2004. The interests of J Adams and C G Rolaston in the shares of the ultimate parent company, BUE Marine Limited, are disclosed in the financial statements of that company.

AUDITORS

A resolution to reappoint Deloitte & Touche LLP as auditors of the company will be proposed at the next Annual General Meeting.

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



J Adams

Director

17th May 2005

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.

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 31 December 2004 which comprise the profit and loss account, the balance sheet and the related notes 1 to 18. 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 or material inconsistencies with the financial statements.

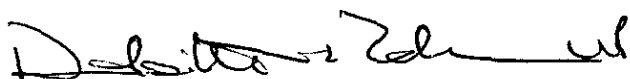
Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Edinburgh

17 May 2005

FORTH ESTUARY ENGINEERING LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 December 2004

	Note	Year ended 31 December 2004 £	18 month period ended 31 December 2003 £
TURNOVER	2	3,703,661	4,988,599
Cost of sales		(2,841,779)	(3,819,267)
Gross profit		<u>861,882</u>	<u>1,169,332</u>
Administrative expenses before exceptional items		(806,998)	(1,084,577)
Exceptional charge for costs identified relating to the prior period		-	(81,979)
Total administrative expenses		<u>(806,998)</u>	<u>(1,166,556)</u>
OPERATING PROFIT	4	54,884	2,776
Bank interest receivable		3,234	6,177
Bank loan and overdraft interest payable		(10,198)	(13,712)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		47,920	(4,759)
Tax on profit/(loss) on ordinary activities	5	(9,970)	13,340
RETAINED PROFIT FOR THE FINANCIAL YEAR	13	<u><u>37,950</u></u>	<u><u>8,581</u></u>

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

The results above relate to continuing activities.

FORTH ESTUARY ENGINEERING LIMITED

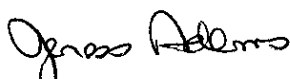
BALANCE SHEET

As at 31 December 2004

	Note	2004 £	2003 £
FIXED ASSETS			
Tangible assets	6	187,037	175,361
Investments	7	14,000	14,000
		<u>201,037</u>	<u>189,361</u>
CURRENT ASSETS			
Stocks	8	80,126	48,019
Debtors	9	997,833	544,868
Cash at bank and in hand		2,105	-
		<u>1,080,064</u>	<u>592,887</u>
CREDITORS: amounts falling due within one year	10	(828,903)	(368,000)
NET CURRENT ASSETS		<u>251,161</u>	<u>224,887</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>452,198</u>	<u>414,248</u>
CAPITAL AND RESERVES			
Called up share capital	12	18,000	18,000
Capital reserve	13	2,000	2,000
Profit and loss account	13	432,198	394,248
EQUITY SHAREHOLDERS' FUNDS	14	<u>452,198</u>	<u>414,248</u>

These financial statements were approved by the Board of Directors on ¹²May 2005.

Signed on behalf of the Board of Directors



J Adams

Director

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the prior year.

Basis of accounting

The financial statements are prepared under the historical cost convention, and in accordance with applicable United Kingdom accounting standards.

The company is exempt from the requirement of Financial Reporting Standard 1 (Revised) to prepare a cash flow statement as it is a wholly owned subsidiary of BUE Marine Limited and its cash flows are included in the consolidated cash flow statement in the financial statements of that company.

Preparation of accounts

The company is not required to prepare group accounts under section 228 of the Companies Act 1985 as it is a subsidiary of BUE Marine Limited, a company incorporated in Scotland for which consolidated accounts are prepared. 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 in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Fixtures & fittings	33% straight line
Motor vehicles	33% straight line
Plant and machinery	20% straight line

Stocks

Stocks and work-in-progress are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and production overheads appropriate to the relevant stage of production. Net realisable value is based on estimated selling price less all further costs to completion.

Investments

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

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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 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.

Foreign currency transactions

Foreign currency transactions 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. No contributions were payable at the year-end (2003 - £Nil).

Leasing and hire purchase

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2004

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 periods. All emoluments paid to directors in respect of their services to the group are disclosed in the financial statements of BUE Marine Limited.

	Year ended 31 December 2004 £	18 month period ended 31 December 2003 £
Staff costs during the year		
Wages and salaries	1,507,188	1,941,124
Social security costs	145,576	174,404
Pension costs	13,272	16,961
	<u>1,666,036</u>	<u>2,132,489</u>
	No	No
Average number of persons employed		
Administration	11	11
Production	50	50
	<u>61</u>	<u>61</u>

4. OPERATING PROFIT

	Year ended 31 December 2004 £	18 month period ended 31 December 2003 £
Operating profit is after charging:		
Depreciation		
Owned assets	62,634	62,537
Auditors' remuneration - audit services	4,800	10,000
Operating lease rentals - land and buildings	78,654	119,120
	<u>146,088</u>	<u>191,657</u>

FORTH ESTUARY ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2004

5. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	Year ended 31 December 2004 £	18 month period ended 31 December 2003 £
<i>Current taxation</i>		
UK corporation tax	-	-
<i>Deferred taxation</i>		
Timing differences, origination and reversal (see note 11)	9,970	(13,340)
Tax on profit/(loss) on ordinary activities	<u>9,970</u>	<u>(13,340)</u>

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 30% (2003- 30%). The actual tax charge for the year exceeds the standard rate for the reason set out in the following reconciliation:

	Year ended 31 December 2004 £	18 month period ended 31 December 2003 £
Profit/(loss) on ordinary activities before tax	<u>47,920</u>	<u>(4,759)</u>
Tax on profit/(loss) on ordinary activities at standard rate	14,376	1,428
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	5,160	25,617
Capital allowances in excess of depreciation	(8)	18,761
Utilisation of tax losses	(18,558)	(42,950)
Group relief	(970)	-
Total actual amount of current tax	<u>-</u>	<u>-</u>

FORTH ESTUARY ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2004

6. TANGIBLE FIXED ASSETS

	Fixtures & fittings £	Motor vehicles £	Plant & machinery £	Total £
Cost				
At 1 January 2004	39,934	165,714	536,950	742,598
Additions	2,052	54,734	17,524	74,310
At 31 December 2004	41,986	220,448	554,474	816,908
Accumulated depreciation				
At 1 January 2004	30,583	106,367	430,287	567,237
Charge for the year	7,690	29,069	25,875	62,634
At 31 December 2004	38,273	135,436	456,162	629,871
Net book value				
At 31 December 2004	3,713	85,012	98,312	187,037
At 31 December 2003	9,351	59,347	106,663	175,361

7. INVESTMENTS HELD AS FIXED ASSETS

	Investments in subsidiaries £	Other investments £	Total £
Cost			
At 31 December 2003 and 31 December 2004	274,000	14,000	288,000
Provision			
At 31 December 2003 and 31 December 2004	274,000	-	274,000
Net book value			
At 31 December 2004	-	14,000	14,000
At 31 December 2003	-	14,000	14,000

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%

FORTH ESTUARY ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2004

8. STOCKS

	2004 £	2003 £
Work in progress	80,126	48,019

9. DEBTORS

	2004 £	2003 £
Other taxes and social security	83,170	-
Trade debtors	745,552	420,558
Other debtors and prepayments	68,462	89,319
Amounts due by group undertakings	97,279	21,651
Deferred tax asset (see note 11)	3,370	13,340
	997,833	544,868

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £	2003 £
Bank overdraft	278,623	99,907
Trade creditors	370,190	193,782
Amounts due to group undertakings	55,610	-
Obligations under finance lease and hire purchase contracts	-	656
Other creditors and accruals	124,480	73,655
	828,903	368,000

The bank overdraft is secured by a bond and floating charge over the assets of the group (note 18).

11. DEFERRED TAX

	Deferred tax asset £
At 1 January 2004	13,340
Charged to profit and loss account in the year (see note 5)	(9,970)
At 31 December 2004	3,370

A deferred tax asset exists at 31 December 2004. The asset is presented within debtors (see note 9). The deferred tax balance represents fixed assets timing differences computed at the expected long term rate of 30%.

FORTH ESTUARY ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2004

12. CALLED UP SHARE CAPITAL

	2004 £	2003 £
Authorised		
20,000 ordinary shares of £1 each	20,000	20,000
Called up, allotted and fully paid		
18,000 ordinary shares of £1 each	18,000	18,000

13. STATEMENT OF RESERVES

	Capital reserve £	Profit and loss account £	Total £
Balance at 1 January 2004	2,000	394,248	396,248
Profit retained for the financial year	-	37,950	37,950
Balance at 31 December 2004	2,000	432,198	434,198

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2004 £	2003 £
Profit for the financial year	37,950	8,581
Net addition to shareholders' funds	37,950	8,581
Opening shareholders' funds	414,248	405,667
Closing shareholders' funds	452,198	414,248

15. OPERATING LEASE COMMITMENTS

The company has annual commitments under operating leases as follows:

	Land and Buildings	
	2004 £	2003 £
Leases expiring:		
Between two and five years	13,683	13,031
	13,683	13,031

16. RELATED PARTIES

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

17. PARENT COMPANY

The Company's immediate parent undertaking is Forth Group Limited.

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.

18. CONTINGENT LIABILITY

The Company has entered into cross guarantees with the Group's bank and other providers of loan finance in respect of the borrowings of Forth Group Limited. At 31 December 2004 the total liability of the group in respect of these guarantees was £954,007 (2003 - £1,007,223) secured by a bond and floating charge over the assets of the Group.