EPR Scotland Limited

Report and Financial Statements

31 March 2003

ERNST & YOUNG

Registered No: SC147994

Directors
P Anthony
M D Chilton
D A McDonald (resigned - 4 May 2003)

Secretary
Eversecretary Limited (appointed – 22 July 2003)
C M McInnes (resigned – 22 July 2003)

Auditors
Ernst & Young LLP
One Bridewell Street
Bristol
BS1 2AA

Bankers
HSBC Bank plc
55 Whitefriargate
Hull
East Yorkshire
HU1 2HX

Registered office
191 West George Street
Glasgow
G2 2LB

Directors' report

The directors present their report and financial statements for the year ended 31 March 2003.

Results and dividends

The profit for the year, after taxation, amounted to £1,466,071. The directors do not recommend the payment of any dividends.

Principal activities and review of the business

The principal activity of the company during the year continued to be the generation and supply of electricity from a chicken litter fuelled power station in Fife, Scotland.

Directors

The directors at 31 March 2003 are listed on page 1.

None of the directors had any beneficial interest in the shares of the company at any time during the year ended 31 March 2003.

Mr M D Chilton and Mr D A McDonald have interests in the company's ultimate parent undertaking, Energy Power Resource Limited, which are disclosed in the financial statements of that company.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board

M D Chilton

Director

30 September 2003

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. 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; 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.

Ernst & Young

Independent auditors' report

to the members of EPR Scotland Limited

We have audited the company's financial statements for the year ended 31 March 2003 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 17. These financial statements have been prepared on the basis of 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 the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom 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 to you 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 and consider the implications for our report if we become aware of any apparent misstatements within it.

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

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the fundamental uncertainty as to the continuation and rescheduling of the company's bank loan facility. In view of the significance of this fundamental uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

ERNST & YOUNG

Independent auditors' report

to the members of EPR Scotland Limited

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Registered Auditor
Bristol

30 September 2003

Profit and loss account
for the year ended 31 March 2003

	Notes	2003 £	2002 £
Turnover	3	3,872,505	4,132,955
Cost of sales		1,849,985	1,963,884
Gross profit		2,022,520	2,169,071
Administrative expenses		(685,678)	1,586,517
Operating profit	4/5	2,708,198	582,554
Bank interest receivable		1,136	–
Interest payable	7	(1,243,263)	(1,321,280)
		(1,242,127)	(1,321,280)
Profit/(loss) on ordinary activities before taxation		1,466,071	(738,726)
Tax on profit/(loss) on ordinary activities	8	–	–
Retained proft/(loss) for the financial year		1,466,071	(738,726)

ERNST & YOUNG

Statement of total recognised gains and losses
There are no recognised gains or losses other than the profit of £1,466,071 attributable to the shareholders for the year ended 31 March 2003 (2002 - loss of £738,726).

Balance sheet
at 31 March 2003

	Notes	2003 £	2002 £
Fixed assets			
Tangible assets	9	19,659,777	20,642,856
Current assets			
Debtors	10	899,930	1,687,653
Cash at bank		269,798	2,238
		1,169,728	1,689,891
Creditors: amounts falling due within one year	11	3,954,461	5,673,674
Net current liabilities		(2,784,733)	(3,983,783)
Total assets less current liabilities		16,875,044	16,659,073
Creditors: amounts falling due after more than one year	12	16,263,261	17,513,361
		611,783	(854,288)
Capital and reserves			
Called up share capital	15	2,372,000	2,372,000
Profit and loss account	16	(1,760,217)	(3,226,288)
Equity shareholders' funds	16	611,783	(854,288)

....
Director

30 September 2003

Notes to the financial statements
at 31 March 2003

1. Fundamental accounting concept
The company is in breach of its covenants under its bank loan facility in relation to its project at Fife. To date, waivers have been received on a regular basis and detailed discussions have been entered into with the bank, with a view to resolving these issues through the rescheduling of debt for the project. On this basis, the directors expect the company to be able to meet its liabilities as they fall due. In the event that the company is unable to meet its liabilities as they fall due, the directors are confident that the company's bankers will extend facilities to enable the company to do so. However, inherently there can be no certainty in relation to these matters.

On this basis the directors consider it appropriate to prepare the financial statements on the going concern basis.

2. Accounting policies
Basis of preparation
The financial statements are prepared under the historical cost convention.

Cash flow statement
The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement.

Development and construction expenditure
Development expenditure is written off as incurred except that development expenditure incurred on an individual project is carried forward when its future recovery can reasonably be regarded as assured. Any expenditure carried forward will be amortised in line with the expected future sales from the related project. It is anticipated that chicken litter power station development and construction expenditure, less estimated residual values, will be written off evenly over the expected useful life of 20 years.

Interest on external borrowings directly related to specific tangible assets is included in the costs capitalised during the period of development and construction.

Fixed assets
All fixed assets are initially recorded at cost.

Depreciation
Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Power Station - over 20 years
Computer equipment - over 3 to 5 years

Taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements
at 31 March 2003

2. Accounting policies (continued)
Capital instruments

Shares are included in shareholders' funds. Other capital instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in shareholders' funds. The finance cost charged in the profit and loss account of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

3. Turnover
Turnover, which is stated net of the value added tax, represents amounts invoiced to third parties and is attributable to the company's principal activity.

Turnover for the year has arisen wholly in the United Kingdom.

4. Operating profit
This is stated after charging:

	2003	2002
	£	£
Auditors' remuneration - audit services	5,000	5,000
Depreciation of owned fixed assets	1,050,293	979,766
Debt issue costs amortisation	58,134	64,032
	1,108,427	1,043,798

5. Exceptional items

	2003	2002
	£	£
Recognised in arriving at operating profit:		
Liquidated damages	2,202,237	–

In October 2002, the company achieved a liquidated damages settlement in its longstanding dispute with the former turnkey contractors. As a result, net compensation of £2.2m was received.

6. Staff costs
No salaries or wages have been paid to employees, including the directors, during the year.

The company had no employees other than the directors, whose remuneration is disclosed in the financial statements of Energy Power Resources Limited.

7. Interest payable

	2003	2002
	£	£
Bank interest payable	1,243,263	1,321,280

Notes to the financial statements
at 31 March 2003

8. Tax
(a) Factors affecting current tax charge

The tax assessed on the profit/(loss) on ordinary activities for the period is lower than the standard rate of corporation tax in the UK of 30% (2002 – 30%).

The differences are reconciled below:

	2003 £	*2002* £
Profit/(loss) on ordinary activities before taxation	1,466,071	(738,726)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	439,821	(221,618)
Effect of:		
Disallowed expenses and non-taxable income	3,490	2,700
Capital allowances in excess of depreciation	–	(466,041)
Utilisation of tax losses	(64,307)	–
Depreciation in excess of capital allowances	586,732	–
Other timing differences	(965,736)	684,959
Total current tax	–	–

(b) Factors that may affect future tax charges

The company has tax losses carried forward of £8.9million (2002: £11 million) which are available for offset against future taxable profits. In accordance with FRS 19 the net deferred tax asset of £1.8m (2002: £2.4m) has not been recognised as its recoverability cannot be predicted with any degree of certainty.

9. Tangible fixed assets

	Freehold property £	*Power Station* £	*Computer equipment* £	*Total* £
Cost:				
At 1 April 2002	1,237,899	20,970,923	13,800	22,222,622
Additions	–	67,214	–	67,214
At 31 March 2003	1,237,899	21,038,137	13,800	22,289,836
Depreciation:				
At 1 April 2002	–	1,572,866	6,900	1,579,766
Provided during the year	–	1,043,393	6,900	1,050,293
At 31 March 2003	–	2,616,259	13,800	2,630,059
Net book value:				
At 31 March 2003	1,237,899	18,421,878	–	19,659,777
At 1 April 2002	1,237,899	19,398,057	6,900	20,642,856

Notes to the financial statements
at 31 March 2003

10. Debtors

	2003 £	2002 £
Trade debtors	403,887	247,141
Other debtors	379,491	1,398,793
Prepayments	116,552	41,719
	899,930	1,687,653

11. Creditors: amounts falling due within one year

	2003 £	2002 £
Current instalment due on bank loan (note 13)	1,058,234	-
Trade creditors	176,505	3,607,027
Amounts owed to group undertakings	1,796,788	1,606,262
Other taxes and social security	88,163	–
Accruals and deferred income	834,771	460,385
	3,954,461	5,673,674

12. Creditors: amounts falling due after more than one year

	2003 £	2002 £
Loans (note 13)	16,263,261	17,513,361

13. Loans

Creditors include finance capital which is due for repayment as follows:

	2003 £	2002 £
Amounts repayable:		
In one year or less or on demand	1,058,234	809,228
In more than one year but not more than two years	1,249,124	1,058,234
In more than two years but not more than five years	5,103,988	4,409,000
	7,411,346	6,276,462
In more than five years	10,261,254	11,646,138
	17,672,600	17,922,600
Less: unamortised loan issue expenses	351,105	409,239
	17,321,495	17,513,361

The bank loan bears interest at variable commercial rates and is repayable by instalments with the loan due to be repaid by 31 March 2013. The lending bank has been granted security including a first ranking security interest over all project assets, contracts and insurances, the company's property interests, and the company's shares.

ERNST & YOUNG

Notes to the financial statements
at 31 March 2003

14. Related party transactions

The company has taken advantage of the exemption given by FRS 8 to subsidiary undertakings, 90% or more of whose voting rights are controlled within the group, by not disclosing information on related party transactions with entities that are part of the group, or investees of the group qualifying as related parties.

15. Share capital

		Authorised
	2003	*2002*
	£	*£*
Ordinary shares of £1 each	2,372,000	2,372,000

	Allotted, called up and fully paid			
		2003		*2002*
	No.	*£*	*No.*	*£*
Ordinary shares of £1 each	2,372,000	2,372,000	2,372,000	2,372,000

16. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Profit and loss account*	*Total share-holders' funds*
	£	*£*	*£*
At 1 April 2001	2,372,000	(2,487,562)	(115,562)
Loss for the year	–	(738,726)	(738,726)
At 31 March 2002	2,372,000	(3,226,288)	(854,288)
Profit for the year	–	1,466,071	1,466,071
At 31 March 2003	2,372,000	(1,760,217)	611,783

17. Parent undertaking and controlling party

The company's ultimate parent undertaking and controlling party is Energy Power Resources Limited. The smallest and largest group in which the company is consolidated is that headed by Energy Power Resources Limited. Copies of its financial statements may be obtained from that company's registered office at The Pavilion, Ryon Hill Park, Warwick Road, Stratford-upon-Avon, CV37 0UU.

ERNST & YOUNG