FERGUSON MARINE PLC
REGISTERED NUMBER SC129659

Directors' Report and Financial Statements

For the year ended 31st December 2002

HENDERSON & COMPANY
CHARTERED ACCOUNTANTS
73 UNION STREET
GREENOCK

FERGUSON MARINE PLC
DIRECTORS' REPORT AND FINANCIAL STATEMENTS

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FERGUSON MARINE PLC
DIRECTORS' REPORT

The directors present their annual report and audited financial statements for the year ended 31st December 2002.

Principal Activities

The company is a holding company. The principal activity of the group is shipbuilding.

Business Review and Future Prospects

As budgeted, turnover was down and the expected difficult market conditions did materialise with little or no demand from UK owners. While profitability marginally increased the result was disappointing as we failed to maintain activity and efficiency levels into the second half of 2002. Demand is unlikely to improve during 2003 and a difficult year is a strong possibility.

Results and Dividends

The results of the group for the year are shown in the Profit and Loss Account on page 4. The directors recommend that no dividend be paid and that the balance on Consolidated Profit and Loss Account of £2,464,000 be carried forward.

Fixed Assets

Movements in fixed assets are set out in note 6 to the financial statements.

Directors and Directors' Interests

The directors who held office during the year were as follows:

F. Dunnet	- Chairman
A.L. Dunnet	- Chief Executive
R. Deane	- Managing Director

The directors who held office at the end of the financial year had the following interests in the shares of the company as recorded in the register of directors' interests:

Ordinary Shares of 50p each	**Interest at end of year**	***Interest at beginning of year***
F. Dunnet	15,196	*15,196*
A.L. Dunnet	1,040,918	*1,040,918*
R. Deane	-	-

Statement of Directors' Responsibilities

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 the group and of the profit or loss 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The/

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Employees

The average number of employees and details of employment costs are set out in note 3 to the financial statements.

The group gives full and fair consideration to applications for employment made by disabled persons, continues where possible the employment of persons who become disabled while they are with a group company and ensures suitable training, career development and opportunities for the promotion of disabled persons employed by it.

The directors are committed to effective communications with employees at all levels through regular meetings, notice board bulletins and circulars. The directors inform all employees of their company performance and of the financial and economic factors affecting that performance on a regular basis.

Health and Safety at Work

Health and Safety Training is an integral part of the group's operating strategy and employees at all levels have been involved in health and safety improvement programmes.

Charitable Donations

During the year, the group made charitable contributions of £250.

Payment of Creditors

The group recognises the importance of maintaining good business relationships with its suppliers and is committed to paying all invoices within agreed terms. The total amount of trade creditors falling due within one year at 31st December 2002 represents 30 days worth of the total amount invoiced by suppliers during the year ended on that date.

Auditors

Messrs. Henderson & Company, Chartered Accountants, have signified their willingness to remain in office and a resolution that they be reappointed will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

R. DEANE
Secretary

Newark Works
Port Glasgow
Renfrewshire
PA14 5NG

13th June 2003

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FERGUSON MARINE PLC

We have audited the financial statements of Ferguson Marine plc for the year ended 31st December 2002 on pages 4 to 18. These financial statements have been prepared under the historical cost convention and 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 auditor's 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 law and United Kingdom 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 Acts 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 and other members of the group 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 circumstances of the company and group, 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31st December 2002 and the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

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HENDERSON & COMPANY
CHARTERED ACCOUNTANTS
REGISTERED AUDITORS

73 Union Street,
Greenock

13th June 2003

FERGUSON MARINE PLC
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 2002

	Note	2002	*2001*
		£000	*£000*
Turnover	2	22,761	*24,997*
Other Operating Income		2	*36*
		22,763	*25,033*
Raw Materials and Consumables		(13,594)	*(15,276)*
Other External Charges		(1,061)	*(1,652)*
		(14,655)	*(16,928)*
Staff Costs	3	(7,997)	*(8,158)*
Depreciation		(169)	*(171)*
Other Operating Charges		(60)	-
		(8,226)	*(8,329)*
Operating Loss	4	(118)	*(224)*
Interest Receivable		207	*250*
Profit on Ordinary Activities Before Taxation		89	*26*
Taxation	5	1	-
Profit for the Financial Year		88	*26*
Dealt with by:			
The Company		1	*2*
Subsidiary Undertakings		87	*24*
		88	*26*

Movements in reserves are set out in notes 14 to 16.

None of the group's activities were acquired or discontinued during either year.

There were no recognised gains or losses in either year other than the result for the financial year.

FERGUSON MARINE PLC
CONSOLIDATED BALANCE SHEET AS AT 31ST DECEMBER 2002

	Note	2002		*2001*	
		£000	£000	*£000*	*£000*
Fixed Assets					
Tangible Assets	6		2,430		*2,510*
Current Assets					
Stocks	7	158		*141*	
Debtors	8	1,786		*626*	
Cash at Bank and in Hand		5,055		*7,132*	
		6,999		*7,899*	
Creditors: Amounts falling due within one year	10	5,453		*6,514*	
Net Current Assets			1,546		*1,385*
Total Assets less Current Liabilities			3,976		*3,895*
Provision for Liabilities and Charges	11		(1)		-
Deferred Income	12		(357)		*(365)*
Total Net Assets			3,618		*3,530*
Capital and Reserves					
Called Up Share Capital	13		603		*603*
Share Premium Account	14		482		*482*
Capital Reserve	15		69		*69*
Profit and Loss Account	16		2,464		*2,376*
Equity Shareholders' Funds			3,618		*3,530*

These financial statements were approved by the Board of Directors on 13th June 2003 and were signed on its behalf by:

F. DUNNET
Director

FERGUSON MARINE PLC
BALANCE SHEET AS AT 31ST DECEMBER 2002

	Note	2002		*2001*	
		£000	£000	*£000*	*£000*
Fixed Assets					
Investments	9		540		*540*
Current Assets					
Debtors	8	714		*816*	
Cash at Bank and in Hand		98		*1*	
		812		*817*	
Creditors: Amounts falling due within one year	10	55		*61*	
Net Current Assets			757		*756*
Total Net Assets			1,297		*1,296*
Capital and Reserves					
Called Up Share Capital	13		603		*603*
Share Premium Account	14		482		*482*
Profit and Loss Account	16		212		*211*
Equity Shareholders' Funds			1,297		*1,296*

These financial statements were approved by the Board of Directors on 13th June 2003 and were signed on its behalf by:

F. DUNNET
Director

FERGUSON MARINE PLC
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2002

	2002		*2001*	
	£000	**£000**	***£000***	***£000***
Cash (Outflow)/Inflow from Operating Activities (note 17a)		(2,197)		*4,614*
Returns on Investment and Servicing of Finance				
Interest Received		207		*250*
Taxation				
Tax Paid		-		-
Tax Recovered		-		*182*
Capital Expenditure and Financial Investment				
Proceeds from Sale of Tangible Fixed Assets	2		-	
Payments to Acquire Tangible Fixed Assets	(89)		*(119)*	
		(87)		*(119)*
(Decrease)/Increase in Cash in the Year (Note 17b)		(2,077)		*4,927*

FERGUSON MARINE PLC
RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31ST DECEMBER 2002

	2002	***2001***
	£000	***£000***
Group		
Shareholders' Funds at 1st January	3,530	*3,504*
Profit for the Financial Year	88	*26*
Shareholders' Funds at 31st December	3,618	*3,530*

	2002	***2001***
	£000	***£000***
Company		
Shareholders' Funds at 1st January	1,296	*1,294*
Profit for the Financial Year	1	*2*
Shareholders' Funds at 31st December	1,297	*1,296*

Notes

(forming part of the financial statements)

1. **Accounting Policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the company and the group.

Accounting Convention

The financial statements have been prepared under the historical cost accounting rules, and in accordance with applicable accounting standards.

No Profit and Loss Account is presented for Ferguson Marine PLC as provided by Section 230 of the Companies Act 1985.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of Ferguson Marine PLC and all its subsidiary undertakings for the year to 31st December 2002.

Fixed Assets and Depreciation

Fixed Assets are stated at cost. Depreciation is provided on all fixed assets, other than freehold land, at rates calculated on the straight line method in order to write off the cost, less estimated residual value, evenly over their expected useful lives as follows:

Freehold Buildings	- 50 years
Plant and Machinery	- 3 to 20 years

Stocks and Work in Progress

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

Work in progress is stated at cost of materials, direct labour and all relevant overhead expenses allocated on an estimated normal level of activity. In addition, where the outcome of long term contracts can be assessed with reasonable certainty before their conclusion, attributable profit or loss is adjusted in the valuation of work in progress. Any attributable profit, calculated on a prudent basis, will reflect the proportion of work carried out at the accounting date and will take into account any known inequalities of profitability in the various stages of the contract.

Work in progress is reduced by instalments received and receivable and is shown separately under "debtors: amounts recoverable on contracts". To the extent that instalments exceed net work in progress on particular contracts, the excess is shown separately under "creditors: amounts falling due within one year".

Guarantee and Maintenance Provisions

Provision is made for estimated post-delivery guarantee and maintenance commitments. Estimates take into account the terms of the contracts and past experience. These amounts are included in "provisions relating to contracts".

Taxation/

Taxation

Taxation is based on the result for the year including tax on provisions made, less provisions released, and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Pension Costs

The employees of the subsidiary undertakings are members of the Ferguson Shipbuilders Limited Section of the Shipbuilding Industries Pension Scheme. The pension costs are charged to the profit and loss account so as to spread the cost of pensions evenly over the estimated service lives of the employees.

Goodwill

Goodwill relating to a business purchased is written off immediately against reserves.

Deferred Government Grants

Government grants on capital expenditure are credited to a deferred income account and are released to revenue over the expected useful life of the relevant asset by equal annual amounts.

Foreign Currencies

All balances in foreign currencies are converted at the rates ruling at the Balance Sheet date. Transactions taking place in foreign currencies are converted at the rates ruling at the dates of those transactions. All differences are taken to the Profit and Loss Account.

2. Turnover

Turnover represents the sales value of contracts completed during the year, less amounts recognised as turnover in prior years, and the value of work done in respect of incomplete contracts included in work in progress. Turnover is wholly attributable to the activities of the group undertakings, and is stated net of value added tax.

	2002	***2001***
	£000	***£000***
Sales	18,422	*20,953*
Opening Work in Progress	(20,927)	*(16,902)*
Closing Work in Progress	25,266	*20,927*
	22,761	*24,978*
Own Work Capitalised	-	*19*
Turnover	22,761	*24,997*

All turnover relates to contracts within the United Kingdom.

3./

3. **Staff Numbers and Costs**

The average monthly number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of Employees	
	2002	***2001***
Direct Employees	271	*295*
Indirect Employees	81	*90*
	352	*385*

The aggregate payroll costs of these persons were as follows:

	2002	***2001***
	£000	***£000***
Wages and Salaries	6,811	*7,276*
Social Security Costs	547	*604*
Other Pension Costs (note 19) - Defined Benefit Scheme	198	*203*
- Defined Contribution Schemes	91	*75*
Redundancy Costs Provision	350	-
	7,997	*8,158*

4. **Operating Loss**

	2002	***2001***
	£000	***£000***
(a) The operating loss for the year is stated after charging/(crediting):		
Depreciation - Owned Assets	169	*171*
Directors' Remuneration	85	*56*
Auditors' Remuneration - audit work	17	*17*
- non-audit work	6	*6*
Gain on Sale of Assets	(3)	*(1)*
Hire of Plant	2	*5*
Operating Lease Payments - Land and Buildings	3	*3*

(b) Directors' Remuneration

	2002	***2001***
	£000	***£000***
Fees	-	-
Remuneration as Executives	75	*48*
Benefits in Kind	10	*8*
	85	*56*

One of the directors is a member of both the defined benefit and defined contribution pension schemes.

5./

5. Taxation

	2002	*2001*
	£000	*£000*
(a) Analysis of charge for year		
UK Corporation Tax on profit for year	-	-
Transfer to Deferred Taxation	1	-
	1	-

(b) Factors affecting tax charge for year
The tax assessed for the year is lower than the standard rate of Corporation Tax in the UK (30%). The differences are explained below:

	2002	*2001*
	£000	*£000*
Profit on ordinary activities before tax	89	*26*
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the UK of 30% (2001: 30%)	26	*8*
Effects of:		
Capital Allowances in excess of depreciation	(13)	*(15)*
Disallowed Expenses	105	-
Utilisation of tax losses	(118)	*18*
Provision released	-	*(11)*
	-	-

6. Tangible Fixed Assets

	Freehold Land and Buildings	Plant and Machinery	Total
	£000	£000	£000
Group			
Cost			
At beginning of year	2,256	1,704	3,960
Additions	10	79	89
Disposals	-	(37)	(37)
At end of year	2,266	1,746	4,012
Depreciation			
At beginning of year	299	1,151	1,450
Charge for year	44	125	169
Disposals	-	(37)	(37)
At end of year	343	1,239	1,582
Net Book Value			
At 31st December 2002	1,923	507	2,430
At 31st December 2001	1,957	553	2,510

Freehold land with a cost of £115,775 is not depreciated.

7./

7. Stocks and Work in Progress

	2002	*2001*
	£000	*£000*
Raw Materials and Consumables	158	*141*
Work in Progress	25,266	*20,927*
Less: Payments received and receivable	24,166	*21,792*
Excess of cost over instalments: transferred to debtors (note 8)	1,100	-
Excess of instalments over cost: transferred to creditors (note 10)	-	*865*

8. Debtors

	Group		Company	
	2002	*2001*	2002	*2001*
	£000	*£000*	£000	*£000*
Trade Debtors	405	*328*	-	-
Amounts owed by subsidiary undertakings	-	-	701	*803*
Other Debtors	164	*199*	13	*13*
Prepayments and Accrued Income	117	*99*	-	-
Amounts recoverable on contracts (note 7)	1,100	-	-	-
	1,786	*626*	714	*816*

9. Investments

	2002	*2001*
	£000	*£000*
Cost of investment in subsidiary undertakings	475	*475*
Amounts owed by subsidiary undertakings (repayable after 12 months)	65	*65*
	540	*540*

The company's subsidiary undertakings, which are all included in the consolidation, are as follows:

	Country of Registration	Principal Activity	Class and percentage of shares held	
Ferguson Shipbuilders Limited	Scotland	Shipbuilding	Ordinary	100%
Alder Marine Consultants Limited	Scotland	Marine and naval architecture consultancy	Ordinary	100%
Newark Joiners Limited	Scotland	Joinery Works	Ordinary	100%

Ferguson Shipbuilders Limited owns 100% of the ordinary share capital of Ferguson-Ailsa Limited, a dormant company incorporated in Scotland.

10./

10. Creditors: Amounts Falling Due Within One Year

	Group		Company	
	2002	*2001*	**2002**	*2001*
	£000	*£000*	**£000**	*£000*
Bank Overdraft	-	*2*	-	-
Instalments in Excess of Work in Progress	-	*865*	-	-
Trade Creditors	1,495	*2,117*	50	*50*
Other Creditors	173	*139*	-	-
Taxation and Social Security	254	*237*	3	*9*
Accruals and Deferred Income	422	*32*	2	*2*
Corporation Tax	-	-	-	-
Holland House Loan	3,109	*3,122*	-	-
	5,453	*6,514*	55	*61*

11. Provision for Liabilities and Charges (Alder Marine Consultants Limited)
Deferred Taxation

	2002	*2001*
	£000	*£000*
Balance at 1st January	-	-
Transfer from Profit and Loss Account	1	-
Balance at 31st December	1	-

The provision relates to taxation deferred due to the excess of Capital Allowances over Depreciation and is calculated at 19%.

12. Deferred Government Grants (Ferguson Shipbuilders Limited)

	2002	*2001*
	£000	*£000*
Balance as at 1st January	365	*374*
Released to Profit and Loss Account	8	*9*
Balance as at 31st December	357	*365*

13. Share Capital

	2002	*2001*
	£000	*£000*
Authorised		
10,000,000 Ordinary Shares of 50p each	5,000	5,000
Allotted, Issued and Fully Paid		
1,205,215 Ordinary Shares of 50p each	603	*603*

14. Share Premium Account

	2002	*2001*
	£000	*£000*
Balance at beginning and end of year	482	*482*

15./

15. **Other Reserves**

	2002	***2001***
	£000	***£000***
Capital Reserve arising on Consolidation		
Balance at beginning and end of year	69	*69*

The cumulative goodwill written off against this reserve in respect of acquisitions amounted to £29,400 (2001: £29,400).

16. **Profit and Loss Account**

	2002		***2001***	
	Group	**Company**	***Group***	***Company***
	£000	**£000**	***£000***	***£000***
Balance as at 1st January	2,376	211	*2,350*	*209*
Profit for Year	88	1	*26*	*2*
Balance as at 31st December	2,464	212	*2,376*	*211*

Distributable reserves of the group at 31st December 2002 were £2,638,000 (2001: £2,476,000).

17. **Cash Flow Statement**

(a) **Reconciliation of operating loss to operating cash flows**

	2002	***2001***
	£000	***£000***
Operating Loss	(118)	*(224)*
Decrease in provision relating to contracts	-	*(36)*
Depreciation	169	*171*
Gain on Sale of Assets	(2)	-
Increase in Stocks	(17)	*(29)*
Increase/(Decrease) in Debtors	(1,160)	*802*
(Decrease)/Increase in Creditors	(1,061)	*3,939*
Transfer from Deferred Government Grants	(8)	*(9)*
Net Cash (Outflow)/Inflow from Operating Activities	(2,197)	*4,614*

(b) **Reconciliation of Net Cash Flow to Movement in Funds**

	2002	***2001***
	£000	***£000***
Net Funds at Beginning of Year	7,132	*2,205*
(Decrease)/Increase in Cash in Year	(2,077)	*4,927*
Net Funds at End of Year	5,055	*7,132*

(c) **Analysis of Changes in Net Funds**

			Change in	***Change in***
	2002	***2001***	**2002**	***2001***
	£000	***£000***	**£000**	***£000***
Cash at Bank and in Hand	5,055	*7,132*	(2,077)	*4,927*

18./

18. **Charges Over Assets, Contingent Liabilities and Provisions**

Ferguson Shipbuilders Limited has granted the following:

(a) fixed heritable security over the Newark Works property, Port Glasgow and a floating charge debenture charging all of its assets to the Bank of Scotland;

(b) fixed security over seaward strip of ground west of the Newark Works property to Clydeport Limited;

(c) fixed security over 1.8 acres of ground (the McCrindle subjects) to the Bank of Scotland;

(d) first and only security over whole rights, title and interest in foreshore and bed of the River Clyde below HWMOSD at or near Port Glasgow ex adverso Newark Shipbuilding Yard extending to 2,225 square metres subject to Deed of Variation between the Crown Estate Commission and Ferguson Marine PLC.

The group has granted unlimited cross guarantees between Ferguson Marine PLC, Ferguson Shipbuilders Limited, Alder Marine Consultants Limited, Newark Joiners Limited and Ferguson-Ailsa Limited to the Bank of Scotland.

The Bank of Scotland has granted performance bonds totalling £7,889,055 (2001: £14,500,000).

19. **Pension Commitments**

(a) As explained in the accounting policies set out on page 10, some employees of the group are members of the Ferguson Shipbuilders Limited Section of the Shipbuilding Industries Pension Scheme administered by Capita Hartshead providing benefits based on Final Pensionable Pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group. This scheme is closed to new employees. The contributions are determined by a qualified actuary on the basis of triennial valuations using the Attained Age method. The most recent valuation was at 1st April 2001. The financial assumptions which have the most significant effect on the results of the valuation are those relating to the rate of investment return expected to be earned on the future net income of the fund and the rate of future pay inflation. It was assumed that the investment returns would be 7% p.a. before retirement and 6% p.a. thereafter, that salary increases would be 4½% p.a. and that present and future pensions would increase at an average of 3% p. a.

The actuarial valuation at 1st April 2001 showed that the market value of the scheme's assets was £4,743,971 and that the actuarial value of those assets represented 105% of members' benefits earned by service to the valuation date based on projected Final Pensionable Pay. The combined contribution of the group and members has been 18½% p.a. since February 2001.

The pension charge for the year was £197,996 (2001: £203,064).

FRS 17 'Retirement Benefits' was issued in November 2000 and relates to defined benefit pension schemes. To comply with the transitional provisions of this standard an independent actuary was commissioned to update to 31 December 2002 the results of the previous valuation. The key financial assumptions used for this were as follows:

Discount rate	5.50% p.a.
Price inflation	2.25% p.a.
Salary increases (2002-2004)	3.50% p.a.
Salary increases (after 2004)	3.25% p.a.
Pension increases – post 1997, non GMP	2.25% p.a.
Pension increases – pre 1997, non GMP	3.00% p.a.
Deferred pension revaluation – non GMP	2.25% p.a.

Rates/

Rates of return on assets were used as follows:

	Long Term Rate of Return	Percentage Invested
Equities	8.5% p.a.	90%
Fixed Interest Gilts	4.5% p.a.	10%

Measured at 31 December 2002 in accordance with the requirements of FRS 17 the assets of the scheme were £4,121,000 and the actuarial liabilities £6,016,000, resulting in a deficit of £1,895,000. Under FRS 17 rules the liabilities of the scheme are valued under the Projected Unit basis, whereas the Attained Age basis (which is used for the triennial valuations referred to above) is considered to be more appropriate for closed schemes. The actuary has also pointed out that the assets of the scheme are predominantly invested in equities whereas the discount rate used under FRS17 rules is based on corporate bond yields, which creates potential for significant volatility for the funding level on the FRS17 basis.

The movement in the FRS17 deficit between 31 December 2001 and 31 December 2002, as supplied by the actuary, is as follows:

	£000's
Deficit as at 31st December 2001	(543)
Operating Costs	
Service Cost	(162)
Past Service benefit improvements	-
Total Operating Costs	(162)
Financing Costs	
Interest Cost	(312)
Expected Return on assets	355
Total Financing Costs	43
STRGL	
Return on assets vs expected	(1,234)
Liability experience vs expected	-
Change of basis	(186)
Total STRGL	(1,420)
Estimated employer contributions	187
Deficit as at 31st December 2002	(1,895)

(b) A defined contribution scheme with the Shipbuilding Industries Pension Scheme is in operation, again administered by Capita Hartshead. The pension cost charge of £91,010 represents the contributions payable for the year (2001: £74,815).

(c) A further defined contribution scheme is also in operation. Contributions of £Nil (2001: £Nil) were paid during the year.

20./

20. Capital Commitments

(a) Capital expenditure commitments at 31st December 2002 for which no provision has been made are as follows:

	2002	*2001*
	£000	*£000*
Contracted	-	-
Authorised but not contracted	-	-
	-	-

(b) Annual commitments under non-cancellable operating leases are as follows:

	Land and Buildings	
	2002	*2001*
	£000	*£000*
Operating leases which expire:		
Over five years	3	*3*

21. Related Party Transactions

This company and Holland House Electrical Co. Ltd. are under the common control of Messrs. F. Dunnet and A.L. Dunnet. During the year goods to the value of £27,895 (*2001*: £46,431) were purchased by the subsidiary, Ferguson Shipbuilders Ltd. from Holland House Electrical Co. Ltd. The sum remaining due to Holland House Electrical Co. Ltd. in respect of these transactions was £295 at 31st December 2002 (2001: £2,997).

Holland House Electrical Co Ltd has advanced a loan of £3,000,000 to one of the companies in the group. As at 31 December 2002 the full amount of this loan is outstanding, together with interest of £109,196. Interest of £132,721 was paid to Holland House Electrical Co Ltd during the year in respect of this loan.

A management fee of £50,000 is due to Holland House Electrical Co Ltd for the year and this amount is included in Trade Creditors at 31st December 2002.