

**FERGUSON MARINE PLC**  
**REGISTERED NUMBER SC129659**

**Directors' Report and Financial Statements**  
**For the year ended 31st December 2004**

**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 2004.

### Principal Activities

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

### Business Review and Future Prospects

Despite a significant increase in turnover during 2004, rising steel costs took much of our projected profit from the contracts in progress. The lack of new ship contracts continues to undermine the profitability in the rest of the business, but the immediate future looks much better with many enquiries. Holland House Electrical Co. Ltd continues to financially support the operation, but they too look forward to a more successful year.

### 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 £931,000 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:

|                             | Interest at<br>end of year | Interest at beginning<br>of year |
|-----------------------------|----------------------------|----------------------------------|
| Ordinary Shares of 50p each |                            |                                  |
| 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's 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 2004 represents 46 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

28th July 2005

# **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 2004 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.

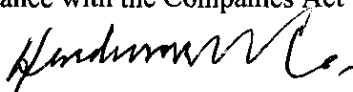
## **Basis of Audit Opinion**

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 2004 and the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**HENDERSON & COMPANY**  
CHARTERED ACCOUNTANTS  
REGISTERED AUDITORS

73 Union Street,  
Greenock

28th July 2005

**FERGUSON MARINE PLC**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31ST DECEMBER 2004**

|  | <b>Note</b> | <b>2004</b><br><b>£000</b> | <b>2003</b><br><b>£000</b> |
|--|-------------|----------------------------|----------------------------|
| <b>Turnover</b>                                    | 2           | 19,929                     | 12,272                     |
| Raw Materials and Consumables                      |             | (11,715)                   | (5,827)                    |
| Other External Charges                             |             | (968)                      | (913)                      |
|  |             | <u>(12,683)</u>            | <u>(6,740)</u>             |
| Staff Costs  | 3           | (7,429)                    | (6,264)                    |
| Depreciation                                       |             | (148)                      | (149)                      |
| Gain on Sale of Fixed Assets                       |             | 1                          | -                          |
| Provisions relating to contracts in progress       |             | (532)                      | -                          |
|  |             | <u>(8,108)</u>             | <u>(6,413)</u>             |
| <b>Operating Loss</b>                              | 4           | (862)                      | (881)                      |
| Interest Receivable                                |             | 96                         | 113                        |
|  |             | <u>(766)</u>               | <u>(768)</u>               |
| <b>Loss on Ordinary Activities Before Taxation</b> |             | (766)                      | (768)                      |
| Taxation   | 5           | 1                          | -                          |
|  |             | <u>(765)</u>               | <u>(768)</u>               |
| <b>Loss for the Financial Year</b>                 |             | <u>(765)</u>               | <u>(768)</u>               |
| Dealt with by:                                     |             |                            |                            |
| The Company  |             | 32                         | 3                          |
| Subsidiary Undertakings                            |             | (797)                      | (771)                      |
|  |             | <u>(765)</u>               | <u>(768)</u>               |

Movements in reserves are set out in notes 15 to 17.

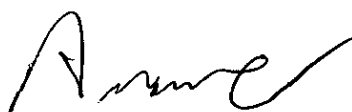
None of the group's activities were acquired or discontinued during either year.

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 2004**

|  | Note | 2004<br>£000 | 2003<br>£000 |
|--|------|--------------|--------------|
| <b>Fixed Assets</b>  |      |              |              |
| Tangible Assets  | 6    | 2,281        | 2,315        |
| <b>Current Assets</b>  |      |              |              |
| Stocks   | 7    | 359          | 264          |
| Debtors  | 8    | 5,647        | 1,029        |
| Cash at Bank and in Hand                                       |      | 2,357        | 5,100        |
|  |      | <u>8,363</u> | <u>6,393</u> |
| <b>Creditors: Amounts falling due within one year</b>          | 10   | <u>7,219</u> | <u>5,509</u> |
| <b>Net Current Assets</b>                                      |      | <u>1,144</u> | <u>884</u>   |
| <b>Total Assets less Current Liabilities</b>                   |      | <u>3,425</u> | <u>3,199</u> |
| <b>Creditors: Amounts falling due after more than one year</b> | 11   | (1,000)      | -            |
| <b>Provision for Liabilities and Charges</b>                   | 12   | -            | (1)          |
| <b>Deferred Income</b>   | 13   | (340)        | (348)        |
| <b>Total Net Assets</b>  |      | <u>2,085</u> | <u>2,850</u> |
| <b>Capital and Reserves</b>                                    |      |              |              |
| Called Up Share Capital  | 14   | 603          | 603          |
| Share Premium Account  | 15   | 482          | 482          |
| Capital Reserve  | 16   | 69           | 69           |
| Profit and Loss Account  | 17   | 931          | 1,696        |
| <b>Equity Shareholders' Funds</b>                              |      | <u>2,085</u> | <u>2,850</u> |

These financial statements were approved by the Board of Directors on 28th July 2005 and were signed on its behalf by:



A.L. DUNNET  
Director

**FERGUSON MARINE PLC**  
**BALANCE SHEET AS AT 31ST DECEMBER 2004**

|   | Note | 2004<br>£000 | 2003<br>£000 |
|---|------|--------------|--------------|
| <b>Fixed Assets</b>                                   |      |              |              |
| Investments   | 9    | 540          | 540          |
| <b>Current Assets</b>                                 |      |              |              |
| Debtors   | 8    | 794          | 777          |
| Cash at Bank and in Hand                              |      | 2            | 37           |
|   |      | <u>796</u>   | <u>814</u>   |
| <b>Creditors: Amounts falling due within one year</b> | 10   | <u>4</u>     | <u>54</u>    |
| <b>Net Current Assets</b>                             |      | <u>792</u>   | <u>760</u>   |
| <b>Total Net Assets</b>                               |      | <u>1,332</u> | <u>1,300</u> |
| <b>Capital and Reserves</b>                           |      |              |              |
| Called Up Share Capital                               | 14   | 603          | 603          |
| Share Premium Account                                 | 15   | 482          | 482          |
| Profit and Loss Account                               | 17   | 247          | 215          |
| <b>Equity Shareholders' Funds</b>                     |      | <u>1,332</u> | <u>1,300</u> |

These financial statements were approved by the Board of Directors on 28th July 2005 and were signed on its behalf by:



A.L. DUNNET  
*Director*



**FERGUSON MARINE PLC**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31ST DECEMBER 2004**

|   | 2004                  | 2003             |
|---|-----------------------|------------------|
|   | £000                  | £000             |
| <b>Cash Outflow from Operating Activities (note 18a)</b>  | <b>(2,726)</b>        | <b>(34)</b>      |
| <b>Returns on Investment and Servicing of Finance</b>     |                       |                  |
| Interest Received   | 96                    | 113              |
| <b>Taxation</b>   |                       |                  |
| Tax Paid  | -                     | -                |
| Tax Recovered   | -                     | -                |
| <b>Capital Expenditure and Financial Investment</b>       |                       |                  |
| Proceeds from Sale of Tangible Fixed Assets               | 1                     | -                |
| Payments to Acquire Tangible Fixed Assets                 | (114)                 | (34)             |
|   | <u>(113)</u>          | <u>(34)</u>      |
| <b>(Decrease)/Increase in Cash in the Year (Note 18b)</b> | <b><u>(2,743)</u></b> | <b><u>45</u></b> |

**FERGUSON MARINE PLC**  
**RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS**  
**FOR THE YEAR ENDED 31ST DECEMBER 2004**

|                                      | <b>2004</b> | <b>2003</b> |
|--------------------------------------|-------------|-------------|
|                                      | <b>£000</b> | <b>£000</b> |
| <b>Group</b>                         |             |             |
| Shareholders' Funds at 1st January   | 2,850       | 3,618       |
| Loss for the Financial Year          | (765)       | (768)       |
|                                      | <hr/>       | <hr/>       |
| Shareholders' Funds at 31st December | 2,085       | 2,850       |
|                                      | <hr/>       | <hr/>       |
|                                      | <b>2004</b> | <b>2003</b> |
|                                      | <b>£000</b> | <b>£000</b> |
| <b>Company</b>                       |             |             |
| Shareholders' Funds at 1st January   | 1,300       | 1,297       |
| Profit for the Financial Year        | 32          | 3           |
|                                      | <hr/>       | <hr/>       |
| Shareholders' Funds at 31st December | 1,332       | 1,300       |
|                                      | <hr/>       | <hr/>       |

# FERGUSON MARINE PLC

## 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 2004.

#### 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 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**

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.

|                          | <b>2004</b> | <b>2003</b> |
|--------------------------|-------------|-------------|
|                          | <b>£000</b> | <b>£000</b> |
| Sales                    | 6,160       | 35,696      |
| Opening Work in Progress | (1,840)     | (25,266)    |
| Closing Work in Progress | 15,606      | 1,841       |
|                          | <hr/>       | <hr/>       |
|                          | 19,926      | 12,271      |
| Own Work Capitalised     | 3           | 1           |
|                          | <hr/>       | <hr/>       |
| Turnover                 | 19,929      | 12,272      |
|                          | <hr/>       | <hr/>       |

All turnover relates to contracts within the United Kingdom.

**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:

|                    | <b>Number of Employees</b> |             |
|--------------------|----------------------------|-------------|
|                    | <b>2004</b>                | <b>2003</b> |
| Direct Employees   | 237                        | 204         |
| Indirect Employees | 60                         | 73          |
|                    | <hr/>                      | <hr/>       |
|                    | 297                        | 277         |
|                    | <hr/>                      | <hr/>       |

The aggregate payroll costs of these persons were as follows:

|  | <b>2004</b> | <b>2003</b> |
|--|-------------|-------------|
|  | <b>£000</b> | <b>£000</b> |
| Wages and Salaries                                     | 6,596       | 5,592       |
| Social Security Costs                                  | 611         | 475         |
| Other Pension Costs (note 19) - Defined Benefit Scheme | 149         | 169         |
| - Defined Contribution Schemes                         | 73          | 85          |
| Redundancy Costs Provision                             | -           | (57)        |
|  | <hr/>       | <hr/>       |
|  | 7,429       | 6,264       |
|  | <hr/>       | <hr/>       |

#### 4. Operating Loss

|   | 2004<br>£000 | 2003<br>£000 |
|---|--------------|--------------|
| (a) The operating loss for the year is stated after charging/(crediting): |              |              |
| Depreciation - Owned Assets   | 148          | 149          |
| Directors' Remuneration   | 74           | 74           |
| Auditors' Remuneration - audit work                                       | 16           | 15           |
| - non-audit work  | 4            | 4            |
| Gain on Sale of Assets  | (1)          | -            |
| Hire of Plant   | 9            | 5            |
| Operating Lease Payments - Land and Buildings                             | 3            | 4            |
| (b) Directors' Remuneration   |              |              |
|   | 2004<br>£000 | 2003<br>£000 |
| Fees  | -            | -            |
| Remuneration as Executives  | 60           | 60           |
| Benefits in Kind  | 14           | 14           |
|   | 74           | 74           |

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

#### 5. Taxation

|  | 2004<br>£000 | 2003<br>£000 |
|--|--------------|--------------|
| (a) Analysis of charge for year  |              |              |
| UK Corporation Tax on profit for year  | -            | -            |
| Transfer from Deferred Taxation  | -            | -            |
| (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: |              |              |
|  | 2004<br>£000 | 2003<br>£000 |
| Loss on ordinary activities before tax   | (766)        | (768)        |
| Loss on ordinary activities multiplied by standard rate of Corporation Tax in the UK of 30% (2003: 30%)                                | (230)        | (230)        |
| Effects of:  |              |              |
| Capital Allowances in excess of depreciation   | (15)         | (12)         |
| Disallowed Expenses  | -            | 2            |
| Utilisation of tax losses  | (11)         | -            |
| Loss created in year   | 256          | 258          |
| Small company rate relief  | -            | (1)          |
| Provision released   | -            | (17)         |
|  | -            | -            |

6./

## 6. Tangible Fixed Assets

|                       | Freehold Land<br>and Buildings | Plant and<br>Machinery | Total |
|-----------------------|--------------------------------|------------------------|-------|
|                       | £000                           | £000                   | £000  |
| <b>Group</b>          |                                |                        |       |
| <b>Cost</b>           |                                |                        |       |
| At beginning of year  | 2,285                          | 1,761                  | 4,046 |
| Additions             | -                              | 114                    | 114   |
| Disposals             | -                              | (16)                   | (16)  |
| At end of year        | 2,285                          | 1,859                  | 4,144 |
| <b>Depreciation</b>   |                                |                        |       |
| At beginning of year  | 387                            | 1,344                  | 1,731 |
| Charge for year       | 43                             | 105                    | 148   |
| Disposals             | -                              | (16)                   | (16)  |
| At end of year        | 430                            | 1,433                  | 1,863 |
| <b>Net Book Value</b> |                                |                        |       |
| At 31st December 2004 | 1,855                          | 426                    | 2,281 |
| At 31st December 2003 | 1,898                          | 417                    | 2,315 |

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

## 7. Stocks and Work in Progress

|   | 2004    | 2003    |
|---|---------|---------|
|   | £000    | £000    |
| Raw Materials and Consumables                                       | 359     | 264     |
| Work in Progress  | 15,606  | 1,841   |
| Less: Payments received and receivable                              | 13,821  | 3,135   |
|   | 1,785   | (1,294) |
| Excess of cost over instalments: transferred to debtors (note 8)    | 4,237   | -       |
| Excess of instalments over cost: transferred to creditors (note 10) | (2,452) | (1,294) |

## 8. Debtors

|   | Group |       | Company |      |
|---|-------|-------|---------|------|
|   | 2004  | 2003  | 2004    | 2003 |
|   | £000  | £000  | £000    | £000 |
| Trade Debtors                             | 1,202 | 871   | -       | -    |
| Amounts owed by subsidiary undertakings   | -     | -     | 781     | 764  |
| Other Debtors                             | 112   | 47    | 13      | 13   |
| Prepayments and Accrued Income            | 96    | 111   | -       | -    |
| Amounts recoverable on contracts (note 7) | 4,237 | -     | -       | -    |
|   | 5,647 | 1,029 | 794     | 777  |

9./

## 9. Investments

|  | 2004       | 2003       |
|--|------------|------------|
|  | £000       | £000       |
| Cost of investment in subsidiary undertakings                          | 475        | 475        |
| Amounts owed by subsidiary undertakings<br>(repayable after 12 months) | 65         | 65         |
|  | <u>540</u> | <u>540</u> |

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

|                                  | Country of<br>Registration | Principal<br>Activity                              | Class and percentage of shares held |      |
|----------------------------------|----------------------------|--|-------------------------------------|------|
| Ferguson Shipbuilders Limited    | Scotland                   | Shipbuilding                                       | Ordinary                            | 100% |
| Alder Marine Consultants Limited | Scotland                   | Marine and<br>naval<br>architecture<br>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. Creditors: Amounts Falling Due Within One Year

|   | Group        |              | Company  |           |
|---|--------------|--------------|----------|-----------|
|   | 2004         | 2003         | 2004     | 2003      |
|   | £000         | £000         | £000     | £000      |
| Bank Overdraft                            | -            | 15           | -        | -         |
| Instalments in Excess of Work in Progress | 2,452        | 1,294        | -        | -         |
| Trade Creditors                           | 1,765        | 799          | -        | 50        |
| Other Creditors                           | 63           | 57           | -        | -         |
| Taxation and Social Security              | 245          | 169          | 2        | 2         |
| Accruals and Deferred Income              | 37           | 150          | 2        | 2         |
| Provisions relating to contracts          | 532          | -            | -        | -         |
| Holland House Loan                        | 2,125        | 3,025        | -        | -         |
|   | <u>7,219</u> | <u>5,509</u> | <u>4</u> | <u>54</u> |

## 11. Creditors: Amounts Falling Due After More Than One Year

|                    | Group |      | Company |      |
|--------------------|-------|------|---------|------|
|                    | 2004  | 2003 | 2004    | 2003 |
|                    | £000  | £000 | £000    | £000 |
| Holland House Loan | 1,000 | -    | -       | -    |

12./

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

|                                     | <b>2004</b> | <b>2003</b> |
|-------------------------------------|-------------|-------------|
|                                     | <b>£000</b> | <b>£000</b> |
| Balance at 1st January              | 1           | 1           |
| Transfer to 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%.

**13. Deferred Government Grants (Ferguson Shipbuilders Limited)**

|                                     | <b>2004</b> | <b>2003</b> |
|-------------------------------------|-------------|-------------|
|                                     | <b>£000</b> | <b>£000</b> |
| Balance as at 1st January           | 348         | 357         |
| Released to Profit and Loss Account | 8           | 9           |
| Balance as at 31st December         | 340         | 348         |

**14. Share Capital**

|  | <b>2004</b> | <b>2003</b> |
|--|-------------|-------------|
|  | <b>£000</b> | <b>£000</b> |
| <b>Authorised</b>                      |             |             |
| 10,000,000 Ordinary Shares of 50p each | 5,000       | 5,000       |
| <b>Allotted, Issued and Fully Paid</b> |             |             |
| 1,205,215 Ordinary Shares of 50p each  | 603         | 603         |

**15. Share Premium Account**

|                                      | <b>2004</b> | <b>2003</b> |
|--------------------------------------|-------------|-------------|
|                                      | <b>£000</b> | <b>£000</b> |
| Balance at beginning and end of year | 482         | 482         |

**16. Other Reserves**

|  | <b>2004</b> | <b>2003</b> |
|--|-------------|-------------|
|  | <b>£000</b> | <b>£000</b> |
| 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 (2003: £29,400).

**17. Profit and Loss Account**

|                             | <b>2004</b>           |                         | <b>2003</b>           |                         |
|-----------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
|                             | <b>Group<br/>£000</b> | <b>Company<br/>£000</b> | <b>Group<br/>£000</b> | <b>Company<br/>£000</b> |
| Balance as at 1st January   | 1,696                 | 215                     | 2,464                 | 212                     |
| (Loss)/Profit for Year      | (765)                 | 32                      | (768)                 | 3                       |
| Balance as at 31st December | 931                   | 247                     | 1,696                 | 215                     |

Distributable reserves of the group at 31st December 2004 were £1,179,000 (2003: £1,944,000).

18./



## 18. Cash Flow Statement

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

|  | 2004    | 2003  |
|--|---------|-------|
|  | £000    | £000  |
| Operating Loss                             | (862)   | (881) |
| Depreciation                               | 148     | 149   |
| Gain on Sale of Assets                     | (1)     | -     |
| Increase in Stocks                         | (95)    | (106) |
| (Increase)/Decrease in Debtors             | (4,618) | 757   |
| Increase in Creditors                      | 2,710   | 56    |
| Transfer from Deferred Government Grants   | (8)     | (9)   |
| Net Cash Outflow from Operating Activities | (2,726) | (34)  |

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

|                                     | 2004    | 2003  |
|-------------------------------------|---------|-------|
|                                     | £000    | £000  |
| Net Funds at Beginning of Year      | 5,100   | 5,055 |
| (Decrease)/Increase in Cash in Year | (2,743) | 45    |
| Net Funds at End of Year            | 2,357   | 5,100 |

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

|                          | 2004  | 2003  | Change in | Change in |
|--------------------------|-------|-------|-----------|-----------|
|                          | £000  | £000  | £000      | £000      |
| Cash at Bank and in Hand | 2,357 | 5,100 | (2,743)   | 45        |

## 19. Charges Over Assets, Contingent Liabilities and Provisions

Ferguson Shipbuilders Limited has granted the following:

- 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;
- fixed security over seaward strip of ground west of the Newark Works property to Clydeport Limited;
- fixed security over 1.8 acres of ground (the McCrindle subjects) to the Bank of Scotland;
- 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 £6,900,066 (2003: £2,950,350).

## 20. 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 2004. 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 6.5% p.a. before retirement and 5.5% p.a. thereafter, that salary increases would be 4% p.a. and that present and future pensions would increase at an average of 2.5% p. a.

The actuarial valuation at 1st April 2004 showed that the market value of the scheme's assets was £5.2M and that the actuarial value of those assets represented 102% 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 £135,000 (2003: £169,000).

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 2004 the results of the previous valuation. The key financial assumptions used for this were as follows:

|   | 2004 | 2003 |
|---|------|------|
|   | %    | %    |
| Rate of increase in salaries                  | 2.75 | 3.50 |
| Rate of increase to pensions in payment (LPI) | 2.65 | 2.65 |
| Rate of increase to pensions in deferment     | 2.75 | 2.75 |
| Discount rate                                 | 5.30 | 5.50 |
| Inflation assumption                          | 2.75 | 2.75 |

Rates of return on assets were used as follows:

|                              | Long-term<br>Rate of Return<br>Expected<br>2004 | Value<br>2004 | Long-term<br>Rate of Return<br>Expected<br>2003 | Value<br>2003 |
|------------------------------|---|---------------|---|---------------|
|                              | %   | £000          | %   | £000          |
| Equities                     | 8.25  | 5,132         | 8.00  | 4,614         |
| Gilts                        | 4.60  | 612           | 4.75  | 495           |
| Total market value of assets |   | 5,744         |   | 5,109         |

Measured at 31 December 2004 in accordance with the requirements of FRS 17 the assets of the scheme were £5,744,000 (2003: £5,109,000) and the actuarial liabilities £6,677,000 (2003: £6,538,000), resulting in a deficit of £933,000 (2003: £1,429,000), which is reduced by a related deferred tax asset of £280,000 (2003: £429,000). The actuary has 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/

The movement in the FRS17 deficit between 31 December 2003 and 31 December 2004, as supplied by the actuary, is as follows:

|  | 2004    | 2003    |
|--|---------|---------|
|  | £000's  | £000's  |
| Deficit as at beginning of year (before deferred tax asset)  | (1,429) | (1,895) |
| <b>Operating Costs</b>                                       |         |         |
| Service Cost   | (168)   | (142)   |
| Past Service Costs   | -       | -       |
| <b>Total Operating Costs</b>                                 | (168)   | (142)   |
| <b>Financing</b>   |         |         |
| Interest Cost  | (360)   | (334)   |
| Expected Return on assets                                    | 404     | 342     |
| <b>Net Financing Credit</b>                                  | 44      | 8       |
| <b>Recognised Gains and Losses</b>                           |         |         |
| Return on assets vs expected                                 | 224     | 440     |
| Liability experience vs expected                             | 74      | 245     |
| Changes in financial assumptions                             | 174     | (259)   |
| <b>Recognised Actuarial Gain/(Loss)</b>                      | 472     | 426     |
| Estimated employer contributions                             | 148     | 174     |
| <b>Deficit as at end of year (before deferred tax asset)</b> | (933)   | (1,429) |

#### History of Experience Gains and Losses

|  | 2004 | 2003 |
|--|------|------|
| Difference between the expected and actual return on scheme assets:        |      |      |
| Amount (£000)  | 224  | 440  |
| Percentage of scheme assets  | 4%   | 9%   |
| Experience gains and losses on scheme liabilities:                         |      |      |
| Amount (£000)  | 74   | 245  |
| Percentage of the present value of the scheme liabilities                  | 1%   | 4%   |
| Total amount recognised in statement of total recognised gains and losses: |      |      |
| Amount (£000)  | 472  | 426  |
| Percentage of the present value of the scheme liabilities                  | 7%   | 7%   |

With effect from 30th April 2005, all members in service with Ferguson Shipbuilders Limited Group of Employers are treated as having left Service on 30th April 2005 with preserved pensions.

- (b) A defined contribution scheme with the Shipbuilding Industries Pension Scheme is in operation, again administered by Capita Hartshead. The pension cost charge of £62,000 represents the contributions payable for the year (2003: £85,000).
- (c) A further defined contribution scheme is also in operation. Contributions of £Nil (2003: £Nil) were paid during the year.

## 21. Capital Commitments

(a) Capital expenditure commitments at 31st December 2004 for which no provision has been made are as follows:

|                               | 2004  | 2003  |
|-------------------------------|-------|-------|
|                               | £000  | £000  |
| Contracted                    | -     | -     |
| Authorised but not contracted | -     | -     |
|                               | <hr/> | <hr/> |
|                               | -     | -     |
|                               | <hr/> | <hr/> |

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

|                                | Land and Buildings |       |
|--------------------------------|--------------------|-------|
|                                | 2004               | 2003  |
|                                | £000               | £000  |
| Operating leases which expire: |                    |       |
| Over five years                | 3                  | 3     |
|                                | <hr/>              | <hr/> |

## 22. 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 £32,911 (2003: £18,239) 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 £5,316 at 31st December 2004 (2003: £1,035).

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 2004 the full amount of this loan is outstanding, together with interest of £124,647. Interest of £34,241 was paid to Holland House Electrical Co Ltd during the year in respect this loan.

During the year services to the value of £8,900 and £8,989 were supplied to Holland House Electrical Co Ltd by Ferguson Shipbuilders Ltd and Newark Joiners Ltd respectively. The balance owed for these services at 31st December 2004 are £nil and £nil respectively.

Newark Joiners Ltd and Ferguson Shipbuilders Ltd have advanced £11,750 and £34,075 respectively to Holland House Electrical Co. Ltd and these amounts are outstanding at 31st December 2004.