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Application will be made for the issued Ordinary Shares to be admitted to trading on the Alternative Investment Market of the London Stock Exchange (“AIM”). The Ordinary Shares are not dealt on any other recognised investment exchange and no application has been or is being made for the Ordinary Shares to be admitted to any such exchange.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Further it is emphasised that no application is being made for the admission of the Ordinary Shares to the Official List of the United Kingdom Listing Authority. The London Stock Exchange has not itself examined or approved the contents of this document.

Prospective investors should read the whole text of this document and should be aware that an investment in the Company is speculative and involves a higher than normal degree of risk. In particular, prospective investors should consider the section entitled “Risk Factors” set out in Part I of this document.

The Directors of the Company, whose names appear on page 3 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. In connection with this document and/or the invitation contained in it, no person is authorised to give any information or make any representation other than as contained in this document.

HAMWORTHY PLC

(Incorporated in England and Wales under the Companies Act 1985 (as amended) with registered number 00713225)

Placing of 37,000,000 Ordinary Shares of 5p each at 109p per share and

Admission to trading on the Alternative Investment Market

Nominated Adviser and Broker
Collins Stewart Limited

| <i>Authorised</i> | | Share Capital | <i>Issued and fully paid</i> | |
|-------------------|---------------|-------------------------------------|------------------------------|---------------|
| <i>Amount</i> | <i>Number</i> | (immediately following the Placing) | <i>Amount</i> | <i>Number</i> |
| £3,000,000 | 60,000,000 | Ordinary Shares of 5p each | £1,850,000 | 37,000,000 |

The Placing Shares rank in full for all dividends or other distributions hereafter declared, made or paid on the ordinary share capital of the Company and rank *pari passu* in all respects with all other Ordinary Shares.

Collins Stewart is regulated by the Financial Services Authority and is acting exclusively for the Company and no-one else in connection with the Placing and Admission. Collins Stewart will not regard any other person as its customer or be responsible to any other person for providing the protections afforded to customers of Collins Stewart nor for providing advice in relation to the transactions and arrangements detailed in this document. Collins Stewart is not making any representation or warranty, express or implied, as to the contents of this document.

Collins Stewart has been appointed as nominated adviser and broker to the Company. In accordance with the AIM Rules, Collins Stewart has confirmed to the London Stock Exchange that it has satisfied itself that the Directors have received advice and guidance as to the nature of their responsibilities and obligations to ensure compliance by the Company with the AIM Rules and that, in its opinion and to the best of its knowledge and belief, all relevant requirements of the AIM Rules have been complied with. No liability whatsoever is accepted by Collins Stewart for the accuracy of any information or opinions contained in this document or for the omission of any material information, for which it is not responsible.

This document does not constitute a prospectus but has been drawn up in accordance with the AIM Rules and the Public Offers of Securities Regulations 1995 (as amended).

Copies of this document will be available free of charge during normal business hours on any weekday (except Saturdays and public holidays) at the offices of Collins Stewart, 9th Floor, 88 Wood Street, London EC2V 7QR from the date of this document for the period of one month from the date of Admission.

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DIRECTORS, SECRETARY AND ADVISERS

| | |
|---|--|
| Directors | Gordon Francis de Courcy Page (<i>Non-Executive Chairman</i>) Kelvyn Garth Derrick (<i>Chief Executive</i>) Paul Crompton FCA (<i>Finance Director</i>) James Nicholas Wilding (<i>Non-Executive Director</i>) Alan John Frost (<i>Non-Executive Director</i>) |
| Company Secretary | Paul Crompton FCA |
| Registered Office | Fleets Corner Poole Dorset BH17 0JT |
| Nominated Adviser and Broker to the Company | Collins Stewart Limited 9th Floor 88 Wood Street London EC2V 7QR |
| Solicitors to the Company | Blake Laphorn Linnell Kings Court 21 Brunswick Place Southampton Hants SO15 2AQ |
| Auditors | PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH |
| Solicitors to the Nominated Adviser and Broker | Nabarro Nathanson Lacon House Theobalds Road London WC1X 8RW |
| Bankers | Barclays Bank plc 54 Lombard Street London EC3L 9EX |
| Financial PR Consultants | Bankside Consultants Limited St. Mary Abchurch House 123 Cannon Street London EC4N 5AU |
| Registrars | Capita Registrars Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU |

DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

| | |
|--------------------------|---|
| “Act” | the Companies Act 1985 (as amended) |
| “Admission” | the admission of the issued share capital of the Company to trading on AIM becoming effective as provided in Rule 6 of the AIM Rules |
| “AIM” | the Alternative Investment Market of the London Stock Exchange |
| “AIM Rules” | the rules for AIM companies and their nominated advisers issued by the London Stock Exchange governing admission to and the operation of AIM |
| “Board” | the board of directors of the Company for the time being, including a duly constituted committee thereof |
| “Business” | the businesses of the Group |
| “Collins Stewart” | Collins Stewart Limited whose registered office is at 9th Floor, 88 Wood Street, London EC2V 7QR |
| “Company” or “Hamworthy” | Hamworthy plc |
| “CREST” | the system of paperless settlement of trades and the holding of uncertificated shares administered by CRESTCo Limited |
| “Directors” | the directors of the Company whose names are set out on page 3 of this document and “Director” shall mean any one of them |
| “Group” | the Company and its subsidiaries |
| “London Stock Exchange” | London Stock Exchange plc |
| “Nikko” | Nikko Principal Investments Limited |
| “Official List” | the official list of the United Kingdom Listing Authority |
| “Ordinary Shares” | ordinary shares of 5p each in the capital of the Company |
| “Placing” | the conditional placing of the Placing Shares at the Placing Price by Collins Stewart on behalf of and as agent for the Vendor pursuant to the Placing Agreement |
| “Placing Agreement” | the conditional agreement dated 14 July 2004 between Collins Stewart, the Company, the Vendor and the Directors relating to the Placing, further details of which are set out in paragraph 9.1 of Part III of this document |
| “Placing Price” | 109p per Placing Share |
| “Placing Shares” | the 37,000,000 existing Ordinary Shares to be sold by the Vendor at the Placing Price and placed with investors pursuant to the Placing |
| “POS Regulations” | the Public Offers of Securities Regulations 1995 (as amended) |
| “Remuneration Committee” | the remuneration committee of the Board |

| | |
|----------------------------------|--|
| “Share Option Schemes” | the Hamworthy Share Option Plan and the Hamworthy Unapproved Share Option Plan, summaries of which are set out in paragraph 8 of Part III of this document |
| “subsidiary” | as defined in sections 736 and 736A of the Act |
| “UK” or “United Kingdom” | the United Kingdom of Great Britain and Northern Ireland |
| “Vendor” | Powell Duffryn Investments Limited (registered no. 00739935) |
| “US” or “USA” or “United States” | the United States of America |

GLOSSARY OF TERMS

The following glossary of terms applies throughout this document, unless the context otherwise requires:

| | |
|-----------------|--|
| “black water” | waste water from toilets |
| “C2G” | a new engine room pump range with lower initial and through life costs |
| “CKL” | a recently developed oil lubricated electrically driven deepwell cargo pump for FPSO/FSO and tanker applications |
| “deepwell pump” | a distributed cargo pump incorporating a long drive shaft from a deck mounted prime mover to a pump head within the cargo tank |
| “DL” | an oil lubricated electrically driven deepwell pump |
| “dwt” | dead weight tonnage |
| “ERP” | engine room pump |
| “FPSO” | floating production, storage and offloading vessels which are specialist vessels for receiving, processing and storing offshore hydrocarbon reserves |
| “FSO” | floating storage and offloading vessels, an FPSO without the production facilities |
| “grey water” | waste water from baths, showers, sinks, laundries and galleys |
| “IGS” | inert gas systems |
| “IMO” | International Maritime Organisation |
| “LNG” | liquefied natural gas |
| “LPG” | liquefied petroleum gas |
| “PRS” | pump room systems |
| “VOC” | volatile organic compounds |
| “WMS” | wastewater management systems |

PLACING STATISTICS

| | |
|---|---------------|
| Placing Price | 109p |
| Number of Ordinary Shares in issue prior to and immediately following the Placing | 37,000,000 |
| Number of Ordinary Shares being sold by the Vendor | 37,000,000 |
| Market capitalisation at the Placing Price on Admission | £40.3 million |

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

| | |
|--|-----------------|
| Publication of this document | 14 July 2004 |
| Admission and commencement of dealings in the Ordinary Shares on AIM | 20 July 2004 |
| CREST accounts to be credited | 20 July 2004 |
| Despatch of definitive share certificates (where applicable) | by 27 July 2004 |

PART I

Information on the Group

Introduction

The Group is a leading designer, developer and manufacturer of advanced marine fluid handling systems for ships and offshore oil and gas facilities. It has a significant market share in most of its nine product areas. The Group serves international markets and customers which, typically, are commercial and naval shipbuilding yards, ship owners and oil and gas companies. The Group has created a strong market position through developing leading edge technologies and focusing on markets which offer growth potential from increasing energy transportation. In addition, the Group's markets are often underpinned by increasing environmental, noise and safety legislation and regulation.

The Group is headquartered in Poole, Dorset and has design, development and production facilities in the UK, Norway, Denmark, Singapore and a modern assembly plant in China. It employs approximately 640 people worldwide. For the year ended 31 March 2004, the Group generated turnover and profit before taxation of £92.9 million and £5.8 million respectively. In addition, the Group has a record order book which, at 31 May 2004, stood at £98 million.

The Hamworthy business was founded in 1911 and has an established name in the world marine engineering business. It was acquired by Powell Duffryn plc in 1962. Subsequently, a series of acquisitions were completed, most notably Svanehøj International A/S in 1993 and the ships' equipment companies of the Norwegian Kværner Group in 1998. In 2000, Nikko Principal Investments Limited advised on and financed the purchase of Powell Duffryn plc and since then, the Group has sold certain lower growth and margin activities and has developed new products and technologies for the fluid handling systems market. In addition, the Group opened an assembly facility at Suzhou, China in November 1998 which was replaced with a larger and more modern facility in 2001.

Key strengths

The Directors believe that Hamworthy has strong positions within its chosen markets and, in particular, that the Group has the following key strengths:

- a strong order book (£98 million at 31 May 2004);
- a long standing trading history with a strong record of recent growth;
- innovative technology with a modern, efficient and low cost facility in China enabling the Group to procure and assemble quality products at competitive prices;
- well-known and respected brands in its markets which have led to significant levels of repeat business;
- a broad spread of current and future technologies applicable to a wide variety of ship types and sold into all major international marine markets;
- a global network of its own sales and service companies and agents; and
- a significant position in markets which are growing both as a result of rising demand (such as global marine trade and cruise holidays) and the requirements of increasing environmental, safety and noise legislation and regulation.

In addition, the Company operates in a fragmented industry capable of further consolidation which the Directors believe will provide opportunities for well selected acquisitions.

The market opportunity

The marine technology solutions market is growing strongly due to four principal factors:

- existing and new safety, environmental and noise legislation and regulation;
- a growing demand for both oil and gas transportation;

- a growing cruise tourism market; and
- a growing trend to utilise FPSOs and FSOs for offshore oil and gas exploitation.

Hamworthy's strong market position is illustrated in the table below for product sales during 2003:

| <i>Product</i> | <i>Percentage of world market share</i> | <i>Hamworthy market share ranking*</i> | <i>Principal competitors</i> |
|---------------------------------|---|--|---------------------------------|
| Deepwell gas pumps | 95 | 1 | Shinko, Teikoku, Desmi |
| Deepwell product/chemical pumps | 8 | 3 | Framo, Marflex, Presvac |
| Pump room pumps | 15 | 2 | Shinko, Naniwa |
| Engine room pumps | 12 ¹ | 3 | Naniwa, Taiko, Desmi, Allweiler |
| LPG gas reliquefaction systems | 53 | 1 | TGE, LGE, Nissin |
| VOC gas reliquefaction systems | 47 | 1 | APL, Aker Coolsorption |
| Inert gas equipment | 22 | 2 | Smit, AP, Kashiwa, Aalborg Ind |
| Conventional water treatment | 14 | 1 | EVAC, DVZ, Taiko, Isir |
| Advanced water treatment | 44 | 1 | Zenon, Scanship, Rochem |

Notes:

* – Group's best estimate

¹ – Including pumps sold by the Company's licensee in South Korea

These market positions are significant due to the conservative nature of the marine industry. Some customers require extensive reference lists and years of successful operation before accepting a new product. They also require global fleet support with spares and servicing. The safety critical nature of some of the products increases the barriers to entry for new market participants.

The Directors believe that, with the combination of its current market positions, proven innovation capability, successful exploitation of low cost manufacturing locations and the significant barriers to entry, the Group is in a position to exploit the current market opportunities and to develop new products for its current markets.

The Business

The Group has a portfolio of technologically advanced customised products and solutions. Its brands and reputation reflect the quality, innovation and worldwide after-sales service provided by the Group. The Group's products are sold into contractually demanding markets, particularly in the offshore sector, which utilise the Group's proven expertise in systems and contract management. These markets are gas and liquid cargo handling, cruise, naval and offshore. Its business activities are currently organised into three main operating divisions: pump systems, gas systems and wastewater management systems, which accounted for approximately 39 per cent., 42 per cent. and 15 per cent. of Group turnover respectively in the year ended 31 March 2004. The balance of the Group's turnover (4 per cent.) was generated from non-core activities.

Approximately 37 per cent. of profit contribution comes from spares or replacement products which ensures a degree of resilience in the Group's earnings.

Pump systems

The pump systems division generated revenue of approximately £36.5 million in the year ended 31 March 2004 and is divided into three product groups: deepwell pumps, pump room systems and engine room systems. The division supplies products predominantly for LPG carriers, product and chemical tankers, crude oil tankers and FPSOs.

Deepwell pumps

Hamworthy KSE Svanehøj A/S, the Group's Danish subsidiary, has been the market leader in deepwell pumps for LPG carriers for some years. In 1997, Hamworthy KSE Svanehøj A/S made its first sales of the new DL pump targeted at a much larger market segment: product and chemical

carriers. It is an electrically driven deepwell pump with an oil lubricated shaft and sophisticated sealing system, which has a number of advantages over its competitors, including lower cost installation, quieter running and reduced risk of polluting the cargo due to the sealing system. The Group has within the last year received the first orders for two newly developed pumps: (a) the CKL pump with an oil lubricated shaft targeted at FPSOs and larger product tankers of 50,000 dwt and above and (b) the CL/DL pump with a cargo lubricated shaft for the FPSO market. These orders are worth approximately £7 million in aggregate. The Group has built a dedicated 30 metre high test tower for these large products and the breadth of its range coupled with the test tower give it significant advantages over its direct competitors.

Pump room systems

The Group supplies pumps and complete turnkey installations including complete cargo control systems for the discharge of tanker cargo.

Engine room pumps

The Group provides pumps to all ship types for a variety of applications such as circulating cooling water for main engines. The Group is due to complete the introduction of its new and lower cost C2G pump range shortly.

Gas systems

The gas systems division is located in Asker and Moss, Norway and generated revenue of £39.4 million in the year ended 31 March 2004. The division supplies four main products.

LPG reliquefaction systems

These systems allow cargo vapour boil-off created during transportation to be reliquefied and returned to cargo, thereby minimising cargo loss and reducing emissions. In recent years, the Group's sales of LPG reliquefaction systems have grown considerably and the Directors believe that the Group led this market in 2003.

LNG reliquefaction systems

The Group has supplied a proven prototype plant demonstrating cryogenic technology which enables cargo boil-off to be reliquefied and returned to the cargo during transportation. The Directors believe that none of its potential competitors has such a prototype plant. At present LNG carriers burn boil-off to produce steam to power the vessel. Installing a reliquefaction plant enables the ship to be powered by more efficient and lower maintenance cost slow speed diesel engines. This technology has received a third party endorsement from a large South Korean shipbuilder. Two major oil companies are actively considering placing orders for diesel powered LNG carriers with one or more of the world's leading shipyards. Such diesel powered units are expected to provide ship owners with annual savings of up to US\$5 million per vessel. The Directors believe that the Group is in the prime position to obtain orders for LNG reliquefaction plants on such ships.

VOC recovery systems

These systems reliquefy hydrocarbon gas emissions from crude oil for storage and later use in order to comply with environmental legislation for shuttle tankers. The Group managed to obtain all of the latest orders to be announced for the retrofit of North Sea shuttle tankers and its major competitor in this area has since announced its withdrawal from the business.

Inert gas systems

These systems supply oxygen depleted air to prevent explosions during transportation and comprise flue gas systems, inert gas generators and nitrogen membrane systems. Using the brand name Moss, the Group is a leader in the development, design, manufacture and servicing of inert gas and nitrogen systems for marine applications. Systems are currently produced in Norway but the component sourcing and assembly operations are currently being moved to the Group's facility in China.

In recent years, the Group has been active in improving its technical capability to supply specialist IGS packages to the offshore sector. The Group has recently completed a redesign of its IGS packages for gas carriers resulting in substantial cost reductions and has begun to increase orders in this profitable segment of the market.

Wastewater management systems

The wastewater management division is based in Poole, Dorset and generated revenues of £13.5 million in the year ended 31 March 2004. Through this division, the Group provides advanced, environmentally friendly solutions for the treatment and separation of liquid waste products on all vessels to enable a clean discharge.

Membrane bio-reactor systems

In response to tougher environmental regulation of cruise vessels, the Group has been successful in extending its original product range that dealt with “black water” into the developing “grey water” market by combining core aerobic sewage treatment technology with filtration and micro-membrane separation.

The Group holds the leading position in terms of market share for the supply of advanced water treatment systems and meets all relevant standards, including those introduced in 2003, for cruise ships operating in Alaskan waters. There are currently initiatives for similar standards to be applied to the cruise ship fleets of the major operators.

Sewage treatment plant

The Group is a leading supplier for merchant vessels in this area. The plants treat wastewater from toilets through aeration, settling and disinfecting processes to meet overboard discharge requirements. As a result of cost reductions achieved by transferring the manufacturing plant to China, the Group has improved its market share and has increased the number of tanks ordered in the year ended 31 March 2004 by 60 per cent. compared with the previous year.

Oily water separators

This product reduces the pollutant level of a vessel’s machinery space bilge water using gravity, settling and surface attraction effects. The Group intends to take advantage of the standards to be imposed by the new IMO rules which become effective in January 2005 and which the Directors believe are likely to lead to demand for more advanced oily water separators and, as a result, the average price per unit is expected to increase by a factor of at least three.

Operations and locations

The Group is a global organisation which has sales and service offices throughout the world to service the major marine markets of Europe, China, Korea and Japan. The table below details the Group’s organisational structure:

LOGO

As illustrated above, the Group has assembly and/or production sites in:

- *Moss, Norway*
Assembles inert gas systems and nitrogen membrane systems and skids for reliquefaction plants. Facilities include a dedicated test tower situated adjacent to the main factory which is also at the quayside of the deep water Moss Sound waterway.
- *Singapore*
Houses the manufacture of engine room and pump room pumps including the recently released C2G range. Singapore has its own foundry specialising in bronze casting, and a pattern shop, fabrication shop, machine shop and assembly shop. It produces both finished pumps and spare parts and handles the logistics distribution for these products in the Far East. Pumps and components can be made in nickel aluminium bronze, gunmetal, cast iron or stainless steel. The facility is able to take advantage of low cost labour from outside Singapore.
- *Poole, UK*
The Poole facility is the European distribution centre for engine room and pump room pumps and wastewater system spares. There is also a machine shop and assembly and test facilities for spares, specialist pumps and high pressure compressors and the final machining of short lead time pumps for the European market.
- *Aalborg, Denmark*
Engaged in the manufacture of longshaft deepwell cargo pumps for the marine and offshore market. Facilities consist of a machine shop, assembly shop and specialist test facilities. These have been recently enhanced by the addition of a 30 metre tall test tower for the new CKL and CL/DL deepwell pumps.
- *Suzhou, China*
Assembles sewage treatment plants and vacuum toilet systems predominantly from locally sourced fabrications and components. The assembly of flue gas plant and most inert gas generators has recently been transferred to this facility from Norway and a programme of local component and fabrication sourcing is well advanced. Suzhou houses a purchasing team to source low cost components for use across the Group.

As at 31 March 2004, the Group employed 643 staff and as detailed below, the majority were outside the United Kingdom.

| <i>Location</i> | <i>Number of employees</i> |
|-------------------|---|
| UK | 153 |
| Denmark | 119 |
| Norway | 172 |
| Singapore | 118 |
| China | 47 |
| Rest of the world | 34 |
| | <hr style="width: 100%; border: 0.5px solid black;"/> |
| | <u>643</u> |

Marketing strategy

In the last few years, the Group has rationalised its product portfolio by selling off a number of product lines with lower growth prospects and technology content and accelerated product development in its current core product range. The Group now has a range of technologically advanced products in a number of growing market segments many of which are underpinned by regulation and environmental pressure. This is evidenced by the 16 per cent. average annual growth in sales in the past three years and the strength of the Group's current record order book.

The Group can demonstrate an impressive track record of innovation, particularly in gas systems, wastewater management systems and deepwell pumps. The Group maintains experienced and highly sophisticated design teams near to important ship-owner communities in the UK and Scandinavia, enabling it to pre-empt and respond quickly to technological developments, customer demands and market shifts.

The Group has developed strategic and effective technical procurement systems to purchase globally and maximise scale economies. By relocating its manufacturing and assembly facilities to the Far East in 1997, the Group has been able to achieve continuous cost reduction.

The Group is actively pursuing a programme of longer-term development and a pipeline of technology and products which the Directors expect will continue the growth of the Group beyond 2007.

Financial information

The businesses currently comprised in the Group were, prior to a reorganisation in February 2003, operated by a number of different corporate entities. Whilst all of these entities were part of the Powell Duffryn group of companies, not all were part of the current HKSE statutory group. As such, the statutory accounts for the year ended 31 March 2002 are a set of dormant accounts. The statutory accounts for the year ended 31 March 2003 include the operations of the Group, with the exclusion of the minor trading operations in Rotterdam and the USA, for the final two months of the year.

The statutory accounts for the year ended 31 March 2004 represent the consolidated position of the Group, which at the time did not include the minor trading operations in Rotterdam and the USA. Accordingly, in order to present the results of the Group on a consistent basis, the Directors have prepared a table of financial information for the continuing operations of the Group for the three years ended 31 March 2004 (see table below) which has not been subject to any external review or audit. The information in respect of the year ended 31 March 2004 has been reconciled to the statutory accounts for 31 March 2004.

| <i>£ million</i> | <i>Unaudited pro-forma financial information</i> | | |
|---|--|---------------------------------|---------------------------------|
| | <i>Year ended 31 March 2002</i> | <i>Year ended 31 March 2003</i> | <i>Year ended 31 March 2004</i> |
| Turnover | 64.4 | 87.1 | 92.9 |
| Gross profit | 27.3 | 31.3 | 31.6 |
| Operating profit before goodwill amortisation | 4.3 | 5.0 | 6.2 |
| Profit before taxation | 4.0 | 4.7 | 5.8 |

This period has seen a 44 per cent. increase in both revenues and operating profit for the Group equating to an average of 20 per cent. per annum despite the fact that the number of new vessels delivered worldwide has only grown by approximately 16 per cent. in that period. Annual order intake has grown from £90 million to £125 million in that period. This has been achieved through product innovation and gains in market share, particularly in the Far East. The largest single contributor to this sales increase has been gas systems which are typically large value capital goods with little or no spares content.

Further details of the basis of preparation of the financial information and a reconciliation to the statutory accounts for 31 March 2004 is provided in Part II of this document.

Board of Directors

The Board comprises the following two executive and three non-executive Directors who bring significant experience to the Group's operations and activities:

Gordon Page CBE, Non-Executive Chairman, aged 60

Mr Page joined the Board in June 2004 and is currently the non-executive chairman of Cobham plc. Having previously held a number of senior commercial and marketing positions at Rolls-Royce plc, Mr Page joined Cobham plc in 1990 as managing director of its Flight Refuelling division and was appointed deputy chief executive in 1991, chief executive in 1992 and chairman in November 2001. He is a member of the Department of Trade and Industry's Industrial Advisory Board and is President of the Chartered Management Institute. He is also a director, and immediate past president, of The Society of British Aerospace Companies Limited.

Kelwyn Derrick, Chief Executive, aged 56

Mr Derrick joined the Company in 1994 as Managing Director having spent five years in the venture capital industry. Prior to that his experience was principally in the engineering sector in CEO roles in both turnaround and growth situations spanning 15 years. Mr Derrick has an MSc(Econ) from London Business School and an engineering degree from the University of London.

Paul Crompton, Finance Director, aged 43

Mr Crompton joined the Company in 1994 as Finance Director. A graduate in finance and business studies, he is a chartered accountant, having spent five years at Ernst & Young. Prior to joining Hamworthy, Mr Crompton held senior financial and general management roles within the electronics and aerospace industries including a main board directorship at Penny & Giles International plc.

James Wilding, Non-Executive Director, aged 44

Mr Wilding joined the Board in 2000 following the financing of the acquisition of Powell Duffryn plc by Nikko Principal Investments Limited. Mr Wilding is a qualified chartered accountant and joined Nikko Principal Investments Limited in 2000. He was previously a partner at PricewaterhouseCoopers from 1994 to 2000 where he had held various audit and corporate recovery positions since 1983.

Alan Frost, Non-Executive Director, aged 59

Mr Frost joined the Board in June 2004 and is also currently the chairman of Teachers Building Society, deputy chairman of Bournemouth University and a non-executive director of Car Crash Line Group plc and NFU Mutual Insurance Society Limited. Mr Frost has over 35 years of experience in the financial services sector, including 10 years as managing director of Abbey Life Assurance and chief executive of United Assurance Group plc.

Senior management

In addition to the Board, the Company has an executive committee which consists of the two executive Directors and four senior members of the management team, details of whom are set out below:

Allan Bentley, Managing Director – Wastewater Management Systems, aged 43

Mr Bentley joined the Company in 1992. He qualified as a chartered engineer and held various positions in Lloyds Register and Swan Hunter prior to joining Hamworthy.

Willy Larsen, Managing Director – Pump Systems, aged 59

Mr Larsen joined Hamworthy KSE Svanehøj A/S in 1994. He was educated as a naval architect and has over 30 years of marine experience in owners, consultancy, shipbuilding and ships' equipment.

Arne Vedøy, Managing Director – Gas Systems, aged 58

Mr Vedøy has been managing director of the gas systems division since 1998. He held various positions in Kvaerner Ships' Equipment Division including Managing Director in Singapore and had overall responsibility for the Liquid Cargo Handling Division.

William Belshaw, Procurement Director, aged 56

Mr Belshaw joined the Group in 1995 as Divisional MD. He has extensive manufacturing and engineering experience at board level and an MSc in engineering production and management.

The senior managers, technologists and professionals in the Group are highly qualified, multinational and with a wide experience throughout the industry sector. Of the top fifty five personnel, 85 per cent. are graduates, 45 per cent. post-graduates and 56 per cent. have a professional qualification. This senior cadre is based around the world including the UK, Norway, Denmark, The Netherlands, Singapore, China, South Korea and the USA. The Directors believe that the members of the existing senior management team are keen to participate in the future of the Group.

Current trading and prospects

The Group has experienced an average year on year sales growth of 16 per cent. in the last three years. This is underpinned by a strong order book which stood at 31 May 2004 at £98 million. The Directors expect that, based on current forecasts, the market for the Group's products will continue to grow. Whilst there almost certainly will be a decline in the number of certain vessels (such as oil and product tankers) delivered during 2006 and 2007, this decline is more than offset by the anticipated increase in the ordering of LPG tankers and cruise vessels. Both of these vessels offer large potential contract opportunities for the Group.

In addition, the Directors are optimistic that a new market for gas reliquefaction plants on LNG carriers will open up as orders are placed for ships powered by modern slow speed diesel engines instead of steam power, which is the current power plant for this class of vessel. The Directors believe that the Group is unique in having a proven prototype plant for this cryogenic technology and is well placed to take a significant share of this new market. It has close relationships with the two oil majors who are contemplating the placing of orders for these vessels.

Accordingly, the Directors view the outcome of both the current and forthcoming financial year with confidence.

Corporate Governance

The Company intends, so far as is practicable for a company of its size and nature, to comply with the provisions of the Combined Code on Corporate Governance published in July 2003 ("the Combined Code") which applies to companies which are admitted to the Official List. The Company has appointed non-executive Directors to bring an independent view to the Board, and to provide a balance to the executive Directors.

An audit committee consisting of Gordon Page, Alan Frost and James Wilding was established on 23 June 2004. The audit committee is chaired by Alan Frost. It will meet at least twice a year and will be responsible for ensuring that the appropriate financial reporting procedures are properly maintained and reported on and for meeting the auditors and reviewing their reports relating to the Group's accounts and internal control systems.

The Remuneration Committee consisting of Gordon Page, Alan Frost and James Wilding was established on 23 June 2004. The Remuneration Committee is chaired by James Wilding. It will meet at least twice a year and will be responsible for reviewing the performance of the executive Directors and other senior executives and for determining appropriate levels of remuneration.

A nominations committee consisting of Gordon Page, Alan Frost, James Wilding and Kelvyn Derrick was established on 23 June 2004. The nominations committee is chaired by Gordon Page. The nominations committee will make recommendations on all new Board appointments.

The guidance published by the Institute of Chartered Accountants in England and Wales (commonly known as the Turnbull Report) concerning the internal control requirements of the Combined Code has been brought to the attention of the Directors. In line with the Turnbull Report, the Board expects to keep under regular review key business risks in addition to the financial risks facing the Group in the operation of its business.

The Directors intend to comply with Rule 19 of the AIM Rules relating to Directors' and applicable employees' dealings in the Company's securities and to this end the Company will adopt an appropriate share dealing code.

Details of the Placing

The Placing comprises 37,000,000 Placing Shares, all of which are being conditionally placed by Collins Stewart on behalf of the Vendor with institutional and other investors, save for the participation in the Placing by the Directors for 218,595 Placing Shares.

Collins Stewart has agreed, pursuant to the Placing Agreement and conditional, *inter alia*, on Admission to use its reasonable endeavours to place the Placing Shares with institutional and other investors. The Placing is also conditional, *inter alia*, upon:

- (a) the Placing Agreement becoming unconditional and not having been terminated in accordance with its terms prior to Admission; and
- (b) Admission becoming effective not later than 20 July 2004 or such later date as Collins Stewart and the Company may agree, being not later than 3 August 2004.

Application has been made to the London Stock Exchange for the Ordinary Shares to be admitted to trading on AIM. Admission is expected to become effective and dealings in the Ordinary Shares are expected to commence on 20 July 2004.

Incentive schemes

Pursuant to the terms of the Cash Incentive Scheme (summarised in paragraph 9.5 of Part III of this document), Messrs Derrick and Crompton and other members of the senior management of the Group (details of whom are set out above) will be entitled to receive certain sums from Powell Duffryn Limited (a company outside the Group and associated with the Vendor) in the allocation of cash payments under the scheme within 45 days of Admission which in aggregate are estimated to be approximately £2.9 million.

The Company has adopted approved and unapproved share option schemes, which provide an additional mechanism for rewarding and incentivising the executive Directors and employees who have made a major contribution to the Group's business and who are expected to play a key role in the achievement of its strategic objectives. The implementation of the approved scheme is conditional on Inland Revenue approval being obtained. The Directors believe that the opportunity to motivate employees of the Group through equity participation will enhance the Company's ability to attract and retain high quality and committed staff.

The Share Option Schemes are administered by the Remuneration Committee, which also determines the participants in the schemes and the extent of their participation (subject to the rules of the schemes). A maximum of 10 per cent. of the issued ordinary share capital of the Company from time to time may be issued or issuable (or re-issued or re-issuable as treasury shares) pursuant to options granted under the Share Option Schemes and any other employee share schemes operated by the Company. Further details of the Share Option Schemes are set out in paragraph 8 of Part III of this document.

The Company has granted options over 2,210,000 Ordinary Shares with an exercise price of 109 pence per Ordinary Share to members of the Board and to employees of the Group. Details of the options granted to the executive Directors are set out in paragraph 5.2 of Part III of this document. These options are included in the 10 per cent. overall limit referred to above.

The performance condition for these options is dependant on the Company's normalised adjusted earnings per share ("EPS") over the period of three years starting from the financial year ended prior to the date of grant of the relevant options exceeding the growth in the Consumer Price Index ("CPI") over the corresponding period by no less than an average annual increase of 3 per cent. per annum. If the annual growth in such EPS on a simple average basis does not exceed CPI by at least 3 per cent., the options will lapse.

Dividend policy

Following Admission, the Company intends to pursue a progressive dividend policy with increases in dividends reflecting underlying growth in earnings whilst maintaining a suitable level of dividend cover.

It is envisaged that interim dividends will be paid in December and final dividends in June of each year, in the approximate proportions of one-third and two-thirds respectively to the total annual dividend. It is intended that the first dividend to be paid by the Company following Admission will be the final dividend in respect of the period from Admission to 31 March 2005, which the Company expects to pay in June 2005.

Settlement and dealings

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument in accordance with the Uncertificated Securities Regulations 2001. The Articles of Association of the Company permit the holding of Ordinary Shares under the CREST system. All the Ordinary Shares will be in registered form and no temporary documents of title will be issued. The Company has applied for the Ordinary Shares to be admitted to CREST and it is expected that the Ordinary Shares will be so admitted and accordingly enabled for settlement in CREST on the date of Admission. It is expected that Admission will become effective and dealings in Ordinary Shares will commence on 20 July 2004. Accordingly, settlement of transactions in Ordinary Shares following Admission may take place within the CREST system if any shareholder so wishes.

CREST is a voluntary system and holders of the Ordinary Shares who wish to receive and retain share certificates will be able to do so.

Taxation

Information regarding United Kingdom taxation relating to the Placing is set out in paragraph 12 of Part III of this document. If you are in any doubt as to your tax position, you should contact your professional adviser immediately.

Risk factors

An investment in the Ordinary Shares is subject to a number of risks. Prospective investors should consider carefully all of the information set out in this document and the risks attaching to an investment in the Company including, in particular, the risks described below, before making any investment decision. The information below does not purport to be an exhaustive list. Investors should consider carefully whether investment in the Ordinary Shares is suitable for them in the light of the information in this document and their personal circumstances. Before making any final decision, prospective investors in any doubt should consult with an investment adviser authorised under the Financial Services and Markets Act 2000. If any of the following risks were to materialise, the Company's business, financial condition, results and/or future operations could be materially adversely affected. In such case, the market price of the Ordinary Shares could decline and an investor may lose all or part of his investment. Additional risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial, may also have an adverse effect upon the Company.

Exchange rates

As the Group has operations in different international jurisdictions, it is subject to a potential exchange rate risk. In particular, recent cost savings achieved by moving component sourcing and assembly to China could be reduced in the event of the Chinese Renminbi being revalued.

Competition

Significant new technological advances by any of the Group's major competitors could render some of the Group's products obsolete and/or lead to an erosion of market share.

Pension schemes

The Group is a participating employer in two defined benefit pension schemes in the UK and Norway which may have an adverse effect on the Group in two ways:

- the relevant member of the Group may be required to contribute to make good any deficit in relation to the Norwegian defined benefit pension scheme but, on the basis of advice currently received, the Directors do not believe that any contribution not already provided for in the accounts of the Group should exceed £200,000; and
- the Company and its English subsidiary participate in the PD Pension Plan and within a transitional period following Admission, they must cease to be participating employers in that scheme. The Directors have been advised that under the current applicable pensions legislation this should not give rise to a liability of the Company. However, the legislation is in

the process of being reviewed and it cannot be guaranteed that no liability will accrue to the Company. In relation to such potential liability the Company and its English subsidiary have obtained an indemnity, further details of which appear in paragraph 9.13 of Part III of this document. However, the cessation of this employment benefit and its replacement by an alternative pension plan could give rise to potential industrial relations issues.

Asbestos claims

The Company is aware that a number of claims have been made in relation to asbestos related illnesses by former employees against a company which previously operated certain of the businesses now comprised in the Group. The Company has been advised that these claims should not have any effect on the Group but it is possible that an attempt may be made to join the Company into these proceedings which would involve the Company in the time and expense of defending these claims.

Major product failure

In the event of a major product failure of or including any of the Group's products, the Group could incur significant liabilities and/or damage to its reputation. The marine and offshore sectors have experienced instances of major product failure from time to time.

Major contract failure

The Group's contracts are often complex and demanding as well as of generally high value. In the event of a significant failure to perform any such contracts either by a member of the Group or a contract counterparty, the Group could incur significant liabilities and/or damage to its reputation.

Share price volatility

The share price of publicly quoted companies can be volatile. The price of shares is dependent upon a number of factors some of which are general, market or sector specific and others which are specific to the Company. The value of an Ordinary Share may go down as well as up.

The Ordinary Shares are not listed on the Official List and although the Ordinary Shares will be traded on AIM this should not be taken as implying that there will always be a liquid market in the Ordinary Shares. In addition, the market for shares in smaller quoted companies is less liquid than for larger quoted companies. Therefore an investment in Ordinary Shares may be difficult to realise and the share price may be subject to greater fluctuations than might otherwise be the case.

Suitability

An investment in the Company may not be suitable for all recipients of this document. A prospective investor should consider carefully whether an investment in the Company is suitable for him or her in the light of his or her personal circumstances and the financial resources available to him or her. Investors are therefore strongly recommended to consult an investment adviser authorised under the Financial Services and Markets Act 2000 who specialises in investments of this kind before making their decision to invest.

Further information

Your attention is drawn to the financial information on the Group in Part II of this document and the additional information set out in Part III of this document.

PART II

Basis of preparation of financial information and Report and accounts for the year ended 31 March 2004

Section A: Basis of preparation of the financial information

The businesses currently comprised in the Group were, prior to a reorganisation in February 2003, operated by a number of different corporate entities. Whilst all of these entities were part of the Powell Duffryn group of companies, not all were part of the current Hamworthy statutory group. As such, the statutory accounts for the year ended 31 March 2002 are a set of dormant accounts. The statutory accounts for the year ended 31 March 2003 include the operations of the Group, with the exclusion of the trading operations in Rotterdam and the USA, for the final two months of the year.

The statutory accounts for the year ended 31 March 2004 represent the consolidated position of the Group, which at the time did not include the trading operations in Rotterdam and the USA. Accordingly, in order to present the results of the Group on a consistent basis, the Directors have prepared a table of financial information for the continuing operations of the Group for the three years ended 31 March 2004 (see table below) which has not been subject to any external review or audit. The information in respect of the year ended 31 March 2004 has been reconciled to the statutory accounts for the year ended 31 March 2004. This information is set out below:

| <i>£ million</i> | <i>Unaudited pro-forma financial information</i> | | |
|---|--|---|---|
| | <i>Year ended 31 March 2002</i> | <i>Year ended 31 March 2003</i> | <i>Year ended 31 March 2004</i> |
| Turnover | 64.4 | 87.1 | 92.9 |
| Gross profit | 27.3 | 31.3 | 31.6 |
| Operating profit before goodwill amortisation | 4.3 | 5.0 | 6.2 |
| Profit before taxation | 4.0 | 4.7 | 5.8 |

This information has been prepared on the basis set out below.

All years

All figures are for continuing business only and items considered to be exceptional or non-recurring by the directors have been excluded. These are described below in more detail.

Year ended 31 March 2002 and 2003

The financial information has been derived from unaudited management information, while part of the Powell Duffryn group of companies.

Year ended 31 March 2004

The financial information has been derived from the audited statutory accounts of the Group and reconciled in the manner set out below.

Discontinued operations

The financial information excludes the revenue, gross profit, operating profit and profit before tax of businesses disposed of in the years ended 31 March 2002 and 2003 (specifically starting air compressors, rudders and district heating businesses). All excluded revenue and profits were related to the disposed businesses.

Goodwill amortisation

The operating profit figures in the table of financial information above excludes goodwill amortisation of £0.3 million in 2004 (2002: nil; 2003: £0.1 million). The profit before taxation figure in the table of financial information is after taking goodwill amortisation into account.

Exceptional items

The Directors have excluded from the financial information items considered as exceptional and which have been treated as such in the statutory accounts of the Group or the Powell Duffryn Group. These include costs related to the Group reorganisation in 2003 (and related re-financing costs) and profits arising on the disposals of businesses in the period.

Interest

Interest payable has been included for each of the three years ended 31 March 2004 on the basis of the interest cost incurred during the year ended 31 March 2004, in order to reflect the cost of the financing structure that has been in place since the restructuring of the Group in 2003.

Non-recurring items

The Directors have also excluded items considered as non-recurring. These include (i) management charges levied by the Group's principal shareholder of £814,000 in 2004 which will not be incurred post Admission and (ii) bonuses paid to the directors of £250,000 as a result of the disposals in 2003.

Reconciliation

The operating profit and profit before taxation in the table of unaudited pro-forma financial information set out above for the year ended 31 March 2004 have been reconciled to the audited statutory accounts of the Group for the year ended 31 March 2004, as set out below:

(a) *Reconciliation of operating profit*

| | <i>Year ended 31 March 2004 £ million</i> |
|---|---|
| Operating profit shown in the statutory accounts | 5.2 |
| (1) Management charge – Nikko | 0.8 |
| (2) USA operating profit and Rotterdam operating loss | (0.1) |
| (3) Amortisation of goodwill | 0.3 |
| Operating profit presented above | <u>6.2</u> |

The differences are:

- (1) the statutory accounts include a management charge of £814,000 levied by the Group's principal shareholder, Nikko. As this charge will not be incurred on an ongoing basis after Admission, it has been added back;
- (2) the statutory accounts for the year ended 31 March 2004 represent the consolidated position of the Group, which at the time did not include the trading operations in Rotterdam and USA. These operations have always been managed as part of the Group and they have now been brought into it and their results are reflected in the table above; and
- (3) the statutory accounts provided for goodwill amortisation of £267,000 and this has been added back to give consistency of presentation across the three year period.

(b) *Reconciliation of profit before taxation*

In addition to the differences detailed in the operating profit reconciliation shown above, a further adjustment shown below is required to reconcile the profit before taxation.

| | <i>Year ended 31 March 2004 £ million</i> |
|---|---|
| Profit before taxation per statutory accounts | 4.2 |
| Net reconciling items in (a) above | 1.0 |
| Exceptional redundancy costs | 0.6 |
| Profit before taxation presented above | <u>5.8</u> |

Section B: Annual report of the Company for the year ended 31 March 2004

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Directors' report for the year ended 31 March 2004

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

Principal activities

The principal activities of the company have been acting as holding company and provider of group management services. The principal activities of the group are the design, manufacture and supply of products and systems for marine oil and gas related industries. Prior to 5 February 2003 the company was an agency company on behalf of Hamworthy Engineering Limited and did not trade.

Review of business and future prospects

On 5 February 2003, the company acquired 100 per cent. of the ordinary share capital of Hamworthy KSE Limited and Hamworthy KSE (Suzhou) Limited from Hamworthy Engineering Limited and 100 per cent. of the ordinary share capital of Hamworthy KSE Svanehøj AS and Hamworthy KSE a.s. from Powell Duffryn International Limited. On the same date the group acquired the marine engineering business from Hamworthy Engineering Limited. The trading period in 2003 therefore covers the period from 5 February 2003 until 31 March 2003.

The company and group have performed satisfactorily during the year and expects its activity levels to be sustained through the foreseeable future.

Dividends

The directors do not propose the payment of a final dividend in respect of the year to 31 March 2004 (2003 – £nil). An interim dividend of £3.18 per share was paid during the year (2003 – £nil)

Directors

The following directors held office during the year

Mr W Belshaw

Mr A Bentley

Mr P Crompton

Mr K Derrick

Mr W Larsen

Mr A Vedøy

Mr J Wilding – Chairman

Mr Q Zentner – non executive director

None of the directors had any interest in the share capital of the company or its subsidiaries, the immediate or ultimate parent undertaking.

None of the directors had a material interest in any contract of significance to which the company, or its subsidiaries, was a party during the financial year.

Employee involvement

The group places considerable value on the involvement of its employees and keeps them informed on matters affecting them as employees and on the various factors affecting the performance of the group.

It is the policy of the group to give full and fair consideration to applications made by disable persons bearing in mind the respective aptitudes and abilities of the applicants concerned. In the event of members of staff becoming disabled every effort is made to ensure their continued employment with the group and to provide specialised training where appropriate.

Research and development

The group spent £615,000 (2003: £35,000) on research and development during the year on marine oil and gas products and systems.

Directors' responsibilities

The directors are required by company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2004 and that applicable accounting standards have been followed. The financial statements have been prepared on the going concern basis.

The directors have responsibility for ensuring that the company and the group keep accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities and to prevent and detect fraud and other irregularities.

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution proposing their re-appointment will be made at the Annual General Meeting.

By order of the board

P Crompton
Secretary

23 June 2004

Auditors' report

Independent auditors' report to the members of Hamworthy KSE Group Limited

We have audited the financial statements which comprise the consolidated profit and loss account, the statement of group total recognised gains and losses, the group balance sheet, the company balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

We conducted our audit in accordance with 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.

Opinion

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

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
23 June 2004

Consolidated profit and loss account for the year ended 31 March 2004

| | | | 2004 | | Trading period ended 31 March 2003 |
|--|------|--------|----------|--------|--|
| | Note | £'000 | £'000 | £'000 | £'000 |
| Turnover | | | | | |
| Continuing operations | | 90,602 | | 22,864 | |
| Discontinued operations | | — | | 4,125 | |
| | | | | | |
| Cost of sales | 1 | | 90,602 | | 26,989 |
| | | | (65,090) | | (20,010) |
| Gross profit | | | 25,512 | | 6,979 |
| Administrative expenses | | | (20,300) | | (3,994) |
| Continuing operations | | 5,212 | | 2,791 | |
| Discontinued operations | | — | | 194 | |
| Operating profit | 2 | | 5,212 | | 2,985 |
| (Loss)/profit on sale of discontinued business | 4 | | (655) | | 728 |
| Reorganisation and refinance costs | 4 | | — | | 903 |
| Net interest payable | 5 | | (346) | | 105 |
| Profit on ordinary activities before taxation | | | 4,211 | | 2,705 |
| Taxation on profit on ordinary activities | 6 | | (1,187) | | 861 |
| Profit on ordinary activities after taxation | | | 3,024 | | 1,844 |
| Equity dividends | 7 | | (1,750) | | — |
| Retained profit for the year | 19 | | 1,274 | | 1,844 |

There is no difference between the profit on ordinary activities before taxation and the result for the year stated above and their historic cost equivalents.

Balance Sheets at 31 March 2004

| | Note | Group | | Company | |
|--|------|-----------------|-----------------|-----------------|-----------------|
| | | 2004 £'000 | 2003 £'000 | 2004 £'000 | 2003 £'000 |
| Fixed assets | | | | | |
| Intangible assets | | | | | |
| Goodwill | 11 | 7,336 | 7,727 | — | — |
| Negative goodwill | 11 | (1,087) | (1,211) | — | — |
| | | <u>6,249</u> | <u>6,516</u> | <u>—</u> | <u>—</u> |
| Tangible fixed assets | 8 | 6,178 | 6,254 | 28 | 32 |
| Investments | 9 | — | — | 21,548 | 21,548 |
| | | <u>12,427</u> | <u>12,770</u> | <u>21,576</u> | <u>21,580</u> |
| Current assets | | | | | |
| Stocks | 12 | 12,668 | 10,998 | — | — |
| Debtors | 13 | 47,032 | 43,209 | 3,626 | 1,014 |
| Cash at bank and in hand | | 3,627 | 8,395 | — | 108 |
| | | <u>63,327</u> | <u>62,602</u> | <u>3,626</u> | <u>1,122</u> |
| Creditors: amounts falling due within one year | 14 | <u>(61,213)</u> | <u>(57,923)</u> | <u>(20,740)</u> | <u>(20,205)</u> |
| Net current assets/(liabilities) | | <u>2,114</u> | <u>4,679</u> | <u>(17,114)</u> | <u>(19,083)</u> |
| Total assets less current liabilities | | 14,541 | 17,449 | 4,462 | 2,497 |
| Creditors: amounts falling due after more than one year | 15 | (7,210) | (8,710) | — | — |
| Provisions for liabilities and charges | 17 | (2,935) | (3,617) | — | — |
| Net assets | | <u>4,396</u> | <u>5,122</u> | <u>4,462</u> | <u>2,497</u> |
| Capital and reserves | | | | | |
| Share capital | 18 | 550 | 550 | 550 | 550 |
| Share premium account | 19 | 141 | 141 | 141 | 141 |
| Profit and loss account | 19 | 3,705 | 4,431 | 3,771 | 1,806 |
| Equity shareholders' funds | 20 | <u>4,396</u> | <u>5,122</u> | <u>4,462</u> | <u>2,497</u> |

The accounts on pages 25 to 44 were approved by the board of directors on 23 June 2004 and were signed on its behalf by:

P Crompton
Director

Statement of group total recognised gains and losses for the year ended 31 March 2004

| | | <i>Trading period ended 31 March</i> |
|--|----------------------------|--|
| | <i>2004</i> | <i>2003</i> |
| | <i>£'000</i> | <i>£'000</i> |
| Profit for the financial year | 3,024 | 1,844 |
| Currency translation differences on foreign currency net investments | <u>(2,000)</u> | <u>156</u> |
| Total gains recognised since last annual report | <u><u>1,024</u></u> | <u><u>2,000</u></u> |

Statement of accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding period is set out below.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.

Cashflow statement

The company has taken advantage of the exception from preparing a cashflow statement afforded by Section 228 of the Companies Act 1985 because it is a wholly owned subsidiary of NPIL Holdco Limited. NPIL Holdco Limited prepares consolidated financial statements which are publicly available.

Basis of consolidation

The financial statements represent a consolidation of the company and its subsidiary undertakings (the “group”) as at the balance sheet date. All intercompany transactions are eliminated, including any intercompany profits included in the group which were not realised at the balance sheet date. Subsidiaries acquired during the year are included in the consolidated financial statements from the effective date of acquisition.

Turnover

Turnover represents amounts receivable for goods and services despatched in the normal course of business, net of value added tax and trade discounts. In the case of long term contracts, turnover includes amounts relevant to the stage of completion of the contract. Profit attributable to that part of the work performed at the year end is recognised in the profit and loss account for the year when the outcome is foreseeable with reasonable certainty.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life at the following annual rates:

| | |
|--------------------------------|-----------------------------|
| Freehold land | 0 per cent. |
| Freehold buildings | 2 per cent. – 5 per cent. |
| Leasehold buildings | 2 per cent. – 10 per cent. |
| Plant, machinery and equipment | 20 per cent. – 33 per cent. |
| Assets under construction | Nil |

Investments

Fixed asset investments are stated at cost less provision for any permanent diminution in value.

Intangible fixed assets

Goodwill represents the excess of cost of acquisitions of subsidiary undertakings and businesses over the fair value attributed to their net assets. Goodwill is capitalised as an intangible fixed asset and amortised through the profit and loss account on a straight line basis over its estimated useful economic life up to a maximum of 20 years. Negative goodwill is amortised over the periods in which the non-monetary assets of acquisitions made are recovered, whether through depreciation or sale. The group is amortising negative goodwill over 10 years.

Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value. Provision is made for obsolete, slow-moving or defective items where appropriate. Work in progress on contracts is stated at net cost, less foreseeable losses and payments on account.

Taxation

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

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as 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 at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Pension scheme arrangements

The company provides pension arrangements to the majority of full time UK employees through a defined benefit scheme, which is operated by Powell Duffryn Limited. Contributions and pension costs are based on pension costs across the group as a whole.

Employees in Norway participate in a funded defined benefit pension plan. Contributions to the plans are paid on behalf of the employees. The cost of providing pensions is charged against profits on a systematic basis with pension surpluses and deficits arising allocated over the expected remaining service lives of the current members. Differences between the amounts charged to the profit and loss account and payments made to the pension fund are treated as assets or liabilities.

Related party transactions

As a subsidiary of NPIL Holdco Limited the company has taken advantage of the exemption set out in FRS 8 relating to subsidiary undertakings and has not disclosed transactions with other group companies.

Research and development

All expenditure on research and development is written off in the period which it is incurred.

Foreign exchange

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain/loss in the profit and loss account. The results of overseas operations are translated at the monthly closing rates of exchange during the period and their balance sheets at the rate ruling at the balance sheet date. Exchange differences arising on the translation of the opening net assets of overseas operations and results of overseas operations are dealt with through reserves.

Notes to the financial statements
for the year ended 31 March 2004

1. Segmental information

| | <i>Trading period ended</i> | |
|---------------------------------------|-------------------------------------|---------------|
| | <i>31 March</i> | |
| | <i>2004</i> | <i>2003</i> |
| | <i>£'000</i> | <i>£'000</i> |
| Turnover by class of business: | | |
| Sales of products | 88,909 | 26,195 |
| Sales of services | 1,604 | 778 |
| Commissions receivable | 89 | 16 |
| | <u>90,602</u> | <u>26,989</u> |
| Turnover by destination: | | |
| United Kingdom | 16,115 | 3,021 |
| Europe, Middle and Far East | 61,385 | 17,891 |
| Rest of world | 13,102 | 6,077 |
| | <u>90,602</u> | <u>26,989</u> |
| Turnover by country of origin: | | |
| United Kingdom | 19,073 | 6,513 |
| Europe, Middle and Far East | 71,529 | 20,476 |
| | <u>90,602</u> | <u>26,989</u> |

The segmental analysis of turnover in the trading period ending 31 March 2003, for the United Kingdom and sales of products, includes £4,125,000 in respect of the two product groups of marine starting air compressors and high lift rudders which was sold on 28 March 2003.

2. Operating profit

Operating profit is stated after charging/(crediting):

| | <i>Trading period ended</i> | |
|---|-------------------------------------|--------------|
| | <i>31 March</i> | |
| | <i>2004</i> | <i>2003</i> |
| | <i>£'000</i> | <i>£'000</i> |
| Depreciation charge for the year | 1,278 | 227 |
| Amortisation of goodwill | 391 | 86 |
| Write back of negative goodwill | (124) | 25 |
| Auditors' remuneration | | |
| – audit work | 114 | 9 |
| – other | 22 | 73 |
| Operating lease rentals for plant and machinery | 120 | 50 |
| Operating lease rentals – other assets | 731 | 19 |
| Research and development | 615 | 35 |
| | <u>615</u> | <u>35</u> |

3. Employees and staff costs

The remuneration of the directors was as follows:

| | <i>Trading period ended</i> 31 March | |
|------------|---|------------|
| | 2004 | 2003 |
| | £'000 | £'000 |
| Emoluments | <u>1,109</u> | <u>171</u> |

The above amounts include £232,562 (2003: £35,601) in respect of emoluments of the highest paid director. The accrued pension entitlement under the defined benefit Powell Duffryn Pension Plan of the highest paid director at 31 March 2004 was £23,889 (2003: £20,601).

The number of directors who were members of company participating pension schemes was as follows:

| | <i>Trading period ended</i> 31 March | |
|-------------------------|---|----------|
| | 2004 | 2003 |
| | £'000 | £'000 |
| Defined benefit schemes | <u>4</u> | <u>5</u> |

The average number of employees during the year by function was as follows:

| | <i>Trading period ended</i> 31 March | |
|--------------------|---|------------|
| | 2004 | 2003 |
| | £'000 | £'000 |
| Production | 475 | 474 |
| Spares and service | 80 | 78 |
| Administration | 88 | 90 |
| | <u>643</u> | <u>642</u> |

Their aggregate remuneration comprised:

| | <i>Trading period ended</i> 31 March | |
|--------------------------------------|---|--------------|
| | 2004 | 2003 |
| | £'000 | £'000 |
| Wages and salaries paid to employees | 16,901 | 2,800 |
| Social security costs | 2,376 | 267 |
| Other pension costs | 1,180 | 89 |
| | <u>20,457</u> | <u>3,156</u> |

4. Loss/profit on sale of business and reorganisation costs

| | <i>Trading period ended</i> | |
|---|-------------------------------------|--------------|
| | <i>31 March</i> | |
| | <i>2004</i> | <i>2003</i> |
| | <i>£'000</i> | <i>£'000</i> |
| (Loss)/profit on sale of business segment | (655) | 728 |
| Reorganisation and refinance costs | — | 903 |
| | <u>(655)</u> | <u>175</u> |

The profit on the sale of the business in 2003 arose when the group sold its business relating to two product groups of marine starting air compressors and high lift rudders on 28 March 2003. The profit on disposal is calculated as follows:

| | <i>£'000</i> | <i>£'000</i> |
|--|--------------|----------------|
| Consideration satisfied by cash | | 4,888 |
| Net assets sold: | | |
| Fixed assets | 30 | |
| Stock | 1,400 | |
| Creditors | <u>(100)</u> | |
| | | (1,330) |
| Cost of sale | | 30 |
| Write off of attributable goodwill | | <u>(2,800)</u> |
| Profit on disposal | | <u>728</u> |

The loss on disposal of the business in 2004 arose from the end of the transitional arrangement to supply equipment and parts for the business sold on 28 March 2003.

The loss on disposal is calculated as follows:

| | <i>£'000</i> | <i>£'000</i> |
|--|--------------|--------------|
| Consideration satisfied by cash | | 27 |
| Net assets sold: | | |
| Fixed assets | 71 | |
| Stock | 62 | |
| Creditors | <u>(41)</u> | |
| | | (92) |
| Direct costs of disposal | | <u>(590)</u> |
| Loss on disposal | | <u>(655)</u> |

Reorganisation costs

The reorganisation costs occurred when the company acquired the assets and liabilities of the head office activities of the Hamworthy KSE Group from Hamworthy Engineering Limited on 5 February 2003 and the agency agreement with that company was terminated. On the same date the company acquired the whole of the issued share capital of various companies (see note 10) within the Hamworthy KSE operating group and entered into a financing facilities agreement with the company's bankers.

5. Net interest payable and similar charges

| | <i>Trading period ended</i> | |
|---|-------------------------------------|--------------|
| | <i>31 March</i> | |
| | <i>2004</i> | <i>2003</i> |
| | <i>£'000</i> | <i>£'000</i> |
| Interest payable on bank loans and overdrafts | 654 | 242 |
| Interest payable on loans to fellow subsidiaries | — | 3 |
| Interest receivable | (19) | 8 |
| Interest receivable on loans to fellow subsidiaries | (289) | 132 |
| Net interest payable | <u>346</u> | <u>105</u> |

6. Tax on profit on ordinary activities

| | <i>Trading period ended</i> | |
|---|-------------------------------------|--------------|
| | <i>31 March</i> | |
| | <i>2004</i> | <i>2003</i> |
| | <i>£'000</i> | <i>£'000</i> |
| The taxation charge/(credit) comprises: | | |
| Foreign tax | 566 | 288 |
| UK group relief payable/(receivable) | 518 | 423 |
| Total current tax | 1,084 | 711 |
| Deferred tax | | |
| Accelerated capital allowances and other timing differences | 103 | 150 |
| Tax on profits on ordinary activities | <u>1,187</u> | <u>861</u> |

The tax assessed for the period differs from that resulting from applying the standard rate of Corporation Tax in the UK 30 per cent. (2003: 30 per cent.).

The differences are explained below:

| | <i>Trading period ended</i> | |
|---|-------------------------------------|--------------|
| | <i>31 March</i> | |
| | <i>2004</i> | <i>2003</i> |
| | <i>£'000</i> | <i>£'000</i> |
| Profit on ordinary activities before tax | 4,211 | 2,705 |
| Tax @ 30 per cent. thereon | 1,263 | 812 |
| Effect of: | | |
| Expenses not deductible for tax purposes in UK | 154 | 1,025 |
| Tax on chargeable gains offset by capital losses | — | (1,058) |
| Accelerated capital allowances and other timing differences | (241) | 7 |
| Lower tax rate on overseas earnings | (92) | 75 |
| Total current tax | <u>1,084</u> | <u>711</u> |

There are no factors expected to affect the future tax charge materially.

7. Equity dividends paid and payable

| | 2004 £'000 | 2003 £'000 |
|---------------------------------------|---------------|---------------|
| Equity dividends paid £3.18 per share | <u>1,750</u> | <u>—</u> |

8. Tangible fixed assets

Group

| | <i>Freehold land and buildings £'000</i> | <i>Leasehold land and buildings £'000</i> | <i>Plant and equipment £'000</i> | <i>Assets under construction £'000</i> | <i>Total £'000</i> |
|-------------------------|--|---|--|--|------------------------|
| Cost | | | | | |
| 1 April 2003 | 2,107 | 2,101 | 13,549 | 381 | 18,138 |
| Additions | 821 | 4 | 710 | 132 | 1,667 |
| Disposals | — | — | (808) | — | (808) |
| Exchange adjustments | (48) | (194) | (306) | (37) | (585) |
| Transfers | — | — | 341 | (341) | — |
| At 31 March 2004 | <u>2,880</u> | <u>1,911</u> | <u>13,486</u> | <u>135</u> | <u>18,412</u> |
| Depreciation | | | | | |
| 1 April 2003 | 624 | 432 | 10,828 | — | 11,884 |
| Charge for the year | 159 | 114 | 1,005 | — | 1,278 |
| Disposals | — | — | (737) | — | (737) |
| Exchange adjustments | (12) | (12) | (167) | — | (191) |
| At 31 March 2004 | <u>771</u> | <u>534</u> | <u>10,929</u> | <u>—</u> | <u>12,234</u> |
| Net book value | | | | | |
| At 31 March 2004 | <u>2,109</u> | <u>1,377</u> | <u>2,557</u> | <u>135</u> | <u>6,178</u> |
| At 31 March 2003 | <u>1,483</u> | <u>1,669</u> | <u>2,721</u> | <u>381</u> | <u>6,254</u> |

Company

| | <i>Plant and machinery £'000</i> |
|-------------------------|--|
| Cost | |
| 1 April 2003 | 42 |
| Additions | 21 |
| At 31 March 2004 | <u>63</u> |
| Depreciation | |
| 1 April 2003 | 10 |
| Charge for the year | 25 |
| 31 March 2004 | <u>35</u> |
| Net book value | |
| At 31 March 2004 | <u>28</u> |
| At 31 March 2003 | <u>32</u> |

9. Investments

Company

| | 2004 £'000 | 2003 £'000 |
|--|---------------|---------------|
| Investments in subsidiary undertakings | <u>21,548</u> | <u>21,548</u> |

The following information relates to the principal subsidiary undertakings of the company. In all cases the holding is 100% and the principal activity of the undertaking is the design, manufacture and sale of equipment for marine and offshore applications.

Hamworthy KSE Limited incorporated in England *
 Hamworthy KSE Svanehøj AS incorporated in Denmark *
 Hamworthy KSE Gas Systems AS incorporated in Norway *
 Hamworthy KSE Pump Systems AS incorporated in Norway*
 Hamworthy KSE Moss AS incorporated in Norway*
 Hamworthy KSE Pte Limited incorporated in Singapore
 Hamworthy KSE Korea Limited incorporated in Korea
 Hamworthy KSE (Suzhou) Limited incorporated in People's Republic of China *

* denotes shareholdings held directly by the company.

On 27 August 2003 Hamworthy KSE a.s. was demerged into three separate companies, Hamworthy KSE Gas Systems AS, Hamworthy KSE Pump Systems AS and Hamworthy KSE Moss AS.

10. Acquisitions

On 5 February 2003 the company acquired 100 per cent. of the ordinary share capital of each of Hamworthy KSE Limited and Hamworthy KSE (Suzhou) Limited from Hamworthy Engineering Limited and 100 per cent. of the ordinary share capital of each of Hamworthy KSE Svanehøj AS and Hamworthy KSE a.s. from Powell Duffryn International Limited.

These purchases have been accounted for as acquisitions in these consolidated financial statements. The principal activities of the companies acquired are the design, manufacture and sale of equipment for marine and offshore applications.

From the date of acquisition to 31 March 2003 Hamworthy KSE Limited contributed £6,513,000 to turnover and £1,603,000 to operating profit.

The total adjustments required to the book values of the assets and liabilities of the companies acquired in order to present the net assets of those companies at fair values, together with the resultant amount of goodwill, are set out below:

Hamworthy KSE Limited

| | <i>Book value</i> £'000 | <i>Revaluations</i> £'000 | <i>Fair value</i> £'000 |
|-----------------------------------|----------------------------|------------------------------|----------------------------|
| Debtors | 25 | — | 25 |
| Goodwill | | | — |
| Consideration satisfied by a loan | | | <u>25</u> |

In its financial year to 31 March 2002, Hamworthy KSE Limited did not trade. From the period since that date to the date of acquisition. Hamworthy KSE Limited's unaudited management account show:

| | £'000 |
|------------------------|--------------|
| Turnover | 18,401 |
| Operating profit | 1,556 |
| Profit before taxation | 1,814 |
| Taxation | (515) |
| Profit after taxation | <u>1,299</u> |

Hamworthy KSE Svanehøj AS

| | <i>Book value</i> £'000 | <i>Revaluations</i> £'000 | <i>Fair value</i> £'000 |
|--|----------------------------|------------------------------|----------------------------|
| Fixed assets | 1,575 | — | 1,575 |
| Cash and loans | 2,852 | — | 2,852 |
| Stocks | 1,889 | — | 1,889 |
| Debtors | 1,653 | — | 1,653 |
| Creditors | (1,608) | (254) | (1,862) |
| Provisions for liabilities and charges | (371) | — | (371) |
| | <u>5,990</u> | <u>(254)</u> | <u>5,736</u> |
| Negative goodwill | | | <u>(1,236)</u> |
| Consideration satisfied by a loan | | | <u>4,500</u> |

The £254,000 revaluation of creditors represents additional accruals required.

In its last financial year to 31 March 2002 Hamworthy KSE Svanehøj AS showed a profit before taxation of £706,000. From the period since that date to the date of acquisition, Hamworthy KSE Svanehøj AS's unaudited management accounts show:

| | £'000 |
|------------------------|------------|
| Turnover | 10,570 |
| Operating profit | 972 |
| Profit before taxation | 942 |
| Taxation | (241) |
| Profit after taxation | <u>701</u> |

From the date of acquisition to 31 March 2003 Hamworthy KSE Svanehøj AS contributed £2,989,000 to turnover and £60,000 to operating profit.

Hamworthy KSE a.s.

| | <i>Book value</i> £'000 | <i>Revaluations</i> £'000 | <i>Fair value</i> £'000 |
|-----------------------------------|----------------------------|------------------------------|----------------------------|
| Fixed assets | 2,770 | — | 2,770 |
| Cash and loans | 10,972 | — | 10,972 |
| Stocks | 5,765 | (578) | 5,187 |
| Debtors | 14,533 | (41) | 14,492 |
| Creditors | (15,649) | (700) | (16,349) |
| Provisions | (3,120) | — | (3,120) |
| Net assets acquired | <u>15,271</u> | <u>(1,319)</u> | <u>13,952</u> |
| Goodwill | | | <u>1,948</u> |
| Consideration satisfied by a loan | | | <u>15,900</u> |

The £578,000 revaluation of stock represents stock provisions to reduce stock to its realisable value under the alignment of group accounting policies.

The £41,000 revaluation of debtors represents the additional provision required to reduce debtors to their realisable values.

The £700,000 revaluation of creditors represents additional accruals required which had not been provided for at 31 January 2003.

In its last financial year to 31 March 2002 Hamworthy KSE a.s and its subsidiaries showed a profit before taxation of £1,680,000. From the period since that date to the date of acquisition, Hamworthy KSE a.s and its subsidiaries' unaudited management accounts show:

| | |
|------------------------|--------------|
| | <i>£'000</i> |
| Turnover | 41,928 |
| Operating profit | 1,194 |
| Profit before taxation | 1,423 |
| Taxation | (217) |
| Profit after taxation | <u>59</u> |

From the date of acquisition to 31 March 2003 Hamworthy KSE a.s. contributed £19,271,000 to turnover and £1,292,000 to operating profit.

Hamworthy KSE (Suzhou) Limited

| | <i>Book value</i> | <i>Revaluations</i> | <i>Fair value</i> |
|-----------------------------------|-------------------|---------------------|-------------------|
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Fixed assets | 957 | — | 957 |
| Cash and loans | 568 | — | 568 |
| Stocks | 300 | — | 300 |
| Debtors | (791) | — | (791) |
| Creditors | <u>89</u> | <u>—</u> | <u>89</u> |
| Net assets acquired | 1,123 | — | 1,123 |
| Goodwill | | | <u>—</u> |
| Consideration satisfied by a loan | | | <u>1,123</u> |

In its last financial year to 31 March 2002 Hamworthy KSE (Suzhou) Limited showed a profit before taxation of £361,000. From the period since that date to the date of acquisition, Hamworthy KSE (Suzhou) Limited's unaudited management accounts show:

| | |
|------------------------|--------------|
| | <i>£'000</i> |
| Turnover | 2,493 |
| Operating profit | 388 |
| Profit before taxation | 388 |
| Taxation | — |
| Loss after taxation | <u>388</u> |

From the date of acquisition to 31 March 2003 Hamworthy KSE (Suzhou) Limited contributed £605,000 to turnover and £44,000 to operating profit.

On 5 February 2003 the Group acquired the marine and engineering business from Hamworthy Engineering Limited. The net assets acquired together with the resultant amount of goodwill are shown below:

| | <i>Book value</i> | <i>Revaluations</i> | <i>Fair value</i> |
|---------------------------------|-------------------|---------------------|-------------------|
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Fixed assets | 1,001 | — | 1,001 |
| Cash and loans | 230 | — | 230 |
| Stocks | 4,158 | — | 4,158 |
| Debtors | 4,631 | — | 4,631 |
| Creditors | <u>(6,185)</u> | <u>—</u> | <u>(6,185)</u> |
| Net assets acquired | 3,835 | — | 3,835 |
| Goodwill | | | <u>8,665</u> |
| Consideration satisfied by cash | | | <u>12,500</u> |

11. Intangible assets

Group

| | <i>Goodwill</i> £'000 | <i>Negative goodwill</i> £'000 |
|-----------------------------------|--------------------------|-----------------------------------|
| Cost | | |
| At 1 April 2003 and 31 March 2004 | <u>7,813</u> | <u>(1,236)</u> |
| Aggregate amortisation | | |
| At 1 April 2003 | (86) | 25 |
| Charge for the period | <u>(391)</u> | <u>124</u> |
| At 31 March 2004 | <u>(477)</u> | <u>149</u> |
| Net book amount | | |
| At 31 March 2004 | <u>7,336</u> | <u>(1,087)</u> |
| At 31 March 2003 | <u>7,727</u> | <u>(1,211)</u> |

Goodwill arising from the acquisition of the marine and engineering business Hamworthy KSE a.s. and Hamworthy KSE Svanehøj AS is being amortised on a straight line basis over 20 years. This period is that over which the directors estimate that the value of the underlying businesses acquired are expected to exceed the value of the underlying assets.

Negative goodwill arising on the acquisition of Hamworthy KSE Svanehøj AS is being amortised on a straight line basis over 10 years. This period is that over which the directors estimate that the non-monetary assets are recovered, whether through depreciation or sale.

Company

The company had £nil (2003: £nil) intangible assets.

12. Stocks

| | <i>Group</i> | |
|---------------------|---------------|----------------|
| | 2004 £'000 | 2003 £'000 |
| Raw materials | 3,043 | 3,578 |
| Work in progress | 6,669 | 7,212 |
| Finished goods | <u>3,249</u> | <u>3,030</u> |
| | 12,961 | 13,820 |
| Payments on account | <u>(293)</u> | <u>(2,822)</u> |
| | <u>12,668</u> | <u>10,998</u> |

Company

The company held £nil (2003: £nil) stock

13. Debtors

| | <i>Group</i> | | <i>Company</i> | |
|-------------------------------------|---------------|---------------|----------------|---------------|
| | 2004 £'000 | 2003 £'000 | 2004 £'000 | 2003 £'000 |
| Trade debtors | 13,257 | 17,531 | 35 | — |
| Amounts owed by fellow subsidiaries | 30,310 | 18,202 | 3,450 | 935 |
| Amounts recoverable under contracts | 539 | 723 | — | — |
| Other debtors | 2,572 | 4,237 | 138 | 55 |
| Prepayments and accrued income | <u>354</u> | <u>2,516</u> | <u>3</u> | <u>24</u> |
| | <u>47,032</u> | <u>43,209</u> | <u>3,626</u> | <u>1,014</u> |

14. Creditors: amounts falling due within one year

| | <i>Group</i> | | <i>Company</i> | |
|-------------------------------------|---------------|---------------|----------------|---------------|
| | 2004 £'000 | 2003 £'000 | 2004 £'000 | 2003 £'000 |
| Bank loans and overdrafts | 1,889 | 1,981 | 30 | — |
| Trade creditors | 11,059 | 15,566 | — | — |
| Amounts owed to fellow subsidiaries | 28,687 | 23,039 | 20,375 | 19,641 |
| Payments in advance | 4,973 | 2,511 | — | — |
| Other creditors | 6,511 | 4,806 | 24 | 317 |
| Corporation tax payable | 258 | 1,253 | — | — |
| Accruals and deferred income | 7,836 | 8,767 | 311 | 247 |
| | <u>61,213</u> | <u>57,923</u> | <u>20,740</u> | <u>20,205</u> |

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

Group

| | 2004 £'000 | 2003 £'000 |
|---------------------------|---------------|---------------|
| Bank loans and overdrafts | <u>7,210</u> | <u>8,710</u> |

Company

The company had £nil (2003: £nil) creditors falling due after one year.

16. Loans and other borrowings

Group

| | 2004 £'000 | 2003 £'000 |
|------------------------------|---------------|---------------|
| Bank loans and overdrafts | <u>9,099</u> | <u>10,691</u> |
| Maturity of debt: | | |
| Within one year or on demand | 1,889 | 1,981 |
| Within two to five years | <u>7,210</u> | <u>8,710</u> |
| | <u>9,099</u> | <u>10,691</u> |

The bank loans and overdraft are secured against a fixed charge over group assets under the terms of a debenture to Barclays Bank plc. Interest on the bank loan is charged at LIBOR plus a margin of 1.5 per cent.

17. Provisions for liabilities and charges

Group

| | <i>Deferred tax</i> £'000 | <i>Warranty and contracts</i> £'000 | <i>Redundancy</i> £'000 | <i>Retirement costs</i> £'000 | <i>Total</i> £'000 |
|---|----------------------------------|--|----------------------------|--------------------------------------|-----------------------|
| At 1 April 2003 | 150 | 2,310 | 604 | 553 | 3,617 |
| Charged/(released) to the profit and loss account) | 103 | (147) | (289) | 467 | 134 |
| Utilised in the year | — | (329) | (21) | (422) | (772) |
| Exchange movement | — | 71 | 23 | (138) | (44) |
| At 31 March 2004 | <u>253</u> | <u>1,905</u> | <u>317</u> | <u>460</u> | <u>2,935</u> |

Warranties are routinely given to customers in respect of certain products. Any costs in meeting claims, for which the warranty provision has been established are expected to occur within 2 years of the balance sheet date.

The redundancy provisions are expected to be paid within 12 months of the balance sheet date.

The provision for deferred tax is made up of accelerated capital allowances and other timing differences. Deferred tax assets of £649,000 have not been recognised due to uncertainty over future recoverability. These comprise losses of £508,000 (2003: £Nil) and other timing differences £141,000 (2003: £590,000)

The provision for retirement costs represents a legal obligation for the defined benefit pension scheme operating in Norway.

Company

The company had £nil (2003: £nil) provisions for liabilities and charges.

18. Called up share capital

| | <i>2004 and 2003</i> | |
|--|----------------------|--------------|
| | <i>Number</i> | <i>Value</i> |
| | <i>'000</i> | <i>£'000</i> |
| Authorised, issued and fully paid ordinary shares of £1 each "A" | 275 | 275 |
| Authorised, issued and fully paid ordinary shares of £1 each "B" | 275 | 275 |
| | <u>550</u> | <u>550</u> |

19. Reserves

| | <i>Share</i> | <i>Profit</i> |
|------------------------------|----------------|-----------------|
| | <i>premium</i> | <i>and loss</i> |
| | <i>account</i> | <i>account</i> |
| | <i>£'000</i> | <i>£'000</i> |
| Group | | |
| At 1 April 2003 | 141 | 4,431 |
| Retained profit for the year | — | 1,274 |
| Exchange adjustments | — | (2,000) |
| At 31 March 2004 | <u>141</u> | <u>3,705</u> |
| Company | | |
| At 1 April 2003 | 141 | 1,806 |
| Retained profit for the year | — | 1,965 |
| At 31 March 2004 | <u>141</u> | <u>3,771</u> |

Profits of holding company

Hamworthy KSE Group Limited has not presented its own profit and loss account as permitted by s230 of the Companies Act 1985. The amount of the consolidated profit for the year dealt with in the accounts of Hamworthy KSE Group Limited is a profit of £3,715,000 (2003: loss £625,000).

20. Reconciliation of movement in equity shareholders' funds

| Group | <i>2004</i> | <i>2003</i> |
|---|--------------|--------------|
| | <i>£'000</i> | <i>£'000</i> |
| Profit/(loss) for the year | 3,024 | 1,844 |
| Equity dividends paid | (1,750) | — |
| Retained profit for the year | <u>1,274</u> | <u>1,844</u> |
| Other recognised losses relating to the year | (2,000) | 156 |
| (Decrease)/increase in equity shareholders' funds | (726) | 2,000 |
| Opening equity shareholders' funds | <u>5,122</u> | <u>3,122</u> |
| Closing equity shareholders' funds | <u>4,396</u> | <u>5,122</u> |

21. Financial commitments

Annual commitments under operating leases in respect of plant and machinery are as follows:

| | <i>Group</i> | | <i>Company</i> | |
|-------------------------------------|---------------|---------------|----------------|---------------|
| | 2004 £'000 | 2003 £'000 | 2004 £'000 | 2003 £'000 |
| Expiring within one year | 87 | — | — | — |
| Expiring between two and five years | 34 | 26 | 7 | 3 |
| Expiring after five years | 2 | 2 | — | — |
| | <u>123</u> | <u>28</u> | <u>7</u> | <u>3</u> |

Annual commitments under other operating leases are as follows:

| | <i>Group</i> | | <i>Company</i> | |
|-------------------------------------|---------------|---------------|----------------|---------------|
| | 2004 £'000 | 2003 £'000 | 2004 £'000 | 2003 £'000 |
| Expiring within one year | 263 | 163 | — | — |
| Expiring between two and five years | 409 | 270 | — | — |
| Expiring after five years | 302 | 293 | 28 | — |
| | <u>974</u> | <u>726</u> | <u>28</u> | <u>—</u> |

22. Pension

The company operates a number of defined benefit pension schemes in Norway. The company also participates in the Powell Duffryn Pension Plan which is a funded defined benefit scheme, however it is not possible to separately identify the assets and liabilities within this scheme that relate to the company's employees. The FRS17 calculations covering the combined Norwegian schemes for disclosure purposes have been based on the results of actuarial valuations as at 31 March 2003 and 31 March 2004, updated by an independent qualified actuary.

The major assumptions used by the actuary were:

| Major assumptions | 2004 | 2003 |
|--------------------------------------|-------------|-------------|
| Discount rate | 5.5% | 6.0% |
| Inflation rate | 2.5% | 2.5% |
| Rate of pension increases in payment | 2.5% | 2.5% |
| Expected rate of salary increases | <u>4.0%</u> | <u>4.0%</u> |

The assets are invested through an insurance company, which was unable to provide an accurate breakdown of the assets into differing classes.

The expected long term rate of returns and market value of assets of the company's defined benefit plan were as follows:

| | <i>Long-term rate of return expected at 31 March 2004 %</i> | <i>Value at 31 March 2004 £'000</i> | <i>Long-term rate of return expected at 31 March 2003 %</i> | <i>Value at 31 March 2003 £'000</i> |
|-------------------------------------|---|---|---|---|
| | Other | <u>6.5%</u> | <u>3,260</u> | <u>7%</u> |
| Total market value of assets | | 3,260 | | 3,340 |
| Present value of scheme liabilities | | <u>(4,540)</u> | | <u>(4,120)</u> |
| Deficit in the scheme | | (1,280) | | (780) |
| Related deferred tax asset | | — | | — |
| Net pension liability | | <u>(1,280)</u> | | <u>(780)</u> |

If FRS17 had been adopted in the financial statements, the Group's net assets and profit and loss reserve at 31 March 2004 and 2003 would be as follows:

| | 2004 £'000 | 2003 £'000 |
|---|---------------|---------------|
| Net assets | | |
| Group net assets | 4,396 | 5,122 |
| Add pension liability under SSAP 24 | 460 | 553 |
| Group net assets excluding net pension liability under SSAP 24 | <u>4,856</u> | <u>5,675</u> |
| Net pension liability under FRS17 | (1,280) | (780) |
| Group net assets including net pension liability under FRS12 | <u>3,576</u> | <u>4,895</u> |
| Reserves | | |
| Group profit and loss reserves | 3,705 | 4,431 |
| Add pension liability under SSAP 24 | 460 | 553 |
| Group reserves excluding net pension liability under SSAP 24 | <u>4,165</u> | <u>4,984</u> |
| Net pension liability under FRS17 | (1,280) | (780) |
| Group reserves including net pension liability under FRS17 | <u>2,885</u> | <u>4,204</u> |

As the Norwegian company was acquired on 5 February 2003, the costs of the company schemes have been shown for 31 March 2004 only and not the two month period ending 31 March 2003.

The costs of the company schemes for the year ended 31 March 2004 on an FRS17 basis would have been:

Analysis of amount charged to operating profit

| | 2004 £'000 |
|-------------------------------|---------------|
| Current service cost | (410) |
| Past service cost | — |
| Total operating charge | <u>(410)</u> |

Analysis of amount charged/(credited) to other finance income

| | 2004 £'000 |
|--|---------------|
| Interest on pension scheme liabilities | (240) |
| Expected return on pension scheme assets | 230 |
| Net return | <u>10</u> |

Analysis of amount recognised in total statement of total recognised gains and losses

Actuarial loss

| | 2004 £'000 |
|--|---------------|
| Difference between expected and actual return on assets | (150) |
| Experience gains and losses arising on the scheme liabilities | — |
| Changes in assumptions underlying the present value of liabilities | (230) |
| Actuarial loss recognised in statement of total recognised gains and losses | <u>(380)</u> |

History of experience gains and losses

| | 2004 £'000 |
|--|---------------|
| Difference between expected and actual return on scheme assets | (150) |
| Percentage of scheme assets | 4.6% |
| Experience gains and losses arising on the scheme liabilities | — |
| Percentage of scheme liabilities | — |
| Total actual loss recognised in statement of total recognised gains and losses | <u>(380)</u> |
| Percentage of the present value of scheme liabilities | <u>8.4%</u> |

Analysis of movement in deficit in the scheme for the year ended 31 March

| | 2004 £'000 |
|--|----------------|
| Deficit in scheme at beginning of the year | (780) |
| Current service cost | (410) |
| Past service cost | — |
| Contributions | 60 |
| Other finance income | (10) |
| Actuarial loss | (380) |
| Currency gain | 240 |
| Deficit in scheme at end of the year | <u>(1,280)</u> |

Powell Duffryn Pension Plan

The Company is also a participant in the Powell Duffryn Pension Plan which is a funded defined benefit scheme of Powell Duffryn Limited. Contributions to this scheme are based on aggregate pension costs across all participating Powell Duffryn subsidiaries. The last actuarial valuation resulted in advice from the consulting actuary that company contributions should be paid at a rate of 16 per cent. of pensionable salaries in the year ended 31 March 2004 (2003: £nil).

Full particulars of the actuarial valuations of the Powell Duffryn Group Schemes are contained in the accounts of NPIL Holdco Limited and Powell Duffryn Limited.

23. Ultimate parent company

The ultimate parent undertaking of the Company for the purposes of s.736 Companies Act 1985 is Prestige (No. 1) Limited. However the directors consider that Nikko Principal Investments Limited, which holds warrants to subscribe for ordinary shares in the Company's immediate parent undertaking, Powell Duffryn Investments Limited, and which, on exercise, would make it the majority shareholder, has effective control of the Company. The parent undertaking of the smallest and largest group that presents consolidated financial statements including the results of the Company is NPIL Hold Co Limited, a company registered in England and Wales, and the directors therefore consider that NPIL Hold Co Limited is the ultimate effective parent undertaking of the Company.

Nikko Cordial Corporation, a company incorporated in Japan, has beneficial ownership of the majority of the ordinary shares of NPIL Hold Co Limited. However, as the minority shareholder has certain rights reserved to it, the directors consider that neither shareholder has control of that company.

Copies of the financial statements for NPIL Hold Co Limited are available from the Company Secretary, NPIL Hold Co Limited, 100 Pall Mall, London SW1Y 5NN.

24. Contingent liabilities

At 31 March 2004 contingent liabilities exist in respect of bank guarantees in relation to performance bonds totalling £4,609,000 (2003: £5,934,000).

The company routinely enters into a range of contractual arrangements in the ordinary course of business which can give rise to claims or potential litigation against the company. It is the company's policy to make specific provisions at the balance sheet date for all liabilities including warranty costs and guarantees which, in the opinion of the directors, are expected to result in a significant loss. The directors have reviewed the open claims and pending litigation against the company at the year end and concluded that no material loss is likely to accrue to the company from any such unprovided claims.

PART III

Additional Information

1. Responsibility

The Directors, whose names appear on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. The Company and its subsidiaries

2.1 *The Company*

- (a) The Company was incorporated as a private limited company and registered in England and Wales under the Companies Act 1948 on 18 January 1962 with registered number 00713225 and under the name Hamworthy Hydraulics Limited. The name of the Company was changed to Hydreco Hamworthy Limited on 12 March 1984 and back to Hamworthy Hydraulics Limited on 1 December 1987. The name of the Company was then changed to Hamworthy Limited on 17 December 1987, to Hamworthy Marine Limited on 21 April 1994 and then to Hamworthy KSE Group Limited on 25 February 1999.
- (b) The Company was re-registered as a public company limited by shares under the name of Hamworthy plc on 6 July 2004.
- (c) The Company's registered office and principal place of business in the UK and the business address of each of the Directors is Fleets Corner, Poole, Dorset BH17 0JT.
- (d) The principal legislation under which the Company operates is the Act and the regulations made thereunder and the liability of the members is limited.
- (e) Prior to 2003, the Company was dormant. The principal activity of the Company is to act as the ultimate holding company of the Group and provide Group companies with accounting, legal, treasury and management functions.

2.2 *The subsidiaries*

The Company's subsidiaries, all of which (save as indicated) are directly or indirectly wholly owned by the Company within the meaning of section 736 of the Act, are:

| <i>Name</i> | <i>Date and country of incorporation</i> | <i>Principal activity</i> |
|--------------------------------|--|--|
| Hamworthy KSE Limited | 18 January 1962 England and Wales | ERP/PRS/WMS sales, spares and service, assembly and product development |
| Hamworthy KSE Pump Systems A/S | 19 December 2002 Norway | ERP/PRS sales, spares and service, product development |
| Hamworthy KSE Gas Systems A/S | 19 December 2002 Norway | Gas systems sales, spares and service, product development |
| Hamworthy KSE Moss A/S | 19 December 2002 Norway | IGS manufacturing, sales, spares and service and product development |
| Hamworthy KSE Svanehøj A/S | 13 November 1969 Denmark | Deepwell pump manufacturing, sales, spares and service and product development |
| Hamworthy KSE Pte Limited | 28 September 1988 Singapore | ERP/PRS manufacturing, sales, spares and service |
| Hamworthy KSE (Suzhou) Limited | 18 August 1998 People's Republic of China | WMS/IGS manufacturing, sales and service |

| <i>Name</i> | <i>Date and country of incorporation</i> | <i>Principal activity</i> |
|--|--|-----------------------------------|
| Hamworthy KSE Korea Limited | 15 April 1991 Korea | General sales and service |
| Hamworthy KSE BV | 11 July 1962 The Netherlands | General sales, spares and service |
| Hamworthy KSE Inc. | 19 December 1984 USA | General sales and service |
| KSE Marine Inc. | 24 October 1991 USA | General sales and service |
| Hamworthy KSE (India) Pvt Limited (51% interest) | 11 June 1992 India | Sales |

3. Share capital

3.1 On incorporation, the Company had an authorised share capital of £100 divided into 100 ordinary shares of £1 each, of which two ordinary shares of £1 were issued fully paid to the subscribers of the memorandum of association.

3.2 Since incorporation of the Company, the following changes have occurred in the authorised and issued share capital of the Company:

3.2.1 On 27 March 1962:

- (a) the authorised share capital of the Company was increased from £100 to £25,000 by the creation of 24,900 ordinary shares of £1 each ranking *pari passu* in all respects with the existing ordinary shares of the Company; and
- (b) the Company issued a further 24,998 ordinary shares of £1 each credited as fully paid.

3.2.2 On 22 August 1962:

- (a) the authorised share capital of the Company was increased from £25,000 to £50,000 by the creation of 25,000 ordinary shares of £1 each and re-organised so as to re-classify the existing 25,000 ordinary shares of £1 each as 'A' ordinary shares and the 25,000 newly created shares of £1 each as 'B' ordinary shares ranking *pari passu* in all respects with the existing shares of each such class respectively; and
- (b) £25,000 standing to the credit of the share premium account of the Company was appropriated to the holder of the issued ordinary shares of the Company and such amount was applied in paying up in full and allotting 25,000 'B' ordinary shares of £1 each.

3.2.3 On 26 November 1965, the authorised share capital of the Company was increased from £50,000 to £250,000 by the creation of 100,000 'A' ordinary shares of £1 each and 100,000 'B' ordinary shares of £1 each, ranking *pari passu* in all respects with the existing shares of each such class respectively.

3.2.4 On 29 November 1965, the Company issued a further 100,000 'A' ordinary shares of £1 each fully paid and 100,000 'B' ordinary shares of £1 each fully paid.

3.2.5 On 6 October 1969, the authorised share capital of the Company was increased from £250,000 to £550,000 by the creation of 150,000 'A' ordinary shares of £1 each and 150,000 'B' ordinary shares of £1 each, ranking *pari passu* in all respects with the existing shares of each such class respectively.

3.2.6 On 2 January 1970, the Company issued a further 150,000 'A' ordinary shares of £1 each fully paid and 150,000 'B' ordinary shares of £1 each fully paid.

3.2.7 By a written resolution passed on 2 July 2004, the following resolutions were passed:

- (a) new Articles of Association were adopted in substitution for and to the exclusion of all existing articles of association of the Company;
- (b) each of the existing 'A' ordinary shares of £1 each and the existing 'B' ordinary shares of £1 each were re-classified as a single class of ordinary shares of £1 each;
- (c) each of the issued and unissued ordinary shares of £1 each was sub-divided into 20 Ordinary Shares;
- (d) the authorised share capital of the Company was increased to £3,000,000 by the creation of an additional 49,000,000 Ordinary Shares;
- (e) in substitution for and to the exclusion of all existing authorities, the Directors were generally and unconditionally authorised pursuant to and in accordance with section 80 of the Act to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £1,916,666 for a period expiring (unless previously renewed, revoked or varied by the Company in general meeting) on the earlier of the conclusion of the annual general meeting of the Company to be held in 2005 and the date falling 15 months after the date of Admission;
- (f) in substitution for and to the exclusion of all existing authorities, the Directors were empowered pursuant to section 95 of the Act to allot equity securities of the Company (within the meaning of section 94(2) of the Act) as if section 89(1) of the Act did not apply to the allotment, provided that this power:
 - (i) expires at the conclusion of the annual general meeting of the Company to be held in 2005 or, if earlier, on the date falling 15 months after the date of Admission; and
 - (ii) is limited to the allotment of equity securities:
 - (a) where such securities have been offered (whether by way of rights issue, open offer or otherwise) to holders of Ordinary Shares in proportion (as nearly as may be) to their existing holdings of Ordinary Shares; or
 - (b) (otherwise than pursuant to sub-paragraph (ii)(a) above) up to an aggregate nominal amount of £92,500, being 5 per cent. of the issued share capital of the Company immediately following Admission.

3.3 On 2 July 2004, the Company issued a further 26,000,000 Ordinary Shares to the Vendor, each credited as fully paid.

3.4 As at the date of this document, the Company has an authorised share capital of £3,000,000 divided into 60,000,000 Ordinary Shares and an issued share capital of £1,850,000 divided into 37,000,000 Ordinary Shares each fully paid or credited as fully paid.

3.5 The Directors have no present intention of issuing any part of the authorised but unissued share capital of the Company other than for the purposes of issuing shares to satisfy options granted under the Share Option Schemes.

3.6 Save as disclosed in this document:

- 3.6.1 no unissued share or loan capital of the Company has been issued or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash;
- 3.6.2 there have been no listed or unlisted securities issued by the Company not representing share capital and there are no convertible securities issued by the Company;
- 3.6.3 no unissued share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option;
- 3.6.4 there are no shares in the capital of the Company currently in issue with a fixed date on which entitlement to a dividend arises; and
- 3.6.5 no commission, discount, brokerage or other special terms have been granted by the Company or are now proposed in connection with the issue or sale of any part of the share or loan capital of the Company.

4. Memorandum and Articles of Association

4.1 The memorandum of association of the Company provides that the Company's principal object is to act as a holding company. The objects of the Company are set out in clause 4 of its memorandum of association.

4.2 The Articles of Association contain provisions, *inter alia*, to the following effect:

(a) *Voting*

At any general meeting:

- (i) on a show of hands every member who is present in person or (being a corporation), is presently a duly authorised representative will have one vote; and
- (ii) on a poll every member present in person or by proxy or (being a corporation) by a duly authorised representative will have one vote for each share of which he is the holder.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting will be entitled to a second or casting vote.

(b) *Dividends, distributions and return of capital*

Provided that no dividend exceeds the amount recommended by the Board, the Company may by ordinary resolution and subject to the provisions of the Act declare that dividends be paid to members according to their respective rights and interests in the profits of the Company available for distribution. Subject to the provisions of the Act, the Board may also declare and pay such interim dividends as appear to it to be justified by the profits of the Company available for distribution and the position of the Company.

Except as otherwise provided by the rights attached to shares, all dividends will be declared and paid according to the amounts paid up (otherwise than in advance of calls) on the shares on which the dividend is paid.

If a member, or any other person appearing to be interested in shares held by that member, is in default in supplying to the Company any information required by notice given pursuant to section 212 of the Act then, where those shares represent at least 0.25 per cent. in nominal value of their class, any dividend or other money payable on such shares will be withheld by the Company which will not have any obligation to pay interest on it and the member will not be entitled to elect to receive shares instead of that dividend.

If the Company is wound up, the surplus assets remaining after payment of all creditors will be divided among the members in proportion to the capital which is paid up on the shares held by them respectively and, if such surplus assets are insufficient to repay the whole of the paid up capital, they will be distributed so that, as nearly as may be, the losses are borne by the members in proportion to the capital paid up on the shares held by them respectively.

(c) *Unclaimed dividends*

All dividends payable and unclaimed for 12 months after having become payable may be invested or otherwise made use of by the Board for the benefit of the Company until claimed. All dividends unclaimed for a period of 12 years after having become due for payment will if the Board so resolves be forfeited and revert to the Company.

(d) *Untraced shareholders*

The Company may sell at the best price reasonably obtainable any share of a member or any share to which a person is entitled by transmission if and provided that:

- (i) during the period of 12 years prior to the date of the publication of the advertisements referred to in paragraph (ii) below, no cheque, order or warrant sent to the member or to the person entitled by transmission to the share has been cashed and the Company has received no communications in respect of such share from such member or person provided that during such period of 12 years at least three cash dividends (whether interim or final) in respect of the shares in question have become payable and no such dividend during that period has been claimed by the person entitled to it;
- (ii) on or after expiry of such period of 12 years, the Company has given notice of its intention to sell such share by advertisements in both a national daily newspaper published in the United Kingdom and in a newspaper circulating in the area in which the last known address of such member or person appeared;
- (iii) during the further period of 3 months following the date of publication of the said advertisements and prior to the exercise of the power of sale, the Company has not received any communication in respect of such share from the member or person entitled by transmission; and
- (iv) the Company has given notice to the London Stock Exchange of its intention to effect such sale and has obtained its approval to the proposed form of advertisement.

(e) *Variation of rights*

Subject to the Act, if at any time the share capital of the Company is divided into different classes of shares, any of the rights attached to any share or class of shares may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of shares of the class duly convened and held.

(f) *Alteration of capital*

The Company may by ordinary resolution:

- (i) increase its share capital;
- (ii) consolidate and divide all or any of its share capital into shares of larger nominal amount than its existing shares;
- (iii) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; and

- (iv) subject to the Act, sub-divide its shares or any of them into shares of smaller nominal value than is fixed by the memorandum of association.

Subject to the provisions of the Act and to any rights for the time being attached to any shares, the Company may by special resolution reduce its share capital, any capital redemption reserve, any share premium account or any undistributable reserve in any manner.

(g) *Transfer of shares*

Each member may transfer all or any of its shares by instrument in writing in any usual form or in any form approved by the Board. Such instrument will be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee. The transferor will be deemed to remain the holder of such share until the name of the transferee is entered in the register of members in respect of it. The Board may not register any transfer of a share which is not fully paid (provided that a refusal to register the transfer does not prevent dealing in such shares from taking place on an open and proper basis).

Nothing in the Articles requires title to any securities of the Company to be evidenced by a certificate if the Act and the London Stock Exchange permit otherwise nor does anything in the Articles prevent title to any securities of the Company from being evidenced and transferred without a written instrument, or the creation of certificates, as permitted by Section 207 of the Companies Act 1989 and any regulations made pursuant thereto (including, without limitation, the Uncertificated Securities Regulations 2001) and the directors of the Company have power to implement such procedures as they may think fit and as may accord with the Act and any regulations made under them for recording and transferring title to securities and for the regulation of those procedures and the persons responsible for or involved in their operation.

The Articles contain no restriction on the free transferability of fully paid shares (unless to a minor, a bankrupt or any person who is a patient under the Mental Health Act 1983 or in respect of whom an order has been made by any court having jurisdiction for his detention or for the appointment of a receiver, curator bonis or other person to exercise powers with respect to his property or affairs), provided that the instrument of transfer is in favour of not more than four transferees, is duly stamped (if so required), the provisions of the Articles relating to the deposit of instruments of transfer have been complied with and the member is not in default of any notice served under section 212 of the Act in the circumstances described in the Articles.

(h) *Directors*

- (i) Each of the directors of the Company (other than alternate directors) is entitled to receive by way of fees for his services as director such sum as the Board may determine (not exceeding in aggregate £250,000 per annum or such other sum as the Company may in general meeting determine). Any fees so payable will be distinct from any salary, remuneration or other amounts payable to a director of the Company pursuant to any other provisions of the Articles.
- (ii) The directors of the Company are also entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred in or about the performance of their duties as directors. If by arrangement with the Board any director of the Company performs any special duties or services outside his ordinary duties as a director and not in his capacity as a holder of employment or executive office, he may be paid such reasonable additional remuneration as the Board may determine.
- (iii) Subject to the provisions of the Act, a director of the Company may, provided he has declared the nature of his interest at a meeting of the Board, be a party to or otherwise be interested in any transaction or arrangement with the Company or in which the Company is otherwise interested and will not, by reason of his office, be liable to account to the Company for any benefit which he derives therefrom. No such transaction or arrangement will be avoided on the grounds of any such interest or benefit.

- (iv) A director of the Company may not vote on or be counted in the quorum in relation to any resolution of the Board concerning any transaction or arrangement to which the Company is or is to be a party and in which he has an interest which is material or a duty which conflicts with the interests of the Company unless his duty or interest arises only because the resolution relates to one of the matters set out below:
 - (aa) the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;
 - (bb) the giving to a third party of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
 - (cc) the subscription or purchase by him of any shares, debentures or other securities of the Company or any of its subsidiaries pursuant to any offer or invitation to each of the members or debenture holders of the Company or any class of them, or to the public or any section of them in which the director is entitled to participate as a holder of securities or the underwriting or sub-underwriting by him of any such shares, debentures or other securities;
 - (dd) any proposal to which the Company is or is to be a party concerning any other company (including any subsidiary of the Company) in which he (together with any person connected with him within the meaning of section 346 of the Act) is interested, provided that he is not the holder of or beneficially interested in 1 per cent. or more of the issued equity share capital of such company or of the voting rights available to members of that company;
 - (ee) any proposal concerning the adoption, modification or operation of a pension and retirement, death or disability benefits scheme or personal pension plan under which he may benefit and which either has been approved by or is subject to approval by the Board of Inland Revenue for taxation purposes; or relates to both employees and directors of the Company (or any of its subsidiaries) and does not accord to any director any privilege or advantage not generally accorded;
 - (ff) any proposal for the benefit of employees of the Company or any of its subsidiaries under which the director benefits in a similar manner to employees and which either does not accord to any director as such any privilege or advantage not generally accorded or has been approved or is subject to approval by the Board of Inland Revenue for taxation purposes provided that a director of the Company will not vote or be counted in the quorum on any matter relating solely to his own participation in such arrangement;
 - (gg) any proposal concerning the purchase and/or maintenance of any insurance policy under which a director of the Company may benefit; or
 - (hh) any proposal concerning the amount of the ordinary remuneration payable to directors of the Company pursuant to sub-paragraph h(i) above.
- (v) A director of the Company is not required to hold any shares.
- (vi) No person will be or become incapable of being appointed or re-appointed a director of the Company by reason of his having attained the age of 70 or any other age.
- (vii) Non-executive directors of the Company will be appointed for a maximum of three years. At every annual general meeting one third of the directors (or, if their number is not three or a multiple of three, the number nearest to but not more than one third) shall retire by rotation. In addition, each director shall retire from office at the third annual general meeting after he was appointed or re-appointed if he would not otherwise fall within the directors to retire by rotation and did not retire at either of those meetings.

(i) *Borrowing powers*

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present or future) and uncalled capital of the Company and, subject to the provisions of the Act, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Board must ensure that the aggregate principal amount at any one time outstanding in respect of moneys borrowed by the Group (other than in respect of intra-group borrowings and after deducting cash deposited) does not at any time without the previous sanction of an ordinary resolution exceed an amount of £30,000,000 excluding bonding and other ancillary facilities.

5. Directors and other interests

5.1 The interests of the Directors (all of which are beneficial) in the issued share capital of the Company as they are expected to be on Admission which are required to be notified by each Director to the Company under the provisions of sections 324 and 328 of the Act or which are required to be disclosed in the Register of Directors interests maintained pursuant to section 325 of the Act or which are interests of persons connected with the Directors within the meaning of section 346 of the Act, the existence of which is known or which could, with reasonable diligence, be ascertained by a Director are as follows:

| <i>Director</i> | <i>Immediately prior to Admission</i> | | <i>Immediately following Admission</i> | |
|-----------------|---------------------------------------|---|--|---|
| | <i>Number of Ordinary Shares</i> | <i>Percentage of issued share capital</i> | <i>Number of Ordinary Shares</i> | <i>Percentage of issued share capital</i> |
| Gordon Page | — | — | 18,500 | 0.05 |
| Kelvyn Derrick | — | — | 90,000 | 0.24 |
| Paul Crompton | — | — | 27,523 | 0.07 |
| James Wilding | — | — | 36,700 | 0.10 |
| Alan Frost | — | — | 45,872 | 0.12 |

5.2 The following options over unissued Ordinary Shares have been granted to Directors on 13 July 2004 under the Share Option Schemes, all being exercisable during the period beginning on 13 July 2007 and ending on 12 July 2014:

| <i>Director</i> | <i>Number of Ordinary Shares</i> | <i>Exercise Price per Ordinary Share (pence)</i> |
|-----------------|----------------------------------|--|
| Kelvyn Derrick | 518,000 | 109 |
| Paul Crompton | 407,000 | 109 |

5.3 Save as set out in paragraphs 5.1 and 5.2 above, immediately following Admission no Director will have, and no person connected with any Director within the meaning of section 346 of the Act is expected to have, any interest in the share capital of the Company or any of its subsidiaries.

5.4 No Director has or has had any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was effected by any member of the Group during the current or immediately preceding financial year or which was effected during any earlier financial year and which remains in any respect outstanding or unperformed.

5.5 There are no outstanding loans granted by any member of the Group to any of the Directors nor any guarantees provided by any member of the Group for their benefit.

5.6 There is no arrangement under which any Director has waived or agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.

- 5.7 Save as disclosed in paragraph 5.1 above and this paragraph 5.7, the Directors are not aware of any person who is now or who is expected to be at Admission directly or indirectly interested (within the meaning of Part VI of the Act) in 3 per cent. or more of the ordinary share capital of the Company:

| <i>Shareholder</i> | <i>Immediately prior to Admission</i> | | <i>Immediately following Admission</i> | |
|------------------------------------|---------------------------------------|---|--|---|
| | <i>Number of Ordinary Shares</i> | <i>Percentage of issued share capital</i> | <i>Number of Ordinary Shares</i> | <i>Percentage of issued share capital</i> |
| Powell Duffryn Investments Limited | 37,000,000 | 100 | — | — |

- 5.8 As at 13 July 2004 (being the latest practicable date prior to publication of this document) and save as disclosed in this paragraph 5, the Directors are not aware of any person or persons who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

6. Directors' Service Agreements and Letters of Engagement

- 6.1 On 13 July 2004, the Company entered into a service agreement with Kelvyn Derrick, which commences on and is conditional upon Admission and is in substitution for his existing service contract which will cease to have any further effect. The contract is for an initial fixed period of 24 months commencing on Admission and is terminable on 12 months' notice in writing by the Company or on 6 months' notice in writing by Mr Derrick in each case expiring on or after the end of the initial fixed period and, in any event, on Mr Derrick's 60th birthday. The current salary payable under this contract is £160,000 per annum and Mr Derrick will also be eligible to participate in the Company's discretionary cash bonus scheme and to participate in the Share Option Schemes. Mr Derrick is entitled to an annual car and petrol allowance of £10,400 and to permanent health insurance cover and membership of the private medical expenses insurance scheme operated by the Company for himself and his family. The Company is also obliged to pay the sum of 12.5 per cent. of his basic annual salary into the Company's pension scheme. The service agreement also contains certain restrictions on Mr Derrick following termination of his employment.
- 6.2 On 13 July 2004, the Company entered into a service agreement with Paul Crompton, which commences on and is conditional upon Admission and is in substitution for his existing service contract which will cease to have any further effect. The contract is for an initial fixed period of 24 months commencing on Admission and is terminable thereafter on 12 months' notice in writing by the Company or on 6 months' notice in writing by Mr Crompton in each case expiring on or after the end of the initial fixed period and, in any event, on Mr Crompton's 60th birthday. The current salary payable under this contract is £120,000 per annum and Mr Crompton will also be eligible to participate in the Company's discretionary cash bonus scheme and to participate in the Share Option Schemes. Mr Crompton is entitled to an annual car and petrol allowance of £8,300 and to permanent health insurance cover and membership of the private medical expenses insurance scheme operated by the Company for himself and his family. The Company is also obliged to pay the sum of 12.5 per cent. of his basic annual salary into the Company's pension scheme. The service agreement also contains certain restrictions on Mr Crompton following termination of his employment.
- 6.3 Under the terms of their respective letters of engagement as non-executive Directors dated 13 July 2004, which each commence on and are conditional upon Admission, Gordon Page, Alan Frost and James Wilding are entitled to an annual fee of £60,000, £35,000 and £35,000 per annum respectively. These fees in each case include an amount of £10,000 in respect of the appointment of each of the non-executive directors to sit on the audit, remuneration and nomination committees of the Board. Mr Page is also appointed to act as Chairman. Their respective engagements will continue until the annual general meeting of the Company to be held in 2005 and, subject to re-election, for a further 12 months. Each of these appointments is terminable on three months' notice in writing by either party.

7. Additional Information on the Board

7.1 Other than their directorships of the Company, the directorships and partnerships currently held by the Directors and held over the five years preceding the date of this document are as follows:

| <i>Director</i> | <i>Current directorships and partnerships</i> | <i>Past directorships and partnerships of the last 5 years</i> |
|-----------------|---|--|
| Gordon Page | Cobham plc The Society of British Aerospace Companies Ltd Dorset Chamber of Commerce & Industry Chartered Management Institute | Amey plc Britax plc Dorset Training and Enterprise Company |
| Kelvyn Derrick | Hamworthy KSE Moss a.s. Hamworthy KSE Pump Systems a.s Hamworthy KSE Limited Hamworthy KSE Svanehøj a.s. KSE Marine Technology Limited KSE Marine Inc Hamworthy KSE Inc Hamworthy KSE (Suzhou) Limited Hamworthy Engineering Far East Pte Limited Hamworthy KSE Pte Ltd Hamworthy KSE BV Hamworthy KSE Ltd (Korea) Hamworthy KSE Gas Systems a.s. Society of Maritime Industries Limited Industramar Limited BU Innovations Limited Marine South West | Dorset Chamber of Commerce and Industry Japan Hamworthy & Co Ltd KSE Marine BV Hamworthy Marine a.s. Hamworthy KSE a.s. Hamworthy KSE AB Hamworthy KSE GmbH Hamworthy Engineering Limited |
| Paul Crompton | KSE Marine Technology Limited Hamworthy KSE Limited Hamworthy KSE Svanehøj a.s. Hamworthy KSE Inc Hamworthy KSE (Suzhou) Ltd Hamworthy Engineering Far East Pte Ltd Hamworthy KSE Pte Ltd Hamworthy KSE BV Hamworthy KSE Ltd (Korea) Hamworthy KSE Gas Systems a.s. KSE Marine Inc. | The Hamworthy Club Limited KSE Marine BV Hamworthy Marine a.s. Hamworthy KSE a.s. Hamworthy KSE AB Hamworthy KSE GmbH |

| <i>Director</i> | <i>Current directorships and partnerships</i> | <i>Past directorships and partnerships of the last 5 years</i> |
|-------------------------------------|--|--|
| Paul Crompton <i>(continued)</i> | Hamworthy KSE Pump Systems a.s. Hamworthy KSE Moss a.s. Industramar Limited P.D. Superannuation Trust Limited | |
| James Wilding | PD Ports plc Hamworthy Engineering Limited Teesside Holdings Limited Consumer Finance Acquisitions Co. Limited THPA Distribution and Services Limited THPA Properties Limited | PricewaterhouseCoopers PD Ports Group Limited Ports Holdings Limited PD Portco Limited |
| Alan Frost | Teachers' Building Society Queen Mab Consultancy Limited Invesco Pensions Limited National Farmers Union Mutual Insurance Society Limited (The) CCLUK Group plc RFEA Limited | Canterbury Life Assurance Company Limited Gracechurch Asset Management Limited Gracechurch Investment Management Limited Refuge Assurance plc Refuge Farms Limited Refuge Finance Limited Refuge Financial Services Limited Refuge Group Limited Refuge Group Management Services Limited Refuge Group Services Limited Refuge Investments Limited Refuge Life Assurance Consultants Limited Refuge Portfolio Managers Limited Refuge Properties Limited Refuge Unit Trust Managers Limited Royal London Management Services Limited Royal London Mutual Insurance Society, Limited (The) R.L.J. Finance Limited Royal London Unit Trust Managers Limited TBS Financial Services Limited United Assurance Asset Management Limited United Assurance Employee Services Limited |

| <i>Director</i> | <i>Current directorships and partnerships</i> | <i>Past directorships and partnerships of the last 5 years</i> |
|---------------------------------|---|--|
| Alan Frost (<i>continued</i>) | | United Assurance Financial Services Limited United Assurance Group Limited United Assurance Unit Trust Managers Limited United Friendly Asset Management Limited United Friendly Finance Limited United Friendly Financial Products Limited United Friendly General Insurance Limited United Friendly Group Limited United Friendly Insurance Nominees Limited United Friendly Insurance PLC United Friendly Investments Limited United Friendly ISA Managers Limited United Friendly Life Assurance Limited United Friendly Portfolio Managers Limited United Friendly Services Limited |

7.2 Kelvyn Derrick was employed by the North of England Venture Fund (an affiliate of Schroder Ventures). The policy of the managers of this fund was to invest in a range of companies including turnarounds and early stage investee companies. Overall the fund was successful in returning over £50 million to investors on an initial investment of £19 million. As a result of Mr. Derrick's employment with the North of England Venture Fund, he was a director of the following companies (all of which were investee companies of various North of England Ventures Limited funds) which were subject to various insolvency proceedings:

7.2.1 Artfibre Leisure Limited went into administrative receivership on 19 June 1990. The estimated deficiency to members and creditors was £2,503,264.

7.2.2 Tolag Products and Company Limited was put into compulsory liquidation on 3 September 1992 and went into administrative receivership on 6 October 1992. The company ceased to be in administrative receivership on 22 October 1999. The deficiency to creditors is unknown.

7.2.3 Byteware Limited went into administrative receivership on 15 February 1993. The deficiency to creditors is unknown.

7.2.4 PS Holdings Limited went into administrative receivership on 2 April 1993. The estimated deficiency to members and creditors was £718,535.

7.3 Save as disclosed in paragraph 7.2, no Director has:

- (a) any unspent convictions in relation to indictable offences;
- (b) had a bankruptcy order made against him or made an individual voluntary arrangement;

- (c) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or made any composition or arrangement with its creditors generally or of any class of its creditors whilst he was a director of that company or within twelve months after he ceased to be a director of that company;
- (d) been a partner in a partnership which has been placed in compulsory liquidation, administration or made a partnership voluntary arrangement whilst he was a partner in that partnership or within twelve months after he ceased to be a partner in that partnership;
- (e) had any asset placed in receivership or any asset of a partnership in which he was a partner placed in receivership whilst he was a partner in that partnership or within twelve months after he ceased to be a partner in that partnership;
- (f) been publicly criticised by any statutory or regulatory authority (including recognised professional bodies) or disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company; or
- (g) been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a company.

7.4 The aggregate remuneration and benefits in kind granted to the directors of the Company during the last completed financial year was £1,109,484 and the aggregate remuneration and benefits in kind to be paid to the Directors for the current financial year is estimated to be £598,566 excluding any payments to be made under the Cash Incentive Scheme referred to in paragraph 9.5 below. This estimate is based on the contractual arrangements currently in place with each Director.

8. Share Option Schemes

8.1 *Company Share Option Plan*

The following is a summary of the principal terms of the Hamworthy Share Option Plan (the "**Company Share Option Plan**").

8.1.1 *Approval*

Approval of the Inland Revenue is being sought under Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003 for the Company Share Option Plan. No options may be granted under this plan until such approval has been obtained.

8.1.2 *Eligibility*

Options to acquire Ordinary Shares may be granted at the discretion of the Remuneration Committee to any directors of the Company or its subsidiaries who work at least 25 hours per week or any employee of the Company or its subsidiaries not being within six months of their anticipated retirement date (the individuals so selected being, the "**Participants**").

8.1.3 *Plan limits*

Over any ten year period ending on a date of grant, the total number of Ordinary Shares issued or issuable (including treasury shares which may be, or have been, reissued) pursuant to grants made under the Company Share Option Plan may not (when aggregated with the number of Ordinary Shares issued and issuable (including treasury shares which may be, or have been, reissued) under any employees' share scheme (including a sharesave scheme) exceed ten per cent. of the issued ordinary share capital of the Company.

8.1.4 *Individual limits*

Grants of options under the Company Share Option Plan and any other Inland Revenue approved executive share option scheme will be limited to £30,000 of Ordinary Shares per employee, calculated by reference to the market value of the Ordinary Shares at the time the options are granted. An overall limit of 1 times annual salary applies to the options granted under all share option plans adopted by the Company, apart from the options granted on or within 6 months after Admission.

8.1.5 *Grant of options*

Options may be granted within 42 days of the adoption of the Company Share Option Plan and approval of the Company Share Option Plan by the Inland Revenue. Thereafter, options may be granted within 42 days after the Company makes an announcement of its results for the last preceding financial year, half-year or other period, or where the Remuneration Committee resolves that exceptional circumstances exist which justify recommending the grant of options outside these periods or following a change to the legislation affecting approved option schemes. No option may be granted or exercised at a time when such grant or exercise would not be in accordance with the “Model Code on Directors’ dealings in Securities” issued by the London Stock Exchange as amended from time to time.

No payment is required for the grant of an option.

8.1.6 *Exercise price*

The exercise price is determined by the Remuneration Committee at the date of grant and must not be less than the market value of an Ordinary Share at that time and in all cases, where the shares are to be subscribed, not less than their nominal value.

The number of Ordinary Shares over which an option is granted, the conditions of exercise and the exercise price thereof may be adjusted in such manner as the Remuneration Committee shall determine following any capitalisation issue, any offer or invitation made by way of rights, subdivision, consolidation, reduction or other variation in the share capital of the Company which in the opinion of the auditors justifies such an adjustment. Any such adjustment must first be approved by the Inland Revenue.

8.1.7 *Performance conditions*

The exercise of an option will be made subject to such objective condition or conditions as the Remuneration Committee may determine. The Remuneration Committee may subsequently waive, vary or amend any such condition provided that it has determined this to be fair and reasonable and such waiver, variation or amendment does not result in the condition being substantially more or less difficult to satisfy than the condition as it originally existed. If the performance condition is not satisfied, the option will lapse.

8.1.8 *When options may be exercised*

In normal circumstances, an option may be exercised three years after its grant (or such later date as is determined by the Remuneration Committee at the date of grant) and must be exercised (if at all) before the tenth anniversary of its grant.

However, options will become exercisable immediately (subject to satisfaction of the performance condition) during the period of one year following the death of a Participant.

Options will also become exercisable (subject to satisfaction of the performance condition) within specified periods if the Participant ceases to hold office or employment with the Company or any Group company by reason of injury, disability, redundancy or retirement, or if the Group company in which he is employed ceases to be a member of the Group. The Remuneration Committee also has a discretion to permit exercise where the Participant ceases employment for any other reason.

Options will also become exercisable in the event of a takeover, sale of the Company, amalgamation, reconstruction or winding-up of the Company, subject to satisfaction of any performance condition, unless the Remuneration Committee in its discretion determines otherwise. Alternatively, in certain cases, options may, with the agreement of an acquiring company, be exchanged for options over ordinary shares in the acquiring company.

8.1.9 *Rights attaching to the Ordinary Shares*

Ordinary Shares issued pursuant to the Company Share Option Plan will rank *pari passu* in all respects with the Ordinary Shares already in issue save that they shall not rank for any rights attaching to Ordinary Shares by reference to a record date preceding the date of exercise.

8.1.10 *Tax liability*

The Company is authorised to sell shares on behalf of a shareholder upon the exercise of an option and to retain the proceeds of such sale in order to reimburse the Company for any PAYE liability arising as a result of the exercise of the option. In addition, an option may be granted on the basis that the Participant is required to bear or indemnify his employing company against any secondary class 1 national insurance contributions arising on exercise including any foreign social security costs but only to the extent that these exceed 15 per cent. of the value of the Ordinary Shares vesting on exercise of the option.

8.1.11 *Administration and amendment*

The Remuneration Committee may amend the rules of the Company Share Option Plan subject to the approval of the Inland Revenue. No amendment shall operate to affect adversely any rights already acquired by a Participant unless the consent is obtained of Participants who, if they exercised their options in full, would become entitled in aggregate to not less than three quarters of the Ordinary Shares which would be allotted on exercise of all outstanding options.

The Remuneration Committee may not make any amendments to the rules of the Company Share Option Plan to the advantage of Participants without the prior approval of the Company in general meeting, save for minor amendments to benefit the administration of the Company Share Option Plan, to take account of changes in legislation or to obtain or to maintain favourable taxation, exchange control or regulatory treatment for Participants or for the Company or its subsidiaries.

8.1.11 *Duration of Plan*

No options may be granted later than 10 years after the adoption of the Company Share Option Plan.

8.2 *Unapproved Share Option Plan*

The Hamworthy Unapproved Share Option Plan operates in a broadly similar fashion to the Company Share Option Plan but is not approved by the Inland Revenue. It is intended for employees who have been or are granted options in excess of the £30,000 limit applying to the Company Share Option Plan. Any options granted under this Plan together with options granted under the Company Share Option Plan will count towards the overall annual limit of 1 times salary (referred to in paragraph 8.1.4 above). Subject to that, the principal terms of the Unapproved Share Option Plan are the same as those of the Company Share Option Plan as summarised in paragraph 8.1 above, save that all the references to requirements for the approval of the Inland Revenue do not apply.

9. **Material Contracts**

The following contracts, not being contracts entered into the ordinary course of business, have been entered into by the Group during the two years immediately prior to the date hereof and are, or may be, material in the context of the Business:

- 9.1 A placing agreement dated 14 July 2004 between the Company (1), the Directors (2), the Vendor (3) and Collins Stewart (4) pursuant to which Collins Stewart has agreed, subject to the conditions set out in that agreement, to use its reasonable endeavours to procure purchasers for the Placing Shares at the Placing Price. To the extent that it is unable to secure purchasers for the Placing Shares, Collins Stewart has agreed to purchase those Placing Shares itself. Collins Stewart will receive a commission of 3.75 per cent. of the value of the Placing Shares at the Placing Price from the Vendor in respect of the provision of its services under the Placing Agreement.

The Placing Agreement contains certain warranties and undertakings by the Company, the Directors and the Vendor and certain indemnities by the Company and the Directors in favour of Collins Stewart.

The agreement is conditional, *inter alia*, on (a) Admission occurring by 20 July 2004, or such later date as the Company and Collins Stewart may agree not being later than 3 August 2004, (b) there being no material breach of the warranties and undertakings given to Collins Stewart prior to Admission and (c) certain *force majeure* events not occurring prior to Admission.

- 9.2 A nominated adviser and broker agreement dated 14 July 2004 between the Company (1) and Collins Stewart (2) pursuant to which the Company has appointed Collins Stewart to act as nominated adviser and broker to the Company for the purposes of AIM. The Company has agreed to pay to Collins Stewart a fee of £40,000 per annum in respect of its services. The agreement may be terminated by either the Company or Collins Stewart giving the other one month's notice or earlier in the event of certain specified events or circumstances occurring.
- 9.3 An agreement dated 7 March 2003 between Hamworthy KSE Limited ("HKSE") (1) and HATLAPA Uetersener Maschinenfabrik GmbH & Co. (2) for the sale of the business formerly carried on by HKSE of the design, manufacture, production, service and sale of starting air compressors for use in the marine and off-shore oil industries for a total consideration of £3,898,180. The Company guaranteed all of the obligations of HKSE pursuant to the terms of the sale agreement.
- 9.4 An agreement dated 7 March 2003 between HKSE (1) and Becker Marine Systems GmbH and Co. KG (2) for the sale of the business formerly carried on by HKSE of the design, manufacture and sale of rudders for a total consideration of £987,531 (of which £33,697 remains not yet payable). The Company guaranteed all of the obligations of HKSE pursuant to the terms of the sale agreement.
- 9.5 An agreement dated 10 April 2003 between the Company (1) and its executive Directors and senior management (2) whereby the Company established a form of cash incentivisation scheme (the "Cash Incentive Scheme") for the benefit of the executive Directors and senior management of the Company (the "Participants"). The purpose of the Cash Incentive Scheme is to provide a cash incentive to the Participants in connection with a sale or other disposal of the Company and its subsidiaries and the resultant upstreaming of cash from the Company to Prestige Acquisitions Limited, a holding company of the Company. Under the terms of the Cash Incentive Scheme, Powell Duffryn Limited (a company outside the Group and associated with the Vendor) will make any payments due to the Participants after Admission, which are expected to amount to approximately £2.9 million in aggregate.
- 9.6 An agreement dated 1 November 2002 between Hamworthy KSE Svanehøj A/S ("Svanehøj") (1) and Grundfos Magyarorszag Gyarto Kft (2), a Hungarian corporation, for the sale of the business formerly carried on by Svanehøj of the design, manufacture, production, service and sale of district heating pumps for a total consideration of DKK 20,000,000.
- 9.7 On 5 February 2003, the Company completed a restructuring exercise involving the purchase of certain businesses and the share capital of certain companies which comprised the Hamworthy KSE management group of companies but which were legally owned by other associated companies. As part of this restructuring exercise, the following material contracts were entered into:

- 9.7.1 an agreement dated 5 February 2003 between HKSE (1) and Hamworthy Engineering Limited (“HEL”) (2) under which HKSE agreed to purchase all of the business of designing, manufacturing, servicing and otherwise distributing ships equipment as carried on by HEL prior to that date together with all assets and liabilities of that business as at that date. The total consideration was £12,500,000 together with an undertaking by HKSE to discharge all outstanding debts, liabilities and other obligations of HEL in respect of the business and assets transferred;
- 9.7.2 an agreement dated 5 February 2003 between the Company (1) and HEL (2) under which the Company agreed to purchase the business of the head office of the group as carried on by HEL prior to that date, the assets and liabilities of that head office business as at that date and the whole of the issued share capital of Hamworthy KSE (Suzhou) Limited for a total consideration of £830,600;
- 9.7.3 an agreement dated 5 February 2003 between the Company (1) and Powell Duffryn (International) Limited (2) under which the Company agreed to purchase the whole of the issued share capital of Svanehøj for a total consideration of £4,500,000; and
- 9.7.4 an agreement dated 5 February 2003 between the Company (1) and the Vendor (2) under which the company agreed to purchase the whole of the issued share capital of Hamworthy KSE AS for a total consideration of £15,900,000.
- 9.8 A syndicated facility agreement dated 19 December 2002 (as amended on 1 October 2003) (the “**Facility Agreement**”) between (among others) the Company and various of its subsidiaries (1) and Barclays Bank plc (“**Barclays**”) in its various capacities (together with any transferees from time to time the “**Lenders**”) (2), pursuant to which the Lenders made available (a) to HKSE a £10,000,000 term loan facility and a £2,500,000 term loan facility (together the “**Term Facilities**”); and (b) to Hamworthy KSE Pte Ltd and any additional approved borrower a £7,500,000 revolving credit facility (the “**Revolving Facility**”). Each of these companies granted a guarantee to the Lenders of all monies due thereunder. HKSE and the Company each granted a debenture to Barclays and the Company granted it pledges over shares in certain of its subsidiaries to secure all monies due under the various facilities. HKSE subsequently entered into an ancillary facility agreement with Barclays dated 5 February 2003 pursuant to which Barclays made available to HKSE certain ancillary facilities of up to £30,000,000 net and £40,000,000 gross. Any utilisation of these facilities was linked to a corresponding reduction in the Revolving Facility.
- 9.9 An intercreditor deed dated 5 February 2003 (the “**Intercreditor Deed**”) between various members of the Group (1), the Vendor and various of its associated companies (the “**PD Parties**”) (2) and Barclays (3), pursuant to which the parties agreed to restrictions on certain intra-group payments, dividends and management fees. Various Group companies also granted a guarantee to certain other banks which enter into hedging arrangements with HKSE and various other members of the Group. Pursuant to a deed of amendment, restatement and release relating to the Intercreditor Deed dated 13 July 2004, each of the PD Parties were released from all their obligations under the Intercreditor Deed.
- 9.10 A deed of novation, accession, amendment and restatement relating to the Facility Agreement dated 13 July 2004 between (among others) the Company and various of its subsidiaries (1) and Barclays (2) pursuant to which conditional, among other things, upon Admission, all the outstanding obligations of HKSE as borrower under the Term Facilities will be novated to the Company and the Facility Agreement will be amended and restated, including replacing the Term Facilities with a single term loan facility of £9,000,000 and replacing the Revolving Facility with a new revolving facility of up to £31,000,000.
- 9.11 An ancillary facilities letter dated 13 July 2004 between Barclays and the Company pursuant to which Barclays agreed to make available certain ancillary facilities to certain members of the Group being up to (a) £3,500,000 by way of overdraft facilities; (b) £17,500,000 by way of letters of credit, guarantees, bonds and indemnities; (c) up to £100,000,000 gross spot and forward exchange facilities; (d) up to £1,300,000 by way of BACS transfers; and (e) up to £11,050,000 by way of a business master facility.

- 9.12 A revolving facility agreement dated 5 September 2002 between Den Danske Bank (“Den Danske”) and Svanevej pursuant to which Den Danske made available to Svanevej a revolving overdraft facility of DKK20,000,000 and a forward foreign exchange and bonding facility of DKK100,000,000 gross.
- 9.13 An agreement dated 13 July 2004 between Nikko (1), the Company (2) and HKSE (3) pursuant to which Nikko has agreed, subject to certain limitations, to indemnify the Company and HKSE in the event that a liability accrues to either of them in respect of those companies ceasing to be participating employers for the purposes of the PD Pension Plan.
- 9.14 An agreement dated 13 July 2004 between the Company (1) and Prestige Acquisitions Limited (“PAL”) (2) pursuant to which, *inter alia*, the parties agreed to make the necessary elections to ensure that any taxation on chargeable gains arising as a result of the Company being sold pursuant to the Placing will not be borne by any member of the Group.

10. Litigation and arbitration

There are no legal or arbitration proceedings being brought by or against the Group (including any such proceedings which are pending or threatened of which any member of the Group is aware) which are having, or may have or have had, during the 12 months prior to the publication of this document, a significant effect on the financial position of the Group.

11. Working capital

In the opinion of the Directors, having made due and careful enquiry and after taking into account the Group’s bank facilities, the working capital available to the Group will be sufficient for its present requirements, that is for at least 12 months from the date of Admission.

12. Taxation

The following comments are intended as a general guide only and are based on current United Kingdom legislation and Inland Revenue practice as at the date of this document. Except where the position of non-United Kingdom resident shareholders is expressly referred to, these comments deal only with the position of shareholders who are resident in the United Kingdom for tax purposes, who are the beneficial owners of their Ordinary Shares and who hold their Ordinary Shares as an investment. They do not deal with the position of certain classes of shareholders, such as dealers in securities.

Dividends – UK resident shareholders

Under current United Kingdom tax legislation, no amounts in respect of tax will be withheld at source from dividend payments made by the Company.

Where the Company pays a dividend, a holder of Ordinary Shares who is an individual resident (for tax purposes) in the United Kingdom and who receives that dividend will be generally entitled to a tax credit equal to one-ninth of the dividend. The individual will be taxed on the aggregate of the dividend and the related tax credit, which will be regarded as the top slice of the individual’s income. The tax credit will, however, be treated as discharging the individual’s liability to income tax in respect of the dividend, unless and except to the extent that the dividend and the related tax credit fall above the threshold for the higher rate of income tax, in which case the individual will, to that extent, pay tax at a rate of 32.5 per cent. on the aggregate of the dividend and tax credit. The tax credit will be available to be offset against the higher rate liability so that the net amount payable will equal 22.5 per cent. of the dividend and tax credit. There will be no payment of the tax credit or any part of it to an individual whose liability to income tax on the dividend and the related tax credit or any part of it to an individual whose liability to income tax in the dividend and the related tax credit is less than the tax.

Dividends – other UK tax payers

United Kingdom exempt approved pension funds will not be liable to income tax or corporation tax on dividends received by them from the Company and will not be entitled to claim a refund of all or part of the tax credits in respect of those dividends.

Subject to certain exceptions for some insurance companies with overseas business, a corporate holder of Ordinary Shares that is resident for tax purposes in the United Kingdom and that receives a dividend paid by the Company will not be taxed on the receipt of the dividend but will not be entitled to the payment of any tax credit with respect to the dividend.

Dividends – non-UK resident shareholders

Whether a holder of Ordinary Shares who is resident for tax purposes in a country other than the United Kingdom is entitled to a tax credit in respect of dividends received from the Company and to claim payment of any part of that tax credit will depend on the provisions of any double taxation convention or agreement which may exist between that shareholder's country of residence and the United Kingdom. However, where a non-United Kingdom resident holder of Ordinary Shares is entitled to claim payment of any part of a tax credit, it is unlikely that any significant amount can be reclaimed. A non-United Kingdom resident holder of Ordinary Shares may be subject to foreign taxation on dividend income in its country of residence.

Chargeable gains

For the purposes of United Kingdom taxation on chargeable gains ("CGT"), a disposal of Ordinary Shares by a holder of Ordinary Shares resident (or ordinarily resident) for tax purposes in the United Kingdom or a holder of Ordinary Shares that carries on a trade, profession or vocation in the United Kingdom through a branch or agency and has used, held or acquired the Ordinary Shares for the purposes of such trade, profession or vocation or such branch or agency may, depending on the holder's circumstances, give rise to chargeable gain or allowable loss.

Individuals, personal representatives and trustees may be entitled to taper relief which may operate to reduce the chargeable gains subject to CGT. Companies are not entitled to taper relief, but are entitled to indexation relief which may reduce the taxable chargeable gains. Indexation relief cannot be used to create or increase a loss.

UK Stamp duty and stamp duty reserve tax (SDRT)

No liability to stamp duty or SDRT will generally arise on the allotment and issue of Ordinary Shares by the Company.

Any subsequent conveyance or transfer on sale of Ordinary Shares will usually be subject to ad valorem stamp duty, normally at the rate of 0.5 per cent. (rounded up if necessary to the nearest multiple of £5) of the amount or value of the consideration paid. Stamp duty is normally paid by the purchaser. A charge to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration paid for the Ordinary Shares will arise in relation to an unconditional agreement to transfer Ordinary Shares. However, if within six years of the date of the agreement (or, if the agreement was conditional, the date the agreement became unconditional) an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, the stamp duty will normally cancel, or give rise to a repayment in respect of, the SDRT liability. SDRT is normally the liability of the purchaser.

A transfer of Ordinary Shares effected on a paperless basis through CREST will generally be subject to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the system.

Persons operating clearance services or depository receipt schemes may be required to account for stamp duty and stamp duty reserve tax at rates higher than those referred to above.

The above statements are intended as a general guide to the current stamp duty and SDRT position. Certain categories of person are not liable to stamp duty or SDRT and others may be liable at a higher rate as mentioned above or may, although not primarily liable for the tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

Special rules apply to agreements made by market intermediaries and to certain sale and repurchase and stock borrowing arrangements.

If you are in any doubt as to your tax position or if you require more detailed information than that outlined above, you should consult an appropriate professional adviser immediately.

13. General

- 13.1 For the purposes of paragraph 45(1)(a)(iv) of Schedule 1 to the POS Regulations, PricewaterhouseCoopers LLP have consented to the inclusion in Part II and Appendix 1 of this document of their audit reports dated 26 August 2003 and 23 July 2004 given within the meaning of section 235 of the Act in respect of the statutory accounts of the Company for the years ended 31 March 2003 and 31 March 2004 and, for the purposes of regulations 13(1) and 14(1) of the POS Regulations, have accepted responsibility for those reports and have confirmed that they have not become aware, since the date of any such audit report, of any matter affecting the validity of that report at that date.
- 13.2 Collins Stewart, which is regulated by the Financial Services Authority, has given and not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which they appear.
- 13.3 Save as disclosed in this document there has been no significant change in the trading or financial position of the Group since 31 March 2004, being the Company's accounting reference date and the date up to which its last published statutory audited accounts were prepared.
- 13.4 The total expenses of and incidental to the Placing and Admission including commissions, registrations and listing fees, printing, advertising and distribution costs, legal, accounting and public relations fees and expenses which are payable by the Vendor are estimated to amount to approximately £2,400,000 (excluding value added tax). Accordingly, the net proceeds of the Placing payable to the Vendor are expected to be £37,900,000.
- 13.5 The Ordinary Shares have not previously been sold, nor are they being made available in whole or in part under the Placing, to the public. No applications for Placing Shares have been or will be accepted other than under the terms of the Placing Agreement and the Placing letters sent to prospective placees under the Placing. All the Placing Shares have been conditionally placed.
- 13.6 The provisions of section 89(1) of the Act, which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash (other than by way of allotment to employees under an employee's share scheme, as defined in section 743 of the Act) apply to the authorised but unissued share capital of the Company to the extent not disapplied as set out in paragraph 3.2.7 above.
- 13.7 Monies received from applicants pursuant to the Placing will be held by Collins Stewart until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 20 July 2004 (or such later date as Collins Stewart and the Company may agree being no later than 3 August 2004) application monies will be returned to applicants at their risk without interest prior to delivery of the Ordinary Shares.
- 13.8 The Placing Price represents a premium of 104p over the nominal value of 5p per Ordinary Share.
- 13.9 Save as disclosed in this document, there are no patents or other intellectual property rights, licences or particular contracts, which are or may be of fundamental importance to the Business.
- 13.10 Save as disclosed in this document, there are no investments in progress which are significant.
- 13.11 Save as disclosed in this document, there have been no significant recent trends concerning the development of the Business since 31 March 2004.
- 13.12 Except as detailed in this document, no person (excluding professional advisers as stated in this document and trade suppliers) has received, directly or indirectly, from the Company within the twelve months preceding the Company's application for Admission, and no persons have entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission:

- (a) fees totalling £10,000 or more;
- (b) securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or
- (c) any other benefit with a value of £10,000 or more at the date of Admission.

13.13 In making any investment decision in respect of the Placing, no information or representation should be relied on in relation to the Placing, the Group or the Ordinary Shares the subject of the Placing, other than as contained in this document. No person has been authorised to give any information or make any representation in connection with the Placing or Admission other than as contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised by the Company, the Vendor, the Directors, Collins Stewart or any of them. Neither the delivery of this document nor any purchase made under it shall, in any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Group since the date of this document or that the information in this document is correct as at any time subsequent to the date hereof.

14. Availability of documents

Copies of this document will be available free of charge to the public at the registered office of the Company and at the offices of Collins Stewart, 9th Floor, 88 Wood Street, London, EC2V 7QR, during normal business hours on any weekday (Saturdays and public holidays excepted) until the date falling one month after the date of Admission.

Dated: 14 July 2004

APPENDIX I

HAMWORTHY KSE GROUP LIMITED

Company Registration No. 713225

Annual report for the year ended 31 March 2003

Report of the Directors for the Year Ended 31 March 2003

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

Principal Activities, Review of the Business and Future Prospects

Prior to 5 February 2003 the company was an agency company on behalf of Hamworthy Engineering Limited and did not trade. On this date the company acquired the assets and liabilities of the head office activities of the Hamworthy KSE Group from Hamworthy Engineering Limited and the agency agreement with that company was terminated.

On the same date the company acquired the whole of the issued share capital of Hamworthy KSE Limited, Hamworthy KSE Svanehøj AS (Denmark), Hamworthy KSE a.s (Norway) and Hamworthy KSE (Suzhou) Limited.

Since 5 February 2003 the principal activities of the company have been acting as holding company and provider of group management services.

The company has performed satisfactorily during the year and expects its activity levels to be sustained through the foreseeable future.

The directors do not propose the payment of any dividend in respect of the year to 31 March 2003 (2002 – £nil)

Directors

The following directors held office during the year

| | |
|---------------|------------------------|
| Mr W Belshaw | |
| Mr A Bentley | |
| Mr P Crompton | |
| Mr K Derrick | |
| Mr W Larsen | |
| Mr A Vedøy | |
| Mr J Wilding | appointed 20 June 2002 |
| Mr Q Zentner | appointed 20 June 2002 |
| Mr M Noakes | resigned 31 July 2002 |

None of the directors had any interest in the share capital of the company, the immediate or ultimate parent undertaking.

None of the directors had a material interest in any contract of significance to which the company, or its subsidiaries, was a party during the financial year.

Directors' Responsibilities

The directors are required by company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2003 and that applicable accounting standards have been followed. The financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The previous auditors, Arthur Andersen, resigned during the year and PricewaterhouseCoopers LLP were appointed. PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution proposing their re-appointment will be made at the Annual General Meeting.

By order of the board

Secretary

26 August 2003

Independent auditors' report to the members of Hamworthy KSE Group Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

We conducted our audit in accordance with 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.

Opinion

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

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
26 August 2003

Statement of Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year is set out below.

1. Basis of accounting

The financial statements have been prepared under the historical cost basis of accounting and in accordance with applicable Accounting Standards.

The company has taken advantage of the exception from preparing consolidated accounts afforded by Section 228 of the Companies Act 1985 because it is a wholly owned subsidiary of NPIL Holdco Limited. NPIL Holdco Limited prepares consolidated financial statements which are publicly available.

The company is also on this basis exempt from the requirement of FRS1 to present a cashflow statement.

2. Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

3. Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life at the following annual rates:

| | |
|--------------------------------|-----------|
| Plant, machinery and equipment | 20% – 33% |
|--------------------------------|-----------|

4. Taxation

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

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company’s taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as 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 not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Deferred tax is not recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

5. Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

6. Pension scheme arrangements

The company provides pension arrangements to the majority of full time employees through a defined benefit scheme, which is operated by Powell Duffryn Limited. It is not possible to identify the share of the underlying assets and liabilities in this scheme which is attributable to the company on a consistent and reasonable basis. Therefore, the company has applied the provisions of FRS17 to account for the scheme as if it was a defined contribution scheme.

7. Related party transactions

As a subsidiary of NPIL Holdco Limited the company has taken advantage of the exemption set out in FRS 8 relating to subsidiary undertakings and has not disclosed transactions with other group companies.

8. Investments

Fixed asset investments are stated at cost less provision for any permanent diminution in value.

Profit and loss account for the year ended 31 March 2003

| | <i>Note</i> | 2003 £000 | 2002 £000 |
|---|-------------|---------------------|-----------------|
| Gross profit | | (25) | 0 |
| Administrative expenses | | <u>234</u> | <u>0</u> |
| Operating Profit | 1 | 209 | 0 |
| Reorganisation costs | 3 | (903) | 0 |
| Interest payable and similar charges | 4 | <u>(6)</u> | <u>0</u> |
| Loss On Ordinary Activities Before Tax | | (700) | 0 |
| Taxation on profit on ordinary activities | 5 | <u>75</u> | <u>0</u> |
| Retained loss for the financial year | 11 | <u><u>(625)</u></u> | <u><u>0</u></u> |

All activities of the company relate to acquisitions.

The company has no recognised gains and losses other than the results stated above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the result on ordinary activities before taxation and the result for the year stated above and their historic cost equivalents.

Balance Sheet 31 March 2003

| | <i>Note</i> | 2003 £000 | 2002 £000 |
|---|-------------|-----------------|--------------|
| Fixed Assets | | | |
| Tangible assets | 6 | 32 | 0 |
| Investments | 7 | 21,548 | 0 |
| | | <u>21,580</u> | <u>0</u> |
| Current Assets | | | |
| Debtors | 8 | 1,014 | 3,122 |
| Cash at bank and in hand | | 108 | 0 |
| | | <u>1,122</u> | <u>3,122</u> |
| Creditors – amounts falling due within one year | 9 | (20,205) | 0 |
| Net current (liabilities)/assets | | <u>(19,083)</u> | <u>3,122</u> |
| Total Assets less Current Liabilities | | <u>2,497</u> | <u>3,122</u> |
| Net assets | | <u>2,497</u> | <u>3,122</u> |
| Capital and Reserves | | | |
| Called up share capital | 10 | 550 | 550 |
| Share premium account | 11 | 141 | 141 |
| Profit and loss account | 11 | 1,806 | 2,431 |
| Equity Shareholders' Funds | 12 | <u>2,497</u> | <u>3,122</u> |

The accounts on pages 71 to 79 were approved by the board of directors on 26 August 2003 and were signed on its behalf by

P Crompton
Director

1. Operating Profit

Operating profit is stated after charging:

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| Depreciation charge for the year | 10 | 0 |
| Auditor's remuneration – audit work | 2 | 0 |
| – other | 73 | 0 |
| Operating lease rentals for plant & machinery | <u>1</u> | <u>0</u> |

2. Employees and Staff Costs

The remuneration of the directors was as follows:

| | 2003 £000 | 2002 £000 |
|------------|--------------|--------------|
| Emoluments | 171 | 0 |

The above amounts include £35,600 (2002 £Nil) in respect of emoluments of the highest paid director. The accrued pension entitlement under the defined benefit Powell Duffryn Pension Plan of the highest paid director at 31 March 2003 was £20,601 (2002 £Nil).

The number of directors who were members of company participating pension schemes was as follows:

| | 2003 | 2002 |
|-------------------------|------|------|
| Defined benefit schemes | 5 | 0 |

Prior to 5 February 2003 the company had no employees. The average number of persons employed by the company between 5 February 2003 and 31 March 2003, including directors having employment contracts with the company, was 9 (2002 Nil). Their aggregate remuneration comprised:

| | 2003 £000 | 2002 £000 |
|--------------------------------------|--------------|--------------|
| Wages and salaries paid to employees | 254 | 0 |
| Social security costs | 25 | 0 |
| Other pension costs | <u>10</u> | <u>0</u> |
| | <u>289</u> | <u>0</u> |

3. Reorganisation Costs

Prior to 5 February 2003 the company was an agency company on behalf of Hamworthy Engineering Limited and did not trade. On 5 February 2003 the company acquired the assets and liabilities of the head office activities of the Hamworthy KSE Group from Hamworthy Engineering Limited (see note 14) and the agency agreement with that company was terminated. On the same date the company acquired the whole of the issued share capital of various companies (see note 7) within the Hamworthy KSE operating group and entered into a financing facilities agreement with the company's bankers.

The costs of the restructuring and reorganisation in the financial year was £903,000.

4. Interest Payable and Similar Charges

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| Interest payable on loan to group undertakings | <u>6</u> | <u>0</u> |

5. Taxation on Profit on Ordinary Activities

| | 2003 £000 | 2002 £000 |
|-------------------------------|--------------|--------------|
| The taxation credit comprises | | |
| Group relief receivable | <u>75</u> | <u>0</u> |

The tax assessed for the period differs from that resulting from applying the standard rate of Corporation Tax in the UK: 30 per cent. (2002: 30 per cent.).

The differences are explained below:

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| Profit on ordinary activities before tax | (700) | 0 |
| Tax @ 30 per cent. thereon | (210) | 0 |
| Effect of | | |
| Expenses not deductible for tax purposes | 133 | 0 |
| Capital allowances in excess of depreciation | 2 | 0 |
| Current tax credit for the year | (75) | 0 |

There are no factors expected to affect the future tax charge materially.

6. Tangible Fixed Assets

Plant machinery and equipment

| | £000 |
|---------------------------------|------|
| Cost | |
| 1 April 2002 | 0 |
| Acquisitions (see note 14) | 42 |
| 31 March 2003 | 42 |
| Depreciation | |
| 1 April 2002 | 0 |
| Charge for the year | 10 |
| 31 March 2003 | 10 |
| Net Book Value at 31 March 2003 | 32 |
| Net Book Value at 31 March 2002 | 0 |

7. Investments

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| Investments in subsidiary undertakings | 21,548 | 0 |

On 5 February 2003 the company acquired 100 per cent. of the ordinary share capital of each of Hamworthy KSE Limited and Hamworthy KSE (Suzhou) Limited from Hamworthy Engineering Limited and 100 per cent. of the ordinary share capital of each of Hamworthy KSE Svanehøj AS and Hamworthy KSE a.s from Powell Duffryn International Limited.

The following information relates to the principal subsidiary undertakings of the company. In all cases the holding is 100 per cent. and the principal activity of the undertaking is the design, manufacture and sale of equipment for marine and offshore applications.

Hamworthy KSE Limited incorporated in England*

Hamworthy KSE Svanehøj AS incorporated in Denmark*

Hamworthy KSE a.s incorporated in Norway*

Hamworthy KSE Pte Limited incorporated in Singapore

Hamworthy KSE Limited incorporated in Korea

Hamworthy KSE (Suzhou) Limited incorporated in Peoples Republic of China*

* denotes shareholdings held directly by the company.

8. Debtors

| | 2003 £000 | 2002 £000 |
|---------------------------------|--------------|--------------|
| Amounts owed by group companies | 935 | 3,122 |
| Other debtors | 55 | 0 |
| Prepayments and accrued income | 24 | 0 |
| | <u>1,014</u> | <u>3,122</u> |

9. Creditors

| | 2003 £000 | 2002 £000 |
|-------------------------------------|---------------|--------------|
| Amounts falling due within one year | | |
| Amounts owed to group companies | 19,641 | 0 |
| Other creditors | 317 | 0 |
| Accruals and deferred income | 247 | 0 |
| | <u>20,205</u> | <u>0</u> |

10. Called Up Share Capital

| | 2002 and 2003 | |
|---|---------------|---------------|
| | Number 000 | Value £000 |
| Authorised, issued, and fully paid ordinary shares of £1 each | | |
| “A” | 275 | 275 |
| “B” | 275 | 275 |
| | <u>550</u> | <u>550</u> |

11. Reserves

| | Share premium account £000 | Profit and loss account £000 |
|-------------------|-------------------------------------|---------------------------------------|
| At 1 April 2002 | 141 | 2,431 |
| Loss for the year | 0 | (625) |
| At 31 March 2003 | <u>141</u> | <u>1,806</u> |

12. Reconciliation of Equity Shareholders' Funds

| | 2003 £000 | 2002 £000 |
|-------------------|--------------|--------------|
| At 1 April 2002 | 3,122 | 3,122 |
| Loss for the year | (625) | 0 |
| At 31 March 2003 | <u>2,497</u> | <u>3,122</u> |

13. Financial Commitments

Annual commitments under operating leases for plant and machinery are as follows:

| | 2003 £000 | 2002 £000 |
|-------------------------------------|--------------|--------------|
| Expiring between two and five years | <u>3</u> | <u>0</u> |

14. Acquisition

On 5 February 2003 the company acquired the assets and liabilities of the head office activities of the Hamworthy KSE Group from Hamworthy Engineering Limited. Details of the fair value of the assets acquired are set out below

| | |
|--------------------------|-------------|
| | <i>£000</i> |
| Fixed assets | 42 |
| Stock, Debtors and cash | 208 |
| Creditors and provisions | (568) |
| | <hr/> |
| | (318) |
| Consideration | (318) |
| | <hr/> |
| Purchased goodwill | 0 |
| | <hr/> <hr/> |

On the same date the company acquired 100 per cent. of the share capital of Hamworthy KSE Limited, Hamworthy KSE Svanehoj AS, Hamworthy KSE a.s. and Hamworthy KSE (Suzhou) Limited. Details of the fair values of the investments acquired are set out below:

| | |
|--------------------|-------------|
| | <i>£000</i> |
| Investments | 21,548 |
| Consideration | 21,548 |
| | <hr/> |
| Purchased goodwill | 0 |
| | <hr/> <hr/> |

15. Pension Costs

The Company is a participant in the Powell Duffryn Pension Plan which is a funded defined benefit scheme of Powell Duffryn Limited. Contributions to this scheme are based on aggregate pension costs across all participating Powell Duffryn subsidiaries. The surplus in the scheme at the last actuarial valuation resulted in advice from the consulting actuary that no company contributions should be paid in the year ended 31 March 2003 (2002: £nil).

Full particulars of the actuarial valuations of the Powell Duffryn Group Schemes are contained in the accounts of NPIL Holdco Limited.

16. Ultimate Parent Company

The directors consider that Nikko Principal Investments Limited, which holds warrants to subscribe for ordinary shares in the company's ultimate parent undertaking and which, on exercise, would make it the majority shareholder, has effective control of the company. The company is a wholly owned subsidiary of Powell Duffryn Investments Limited.

The parent undertaking of the smallest and largest group that presents consolidated financial statements including the results of the company is NPIL Holdco Limited, a company registered in England. Nikko Cordial Corporation, a company incorporated in Japan, has beneficial ownership of the majority of the ordinary shares of NPIL Holdco Limited, however the minority shareholder has certain rights reserved to it, which means that the directors consider neither shareholder has control of this company.

Copies of the financial statements for NPIL Holdco Limited are available from the Company Secretary, NPIL Holdco Limited, 100 Pall Mall, London SW1Y 5NN.

APPENDIX II

HAMWORTHY KSE GROUP LIMITED

Company Registration Number 713225 (England)

Report of the Directors for the Year Ended 31 March 2002

1. The directors present their report and financial statements for the year ended 31 March 2002.

Activities

2. The company traded as an agency company on behalf of Hamworthy Engineering Limited.

Directors

3. The following directors held office during the year:

| | |
|--------------------|----------------------------|
| Mr M Noakes | – resigned 31 July 2002 |
| Mr K G Derrick | |
| Mr P Crompton | |
| Mr W L Belshaw | |
| Mr K G G Johansson | – resigned 14 January 2002 |
| Mr A Bentley | |
| Mr W J Larsen | |
| Mr A W Vedoy | |

The Directors have not interest in the share capital of Prestige (No. 1) Limited required to be disclosed under Schedule 7 of the Companies Act 1985.

Directors' responsibilities

4. The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2002. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

5. The Company has passed a special resolution in accordance with Section 250 of the Companies Act 1985 whereby no auditors need be appointed.

By order of the Board

P CROMPTON

Secretary
19 August 2002
Fleets Corner
Poole
Dorset

Balance sheet – 31 March 2002

| | <i>Notes</i> | <i>2002</i> <i>£000</i> | <i>2001</i> <i>£000</i> |
|---|--------------|----------------------------|----------------------------|
| Current Assets | | | |
| Debtors – amounts falling due within one year | 2 | <u>3,122</u> | <u>3,122</u> |
| Net Assets | | <u>3,122</u> | <u>3,122</u> |
| Capital and reserves | | | |
| Called up share capital | 3 | 550 | 550 |
| Share premium | | 141 | 141 |
| Profit and loss account | | <u>2,431</u> | <u>2,431</u> |
| Equity Shareholder's funds | | <u>3,122</u> | <u>3,122</u> |

For the year ended 31 March 2002 the Company was entitled to exemption under section 249aa (1) of the Companies Act 1985.

No members have required the Company to obtain an audit of its accounts for the year in question in accordance with section 249b(2).

The Directors acknowledge their responsibility for: (i) Ensuring the Company keeps accounting records which comply with section 221; and (ii) Preparing accounts which give a true and fair view of the state of affairs of the Company as at the end of its financial year, and of its profit and loss for the financial year in accordance with section 226, and which otherwise comply with the requirements of the Companies Act relating to accounts, so far as applicable to the Company.

The accounts were approved by the Board on 19 August 2002.

P CROMPTON *Director*

The notes on page 79 form part of these accounts

Notes to the Accounts – 31 March 2002

1. Basis of accounting

The financial statements have been prepared under the historical cost basis of accounting. The accounts have been prepared in accordance with applicable Accounting Standards.

All transactions undertaken in the name of Hamworthy KSE Group Limited are entered in the accounting records of Hamworthy Engineering Limited, for which the Company acts as agent.

2. Debtors

Amounts falling due within one year

| | 2002 £000 | 2001 £000 |
|---|--------------|--------------|
| Amounts owned by group companies: | | |
| Holding company and fellow subsidiaries | <u>3,122</u> | <u>3,122</u> |

3. Called up share capital

| | <i>Authorised, Issued and fully paid 2002 and 2001</i> | |
|--------------------------------|--|-----------------------|
| | <i>Number £000</i> | <i>Value £000</i> |
| “A” Ordinary Shares of £1 each | 275 | 275 |
| “B” Ordinary Shares of £1 each | <u>275</u> | <u>275</u> |
| | <u>550</u> | <u>550</u> |

4. Ultimate Holding Company

The Directors regard Prestige (No.1) Limited, a company registered in England, as being the company's ultimate holding company.

