

for the year ended 31 December 2002

Registered Number 103287



A&P Falmouth Limited

Annual report and accounts for the year ended 31 December 2002

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A&P Falmouth Limited

Directors and Advisors

Directors

I S Pike

D P Parry

K P Thompson

Secretary

K P Thompson

Auditors

PricewaterhouseCoopers LLP

89 Sandyford Road

Newcastle upon Tyne

NE99 1PL

Solicitors

DLA

Fountain Precinct

Balm Green

Sheffield

S1 1RZ

Registered Office

Western Avenue

Western Docks

Southampton

SO15 0HH

Registered Number

103287

Bankers

National Westminster Bank plc

Corporate Banking London

8th Floor

280 Bishopsgate

London

EC2M 4RB

A&P Falmouth Limited

Directors' report for the year ended 31 December 2002

The directors present their Annual Report and the audited financial statements for the year ended 31 December 2002.

Principal activity and business review

The principal activity of the company is the provision of ship repair and marine engineering services.

It is the intention of the directors to continue to develop the business taking into account the prevailing market conditions. The results for the year are shown on page 6.

Dividends

The directors do not recommend the payment of a dividend (2001: £Nil).

Directors and their interests

The names of the directors who held office during the year and at the date of this report, except where indicated, were as follows:

I S Pike
D P Parry
K P Thompson

None of the directors had any interests in the company. The interests of the directors in the shares of the ultimate holding company A&P Group Limited, are disclosed in the financial statements of that company, except as disclosed below.

The following directors had beneficial interests in the shares of the ultimate parent company, A&P Group Limited, as at 31 December:

	2002	2001
	Ordinary shares of 10p each Number	Ordinary shares of 10p each Number
I S Pike	75	75
D P Parry	40	10

A&P Falmouth Limited

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

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

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP will be proposed at the Annual General Meeting.

By order of the board



K P Thompson
Director

30 April 2003

A&P Falmouth Limited

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adoption of new accounting standards in the year as explained on page 8 under "Accounting policies". They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2002 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



K P Thompson
Director

30 April 2003

A&P Falmouth Limited

Independent auditors' report to the members of A&P Falmouth Limited

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the accounting policies 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 1895 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 in to 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.

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 the company's affairs at 31 December 2002 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
30 April 2003

A&P Falmouth Limited

Profit and loss account for the year ended 31 December 2002

	Note	2002 £	2001 £
Turnover	1	23,954,000	28,686,085
Cost of sales - before exceptional item		(21,735,913)	(25,226,882)
Cost of sales - exceptional item	2	49,599	216,400
Cost of sales		(21,686,314)	(25,010,482)
Gross profit		2,267,686	3,675,603
Administrative expenses		(4,046,032)	(2,987,269)
Operating (loss)/profit		(1,778,346)	688,334
Interest payable and similar charges	3	(228)	(941)
(Loss)/profit on ordinary activities before taxation	2	(1,778,574)	687,393
Tax on (loss)/profit on ordinary activities	6	-	-
(Loss)/retained profit for the year	14	(1,778,574)	687,393

All of the activities of the company are continuing.

There is no difference between the (loss)/profit on ordinary activities before taxation and the (loss)/retained profit for the year stated above and their historical cost equivalents.

Statement of total recognised gains and losses for the year ended 31 December 2002

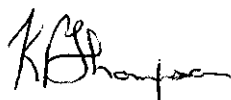
	2002 £	2001 £
(Loss)/retained profit for the year	(1,778,574)	687,393
Write off of intercompany debt	-	42,444
	(1,778,574)	729,837

A&P Falmouth Limited

Balance sheet as at 31 December 2002

	Note	2002 £	2001 £
Fixed assets			
Tangible assets	7	3,945,223	3,725,486
Current assets			
Stocks	8	461,106	454,191
Debtors	9	3,420,637	3,581,539
Cash at bank and in hand		1,455,432	2,473,427
		5,337,175	6,509,157
Creditors: amounts falling due within one year	10	(4,346,448)	(5,317,184)
Net current assets		990,727	1,191,973
Total assets less current liabilities		4,935,950	4,917,459
Creditors: amounts falling due after more than one year	11	-	(680)
Provisions for liabilities and charges	12	(2,687,210)	(889,465)
Net assets		2,248,740	4,027,314
Capital and reserves			
Called up equity share capital	13	4,750,000	4,750,000
Profit and loss account	14	(2,501,260)	(722,686)
Equity shareholders' funds	15	2,248,740	4,027,314

The financial statements on pages 6 to 22 were approved by the board of directors on 30 April 2003 and were signed on its behalf by:



K P Thompson
Director

A&P Falmouth Limited

Accounting policies

These financial statements are prepared on the going concern basis and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared under the historical cost convention.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the costs of tangible fixed assets, less their estimated residual values on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Long leasehold improvements	2 - 10%
Plant and machinery	2½%- 33⅓%

Assets held under finance leases are depreciated over a period equal to the expected useful economic lives of the asset categories concerned.

Operating and finance lease agreements

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

Stocks

Stocks are stated at the lower of cost and net realisable value. Provision is made for obsolete, slow moving or defective items where appropriate.

Contract balances

Amounts recoverable on contracts are shown at valuation, less amounts invoiced or received. Valuation includes the cost of materials and direct labour, together with attributable profit, estimated to be earned to date. Direct labour hours are used to determine the level of completion for routine and normal ship repair contracts. In circumstances where application of the above policy would unduly accelerate or delay the recognition of profits materially, other direct costs are taken into account. Full provision is made for any known or anticipated losses. The excess of payments received over amounts recorded as turnover is classified under creditors within one year as payments on account.

Turnover

Turnover comprises the sales value of goods and services supplied in the normal course of business. Also included in turnover are the values of contracts in progress based on the level of completion. All sales are shown exclusive of Value Added Tax.

A&P Falmouth Limited

Deferred taxation

With effect from 1 January 2002, the company changed its accounting policy on deferred taxation upon the implementation of Financial Reporting Standard No 19. Deferred taxation is now recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. This is with the exception of deferred taxation assets, which are only recognised if it is considered more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted. Previously, provision for deferred taxation was made using the liability method on all material timing differences to the extent that it was considered probable that a liability or asset would crystallise. The impact on the profit and loss account and the balance sheet is £nil.

Pension scheme arrangements

The company operates two defined benefit pension schemes. The funds are valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the schemes.

The company provides no other post-retirement benefits to its employees.

Cash flow statement

The company is a wholly owned subsidiary and is exempt under the terms of Financial Reporting Standard No 1 revised from publishing a cash flow statement.

A&P Falmouth Limited

Notes to the financial statements for the year ended 31 December 2002

1 Geographical analysis of turnover by destination

	2002 £	2001 £
United Kingdom	19,332,214	23,725,037
Rest of Europe	1,952,703	1,730,191
North America	568,058	807,054
Rest of World	2,101,025	2,423,803
	23,954,000	28,686,085

2 (Loss)/profit on ordinary activities before taxation

(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):

	2002 £	2001 £
Depreciation of tangible fixed assets:		
- Owned assets	388,811	293,686
- Assets held under finance leases and hire purchase contracts	2,448	75,513
Hire of plant and machinery – operating leases	183,854	145,206
Auditors' remuneration	14,500	14,100
Fees paid to auditors for non-audit services	5,620	5,460
Loss/(profit) on sale of tangible fixed assets	869	(15,018)
Property rental	795,882	1,003,324
Exceptional cost of sales	(49,599)	(216,400)
Exceptional administrative expenses	1,875,000	792,192

Exceptional cost of sales relate to receipt of insurance proceeds.

Exceptional administrative expenses relate to provisions for employee litigation claims (see note 12).

A&P Falmouth Limited

3 Interest payable and similar charges

	2002	2001
	£	£
Hire purchase and finance lease interest	228	941

4 Employee information

The average monthly number of persons (including executive directors) employed by the company during the year was:

	2002	2001
	Number	Number
Direct employees	485	538
Indirect employees	34	34
	519	572

	2002	2001
	£	£
Staff costs for the above persons:		
Wages and salaries	11,456,664	13,511,152
Social security costs	803,472	906,790
Other pension costs (note 19)	659,788	595,813
	12,919,924	15,013,755

A&P Falmouth Limited

5 Directors' emoluments

Directors' remuneration (including payments made by other group companies) was paid in respect of directors of the company as follows:

	2002	2001
	£	£
Aggregate emoluments	87,858	100,623

Retirement benefits are accruing to one (2001: two) director under the company's defined benefit scheme.

The emoluments of certain directors, who are also directors of a number of group companies, are borne in full by the principal employing company. No recharge is made as these directors provide services primarily to the principal employer. These directors' emoluments are included in the aggregate of directors' emoluments disclosed in the financial statements of the principal employer.

6 Tax on (loss)/profit on ordinary activities

(a) Analysis of charge in the year

	2002	2001
	£	£
Current tax:		
UK corporation tax on profits of the period	-	-
Adjustment in respect of previous periods	-	-
Total current tax	-	-
Deferred tax:		
Origination and reversal of timing differences	-	-
	-	-

A&P Falmouth Limited

(b) Factors affecting tax charge for the year

The tax assessed for the period differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £	2001 £
(Loss)/profit on ordinary activities before tax	(1,778,574)	687,393
(Loss)/profit on ordinary activities multiplied by standard rate in the UK 30% (2001: 30%)	(533,572)	206,218
Effects of:		
Permanent differences	15,300	7,325
Accelerated capital allowances and other timing differences	102,304	84,997
Timing differences	292,500	(20,344)
Losses	123,468	(82,598)
Group relief not paid	-	(195,598)
Current tax charge for the period	-	-

Deferred tax

The amounts of deferred tax asset unprovided for in the accounts at the year end were as follows:

	2002 £	2001 £
Excess of tax allowances over depreciation	186,923	84,619
Other timing differences	354,864	62,364
Losses	123,468	-
	665,255	146,983

These assets have not been provided since, in the opinion of the directors, it is more likely than not that they will be irrecoverable in the short term.

A&P Falmouth Limited

7 Tangible assets

	Long leasehold improvements	Plant and machinery	Total
	£	£	£
Cost			
At 1 January 2002	954,635	7,219,303	8,173,938
Additions	264,830	346,447	611,277
Disposals	-	(123,097)	(123,097)
At 31 December 2002	1,219,465	7,442,653	8,662,118
Accumulated depreciation			
At 1 January 2002	145,852	4,302,600	4,448,452
Charge for the year	49,260	341,999	391,259
Eliminated in respect of disposals	-	(122,816)	(122,816)
At 31 December 2002	195,112	4,521,783	4,716,895
Net book amount			
At 31 December 2002	1,024,353	2,920,870	3,945,223
At 31 December 2001	808,783	2,916,703	3,725,486

Included in plant and machinery at 31 December 2002 are leased assets with a net book value of £13,410 (2001: £15,858).

8 Stocks

Stocks comprise raw materials and consumables.

9 Debtors

	2002	2001
	£	£
Trade debtors	1,981,435	1,762,831
Amounts recoverable on contracts	413,808	171,075
Amounts owed by group undertakings	834,621	1,280,363
Other debtors	103,197	183,088
Prepayments and accrued income	87,576	184,182
	3,420,637	3,581,539

A&P Falmouth Limited

10 Creditors: amounts falling due within one year

	2002	2001
	£	£
Trade creditors	2,215,164	2,326,765
Payments on account	-	181,094
Amounts due to group undertakings	674,603	400,276
Obligations under finance leases	680	6,742
Other taxation and social security	480,567	576,412
Other creditors	276,681	-
Accruals and deferred income	698,753	1,825,895
	4,346,448	5,317,184

11 Creditors: amounts falling due after more than one year

	2002	2001
	£	£
Obligations under finance leases	-	680

The net finance lease obligations to which the company are committed are:

In one year or less	680	6,742
Between one and two years	-	680
	680	7,422

12 Provision for liabilities and charges

	Pension provision	Other provision	Other
	£	£	£
At 1 January 2002	160,601	728,864	889,465
Charged to profit and loss account	28,115	1,875,000	1,903,115
Utilised during the year	(28,115)	(77,255)	(105,370)
At 31 December 2002	160,601	2,526,609	2,687,210

A&P Falmouth Limited

The pension provision results from the difference between amounts recognised as a cost and the amounts paid into the pension scheme. The provision is expected to be utilised over 12 years, being the average service life of the pension scheme members.

The company, in conjunction with its insurers, remains party to a number of employee litigation claims. The directors believe that the litigation and related costs arising from such claims will continue for the foreseeable future. An additional provision of £1,875,000 has been made following professional advice based on experience and potential costs. In determining the provision, expected future liabilities have been discounted on a pre-tax basis using a discount rate of 4.25%. The provision is expected to be utilised over the next 25 years.

No account has been taken of expected recoveries from insurers or insurance compensation schemes as they cannot at this time be regarded as virtually certain. Nevertheless the directors expect to make significant recoveries in due course following the settlement of any of these claims.

13 Called up equity share capital

	2002	2001
	£	£
Authorised, allotted, called up and fully paid		
4,750,000 (2001: 4,750,000) ordinary shares of £1 each	4,750,000	4,750,000

14 Reserves

	Profit and loss account £
At 1 January 2002	(722,686)
Loss for the financial year	(1,778,574)
At 31 December 2002	(2,501,260)

A&P Falmouth Limited

15 Reconciliation of movements in equity shareholders' funds

	2002	2001
	£	£
(Loss)/retained profit for the financial year	(1,778,574)	687,393
Write off of intercompany debt	-	42,444
Equity shareholders' funds at 1 January	4,027,314	3,297,477
Equity shareholders' funds at 31 December	2,248,740	4,027,314

The write off of intercompany debt related to amounts forgiven as a result of the group restructuring on 16 August 2001. These were identified as funding rather than trading balances.

16 Contingent liabilities

The company has entered into cross guarantees in favour of National Westminster Bank plc regarding bank overdrafts held by other A&P Group Limited group companies which at 31 December 2002 amounted to £Nil.

17 Capital commitments

	2002	2001
	£	£
Contracts placed for future capital expenditure not provided in the financial statements	-	189,664

18 Financial commitments

At 31 December 2002 the company had annual commitments under non-cancellable operating leases expiring as follows:

	Land and buildings		Plant and machinery	
	2002	2001	2002	2001
	£	£	£	£
Within one year	-	-	9,010	1,493
Within two to five years	-	-	169,587	153,748
After five years	920,890	796,618	-	-
	920,890	796,618	178,597	155,241

A&P Falmouth Limited

19 Pension arrangements

(c) Pension costs under SSAP 24

The company participates in the Shipbuilding Industries Pension Scheme (SIPS), defined benefit pension scheme which is administered by trustees and is separate from the company's finances, providing benefits based on final pensionable pay. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified independent actuary on the basis of triennial valuations using the Attained Age method. The most recent valuation was at 1 April 2001 and updated to 31 December 2002.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of increase in salaries and pensions. It was assumed that investment returns would be 7.25% per annum, that salary increases would average 4.0% per annum and that present and future pensions would increase at the rate of 2.5% per annum.

The pension charge in respect of the above scheme, for the year was £631,673 (2001: £567,102).

The most recent actuarial valuation showed that the market value of the scheme's assets was £21,465,000 and that the actuarial value of those assets represented 91% of the benefits that have accrued to members, after allowing for expected future increases in earnings.

Certain of the company's employees are members of the A&P Group defined benefit pension scheme whose principal participating employer is A&P Group Limited. The company's contributions to this scheme are included in the profit and loss pension charge. Further details of the scheme are disclosed in the consolidated financial statements of A&P Group Limited. The pension costs for the year were £28,115 (2001: £28,711).

There is a provision for pension costs of £160,601 (2001: £160,601) in the balance sheet for this scheme, arising from the accumulated difference between the contributions paid to the scheme and corresponding pension costs.

(b) Pension disclosures under FRS 17 transitional arrangements

The Accounting Standards Board issued Financial Reporting Standard 17 (FRS 17) "Retirement Benefits" in November 2000. The implementation of the new standard is to be phased in during the three years to 31 December 2003. The value of the provision that would be included in the balance sheet at 31 December 2002 if FRS 17 had been fully adopted in the financial statements is disclosed below.

The major assumptions used by the actuaries were:

	2002	2001
Rate of increase in salaries	3.75%	5.75%
Rate of increase in pension payments	2.25%	2.5%
Discount rate	5.5%	4.0%
Inflation assumption	2.25%	2.5%

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The assets in the schemes and the expected rates of return were:

	Long term expected rate of return at 31 December 2002	Value at 31 December 2002 £000	Long term expected rate of return at 31 December 2001	Value at 31 December 2001 £000
Equities	9%	14,098	7.5%	19,318
Fixed interest gilts	4.5%	1,566	5.0%	2,147
Total market value of assets		15,664		21,465
Present value of liabilities		(23,151)		(23,644)
Net deficit in scheme		(7,487)		(2,179)

If the above amounts had been recognised in the financial statements, then the company's net liabilities and profit and loss reserve at 31 December 2002 would be as follows:

	£000
Net assets	2,849
Pension provision under SSAP 24	161
Net pension liability under FRS 17	(7,487)
Net liabilities including net pension liability	(4,477)
Profit and loss reserve	(1,901)
Pension provision under SSAP 24	161
Net pension liability under FRS 17	(7,487)
Profit and loss reserve including net pension liability	(9,227)

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Analysis of the amount charged to operating profit

	2002 £000
Current service cost	574
Past service cost	-
Total operating charge	574

Analysis of the amount creditor to other financial income:

Expected return on pension scheme assets	1,346
Interest on pension scheme liabilities	(1,195)
Net return	151

	2002 £000
Analysis of amount recognised in statement of total recognised gains and losses:	
Actual return less expected return on pension scheme assets	(4,452)
Experience gains and losses arising on scheme liabilities	(609)
Changes in assumptions underlying the present value of the scheme liabilities	(456)
Actuarial loss recognised in the statement of total recognised gains and losses	(5,517)

	2002 £000
Movement in deficit during the year:	
Deficit at 1 January	(2,179)
Movement in the year:	
Current service cost	(574)
Contributions	632
Other finance income	151
Actuarial loss	(5,517)
Deficit at 31 December	(7,487)

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20 Related party transactions

The company has taken advantage of the exemptions available under Financial Reporting Standard No 8 and has not disclosed transactions with companies that are part of the A&P Group Limited group of companies.

During the year the company carried out a number of transactions with related parties in the normal course of business and on an arm's length basis. The names of the related parties, nature of these transactions and their total value is shown below:

	2002		2001	
	Value of transactions £	Receivable/ (payable) at the year end £	Value of transactions £	Receivable/ (payable) at the year end £
Transactions with A&PA Property Limited:				
Rental payments payable	922,383	(72,917)	1,003,324	(280,242)
Purchase of tangible fixed assets	-	-	207,373	(207,373)
Cash receipts on behalf of A&PA Property Limited	-	-	50,000	(50,000)
Transactions with Falmouth Docks and Engineering Company (FDEC):				
Services and supplies from FDEC	475,000	(23,000)	180,000	(41,000)
Services and supplies to FDEC	1,338,000	51,000	464,000	50,000

The above companies are subsidiaries of the A&P Ports and Properties Limited group. This group is considered to be a related party of the A&P Group Limited group by virtue of common influence and control of the two groups.

A&P Falmouth Limited

21 Parent companies and controlling parties

The immediate parent undertaking is A&P Ship Repairers Limited. The directors regard A&P Group Limited, which is incorporated in England and Wales, as the ultimate parent company and immediate controlling party. Copies of the parent's consolidated financial statements may be obtained from:

Registrar of Companies
Crown Way
Maindy
Cardiff
CF4 3UZ

For the purpose of Financial Reporting Standard No 8, The Royal Bank of Scotland Group plc is regarded as the ultimate controlling party by reason of its share holding in A&P Group Limited through its subsidiary Royal Bank Investments Limited.

