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PEAT
MARWICK

FALMOUTH SHIPREPAIR LIMITED
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DIRECTORS' REPORT AND ACCOUNTS
31ST JULY 1986

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OFFICE

FALMOUTH SHIPREPAIR LIMITED
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DIRECTORS' REPORT AND ACCOUNTS
31ST JULY 1986

PEAT, MARWICK, MITCHELL & CO.
TRURO

FALMOUTH SHIPREPAIR LIMITED

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DIRECTORS' REPORT

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The directors present their annual report and the audited accounts for the period from 1st April 1985 to 31st July 1986.

BUSINESS REVIEW

On 10th January 1986 the company changed its accounting reference date from 31st March to 31st July to accord with that of its ultimate holding company.

The principal activity of the company during the period was that of ship repairing. The principal activities of the subsidiaries were the owning of the harbour, wharves and dry docks in the Port of Falmouth and ancillary shipping services.

	£000

Group profit before taxation on ordinary activities	2
Taxation	-

Group profit for the period	2
	=====

No dividend is proposed.

The directors consider the result for the period to be satisfactory, in the light of prevailing market conditions.

FUTURE DEVELOPMENTS

While market conditions continue to be difficult with ship repair prices at very low levels the directors are making every effort to attract new shiprepair business and develop port activities.

FIXED ASSETS

Changes in the fixed assets of the company and of the group are shown in note 9 to the accounts. The directors are of the opinion that the open market value of the freehold land and buildings is substantially in excess of the book amount but in the context of a continuing business this excess would not be of significance to the members.

SIGNIFICANT SHAREHOLDINGS

At 12th September 1986, Cnehold Limited held 100% of the share capital of the company.

DIRECTORS

The directors who served during the period were:

D.W. Pascoe
B. Dunstan
D. Wood
P.R.H. Nash
D.S. McLean
T.C. Mordaunt
J.R. Campbell (appointed 25th July 1985)
T.K. Duncan (appointed 4th September 1985)
R.G. Woodhead (appointed 12th June 1986)

FALMOUTH SHIPREPAIR LIMITED

DIRECTORS' REPORT

(continued)

DIRECTORS (continued)

The directors regret to announce the death of Mr. P.R.H. Nash on 7th May 1986.

No director held shares in the company or any other group company at any time during the period.

EMPLOYEES

The company has a developing system of consultation and involvement which it considers to be an integral part of its business activity. The company has sound working relationships with the trade unions and has developed effective communication programmes designed to ensure that employees are more aware of the changing needs of the industry and the ways in which it is shaping future policy and tackling problems.

The company gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately covered by a handicapped or disabled person. Where employees become disabled the company endeavours to continue to employ them provided there are duties which they can perform, bearing in mind the handicap or disability. As far as possible, training, career development and promotion are available to handicapped and disabled persons where this is in their own as well as the company's best interests.

During the period the company concluded a new radical working agreement covering all employees of the company and its subsidiaries. The new conditions include a 37½ hour week with two-shift working, the introduction of a common sick pay scheme and full flexibility and interchangeability of labour within groups.

As part of the agreement a system of consultation and involvement is being developed and implemented, with the agreement of the Trade Unions. It is designed to ensure employees are aware of the matters which influence their security of employment and competitiveness.

AUDITORS

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of Peat, Marwick, Mitchell & Co. as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

D. WOOD

Secretary

Falmouth Docks,
FALMOUTH;
Cornwall.

12th September 1986

REPORT OF THE AUDITORS TO THE MEMBERS OF
FALMOUTH SHIPREPAIR LIMITED
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We have audited the accounts on pages 4 to 17 in accordance with approved Auditing Standards.

In our opinion the accounts, which have been prepared on the basis of the accounting policies set out on pages 8 and 9, give a true and fair view of the state of the affairs of the company and of the group at 31st July 1986 and of the profit and source and application of funds of the group for the period from 1st April 1985 to 31st July 1986 and comply with the Companies Act 1985.

PEAT, MARWICK, MITCHELL & CO.

Chartered Accountants

TRURO.

12th September 1986

FALMOUTH SHIPREPAIR LIMITED

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CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE PERIOD FROM 1ST APRIL 1985 TO 31ST JULY 1986

	<u>Note</u>	1 April 1985 to 31 July 1986	1 April 1984 to 31 March 1985
		£000	£000
TURNOVER	2	13205	7856
Change in stocks of finished goods and work in progress		161	298
Own work capitalised		44	56
Other operating income		26	14
Raw materials and consumables		(4456)	(1721)
Other external charges		(2023)	(1437)
Staff costs	3	(6641)	(4646)
Depreciation		(288)	(213)
Other operating charges		-	(7)
Interest (payable)/receivable	4	(26)	16
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	2	216
Tax on profit on ordinary activities	7	-	31
PROFIT FOR THE FINANCIAL PERIOD	8	2	247
Accumulated deficit brought forward		(2280)	(2527)
ACCUMULATED DEFICIT CARRIED FORWARD		(2278)	(2280)

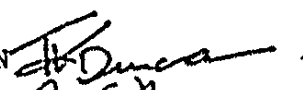
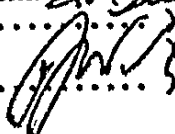
The notes on pages 8 to 17 form
part of these accounts.

FALMOUTH SHIPREPAIR LIMITED
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CONSOLIDATED BALANCE SHEET
AT 31ST JULY 1986

	Note	31 July 1986		31 March 1985	
		£000	£000	£000	£000
FIXED ASSETS					
Tangible assets	9		1924		1721
CURRENT ASSETS					
Stocks	11		771		563
Debtors	12		1514		2028
Cash at bank and in hand			473		194
			-----		-----
			2758		2785
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	13		(1990)		(1910)
			-----		-----
NET CURRENT ASSETS			768		875
			-----		-----
TOTAL ASSETS LESS CURRENT LIABILITIES			2692		2596
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	14		(94)		-
			-----		-----
NET ASSETS			2598		2596
			=====		=====
CAPITAL AND RESERVES					
Called up share capital	15		4750		4750
Profit and loss account			(2278)		(2280)
Other reserves	16		126		126
			-----		-----
			2598		2596
			=====		=====

These accounts were approved by the board
of directors on 12th September 1986

T.K. DUNCAN 
.....
D. WOOD  Directors
.....

The notes on pages 8 to 17 form
part of these accounts.

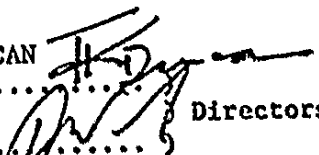
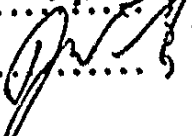
FALMOUTH SHIPREPAIR LIMITED

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BALANCE SHEET
AT 31ST JULY 1986

	Note	31 July 1986		31 March 1985	
		£000	£000	£000	£000
FIXED ASSETS					
Tangible assets	9	457		300	
Investments	10	1556		1588	
			2013		1888
CURRENT ASSETS					
Stocks	11	726		506	
Debtors	12	1254		1726	
Cash at bank and in hand		373		170	
		2353		2402	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	13	(1828)		(1792)	
NET CURRENT ASSETS			525		610
TOTAL ASSETS LESS CURRENT LIABILITIES			2538		2498
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	14		(243)		(208)
NET ASSETS			2295		2290
CAPITAL AND RESERVES					
Called up share capital	15		4750		4750
Profit and loss account			(2455)		(2460)
			2295		2290

These accounts were approved by the board
of directors on 12th September 1986

T.K. DUNCAN 
.....
D. WOOD  Directors
.....

The notes on pages 8 to 17 form
part of these accounts.

FALMOUTH SHIPREPAIR LIMITED

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CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE PERIOD FROM 1ST APRIL 1985 TO 31ST JULY 1986

	1 April 1985 to 31 July 1986	1 April 1984 to 31 March 1985
	£000	£000
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	2	216
Adjustments for items not involving the movement of funds		
Depreciation	288	213
Surplus on sale of tangible fixed assets	(26)	(5)
Transfer to property repair provision	67	50
	-----	-----
FUNDS GENERATED FROM OPERATIONS	331	474
FUNDS FROM OTHER SOURCES		
Proceeds of sale of tangible fixed assets	65	6
Loan repayments from British Shipbuilders	-	445
Increase in creditors: amounts falling due after more than one year	94	-
	-----	-----
	159	451
	-----	-----
	490	925
APPLICATION OF FUNDS		
Purchase of preference shares in subsidiary	-	173
Purchase of fixed assets (net of grants)	530	428
Group relief paid	-	131
Repayment of debenture stock	640	39
	-----	-----
	1170	771
	-----	-----
(DECREASE)/INCREASE IN WORKING CAPITAL	(680)	154
	=====	=====
COMPONENTS OF (DECREASE)/INCREASE IN WORKING CAPITAL		
Stocks	208	340
Debtors	(514)	222
Creditors falling due within one year	(653)	(771)
Movement in net liquid funds:		
Increase in cash at bank and in hand	279	272
	-----	-----
	(680)	154
	=====	=====

FALMOUTH SHIPREPAIR LIMITED

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's accounts:

(a) Basis of accounting

The accounts have been prepared under the historical cost convention.

(b) Consolidation

The consolidated accounts incorporate the accounts of the company and all of its subsidiaries. The accounts of all group companies are made up to 31st July (previously 31st March).

A separate profit and loss account dealing with the results of the company only has not been presented.

(c) Subsidiaries

Investments in subsidiaries are shown in the balance sheet as the sum of the following:

- i) the cost of subsidiaries, less amounts written off
- ii) loans to subsidiaries, less provision for non-recovery

In the case of those subsidiaries which have a deficiency of net assets, separate provision is made for the amount of the deficiencies, which represents a liability to third parties.

(d) Depreciation

Depreciation is calculated on an annual basis so as to write off the cost (net of grants) of tangible fixed assets over their estimated useful lives as follows:

Freehold buildings	2% on cost
Leasehold improvements	2% on cost
Plant and machinery	3% - 20% on cost
Motor vehicles	25% on cost

Depreciation is not provided on freehold land and assets in the course of construction.

(e) Leased assets

Where assets are acquired by leasing arrangements which give rights approximating to ownership ("finance leases") the amount representing the outright purchase price of such assets (less government grants) is included in tangible fixed assets. Depreciation is provided at rates designed to write off this net cost in equal annual amounts over the shorter of the estimated useful lives of the assets (which are the same as those for assets purchased outright) or the period of the leases.

The capital element of future rentals is treated as a liability and the interest element is charged to profit and loss account over the period of the leases in proportion to the balances outstanding.

Expenditure on leases other than finance leases ("operating leases") is charged to profit and loss account on a basis representative of the benefit derived from the asset, normally corresponding to the basis on which rentals accrue.

FALMOUTH SHIPREPAIR LIMITED

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NOTES TO THE ACCOUNTS

(continued)

(f) Stocks

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

(g) Work in progress

Work in progress is valued at cost of materials, direct labour and overhead expenses (other than interest) allocated on an estimated normal level of activity.

Provision is made for all losses expected to arise to completion of contracts in progress or entered into up to the balance sheet date, whether or not work has commenced. Loss provisions are calculated after making detailed assumptions about future material, labour and overhead costs. The proportion of total losses applicable to progress to date is deducted from cost of work in progress.

When contracts are substantially complete and the final outcome can be reasonably foreseen, a proportion of the contract value, having regard to the stage of completion of each contract, is recognised as turnover together with the related profit.

This is a change from the previous accounting policy of recognising turnover and profits on completion of contracts. If the new policy had been adopted for the year to 31st March 1985, the results would not have changed from those originally reported.

Net work in progress after deduction of loss provisions is reduced by payments on account received and receivable. To the extent that payments on account exceed net work in progress on particular contracts the excess is shown separately under creditors: amounts falling due within one year.

(h) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect of all timing differences to the extent that it is probable that liabilities will crystallise in the foreseeable future.

(i) Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction, unless settlement has been covered by a forward exchange contract, in which case, the contract rate is used. Balances denominated in a foreign currency are translated into sterling at the exchange rates ruling on the balance sheet date.

FALMOUTH SHIPREPAIR LIMITED
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NOTES TO THE ACCOUNTS

(continued)

2. TURNOVER

Turnover represents amounts invoiced by the group in respect of work done during the period. The analysis of turnover by geographical area is as follows:

	1 April 1985 to 31 July 1986	1 April 1984 to 31 March 1985
	£000	£000
United Kingdom	10074	5844
Rest of EEC	1072	403
Rest of Europe	87	557
Africa	76	280
America	484	587
Asia	856	185
Australasia	556	—
	-----	-----
	13205	7856
	=====	=====

3. STAFF NUMBERS AND COSTS

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

	1 April 1985 to 31 July 1986	1 April 1984 to 31 March 1985
Direct employees	305	296
Indirect employees	176	178
	-----	-----
	481	474
	=====	=====

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	5909	4130
Social security costs	442	320
Other pension costs	290	196
	-----	-----
	6641	4646
	=====	=====

FALMOUTH SHIPREPAIR LIMITED

NOTES TO THE ACCOUNTS

(continued)

4. INTEREST (PAYABLE)/RECEIVABLE

	1 April 1985 to 31 July 1986	1 April 1984 to 31 March 1985
	£000	£000
Received on:		
Bank deposit account	16	-
British Shipbuilders current account	-	49
Paid on:		
5% debenture stock 1980/85	(16)	(33)
Bank current account	(26)	-
	(26)	16
	=====	=====

The debenture stock was redeemed at par on 30th September 1985.

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging the following:

	1 April 1985 to 31 July 1986	1 April 1984 to 31 March 1985
	£000	£000
Directors' emoluments		
As directors	-	-
Remuneration as executives	202	75
Hire of plant	13	18
Auditors' remuneration	13	12
	=====	=====

6. DIRECTORS

The emoluments of the directors, excluding pension contributions, were as follows:

	1 April 1985 to 31 July 1986	1 April 1984 to 31 March 1985
£ 0 - £ 5,000	5	3
£ 20,001 - £ 25,000	-	2
£ 30,001 - £ 35,000	1	-
£ 45,000 - £ 50,000	2	-
£ 50,001 - £ 55,000	1	-

The emoluments of the current chairman, who was also the highest paid director were £55,000 (1985 £26,000).

During the year, J.R. Campbell was granted a short term interest-free bridging loan to facilitate the purchase of a house following his move to Falmouth to take up his new appointment. The maximum outstanding liability during the year was £53,387. The loan was repaid in full on 25th July 1986.

FALMOUTH SHIPREPAIR LIMITED

NOTES TO THE ACCOUNTS

(continued)

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1 April 1985 to 31 July 1986	1 April 1984 to 31 March 1985
	£000	£000
Taxation based on the profit for the period	-	-
Adjustment for group relief in prior period	-	(31)
	-	(31)
	====	====

The company has estimated tax losses available to carry forward against future trading profits of £2,887,000 (1985 £3,152,000).

8. PROFIT FOR THE FINANCIAL PERIOD

	1 April 1985 to 31 July 1986	1 April 1984 to 31 March 1985
	£000	£000
Dealt with in the accounts of the holding company	6	240
Retained by subsidiaries	(4)	7
	2	247
	====	====

9. TANGIBLE FIXED ASSETS

Group:	Freehold land and buildings	Plant & machinery	Motor vehicles	Assets in course of construction	Total
	£000	£000	£000	£000	£000
Cost:					
At 1st April 1985	4830	3898	140	21	8889
Additions (net of grants)	(10)	274	64	202	530
Disposals	-	(63)	(77)	-	(140)
At 31st July 1986	4820	4109	127	223	9279
Depreciation:					
At 1st April 1985	4346	2757	65	-	7168
Disposals	-	(60)	(41)	-	(101)
Charged in period	66	190	32	-	288
At 31st July 1986	4412	2887	56	-	7355
Net book value:					
At 31st July 1986	408	1222	71	223	1924
At 31st March 1985	485	1141	75	21	1721

Freehold land at 31st July 1986, included above, amounted to £135,000 (1985 £135,000).

The net book value of plant and machinery of £1,222,000 includes an amount of £129,000 (1985 nil) in respect of assets held under finance leases.

FALMOUTH SHIPREPAIR LIMITED

NOTES TO THE ACCOUNTS

(continued)

9. TANGIBLE FIXED ASSETS (continued)

Company:	Long leasehold property	Plant & machinery	Motor vehicles	Assets in course of construction	Total
	£000	£000	£000	£000	£000
Cost:					
At 1st April 1985	1020	1305	140	21	2486
Additions (net of grants)	-	217	64	16	297
Disposals	-	(8)	(77)	-	(85)
At 31st July 1986	1020	1514	127	37	2698
Depreciation:					
At 1st April 1985	956	1165	65	-	2186
Disposals	-	(5)	(41)	-	(46)
Charged in period	3	66	32	-	101
At 31st July 1986	959	1226	56	-	2241
Net book value:					
At 31st July 1986	61	288	71	37	457
At 31st March 1985	64	140	75	21	300

The net book value of plant and machinery of £288,000 includes an amount of £129,000 (1985 nil) in respect of assets held under finance leases.

The company has been granted a long lease over certain freehold properties owned by The Falmouth Docks and Engineering Company. The value of the freehold and the value of the long leasehold property granted over that freehold are merged in the group statement of net assets and included as freehold property. The long leasehold property represents tenants' improvements.

10. INVESTMENTS (HELD AS FIXED ASSETS)

	Company	
	31 July 1986	31 March 1985
	£000	£000
Investments	1166	1137
Loans to subsidiaries	390	451
	1556	1588

The loans are interest free and have no fixed repayment dates.

FALMOUTH SHIPREPAIR LIMITED

NOTES TO THE ACCOUNTS

(continued)

10. INVESTMENTS (HELD AS FIXED ASSETS) (continued)

The movement in the investments in subsidiaries is as follows:

Cost	
At 1st April 1985 and 31st July 1986	£ 3234

Amounts written off	
At 1st April 1985	2097
Written back during period	(29)

At 31st July 1986	2068

Book value	
At 31st July 1986	1166
	=====
At 31st March 1985	1137
	=====

All operating subsidiary companies are wholly owned; their shares are all ordinary shares except in the case of The Falmouth Docks and Engineering Company where the shares in issue are ordinary and preference.

Operating subsidiaries are as follows:

The Falmouth Docks and Engineering Company
 The Falmouth Towage Company Limited
 Falmouth Docks Oil Exploration Base Limited

11. STOCKS

	Group		Company	
	31 July 1986	31 March 1985	31 July 1986	31 March 1985
	£000	£000	£000	£000
Raw materials and consumables	269	222	224	165
Work in progress	502	341	502	341
	-----	-----	-----	-----
	771	563	726	506
	=====	=====	=====	=====

12. DEBTORS

	Group		Company	
	31 July 1986	31 March 1985	31 July 1986	31 March 1985
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	1245	1675	962	1484
Amounts owed by group companies (less provisions)	-	-	44	98
Other debtors	193	341	186	142
Prepayments and accrued income	76	12	62	2
	-----	-----	-----	-----
	1514	2028	1254	1726
	=====	=====	=====	=====

FALMOUTH SHIPREPAIR LIMITED

NOTES TO THE ACCOUNTS

(continued)

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	31 July 1986	31 March 1985	31 July 1986	31 March 1985
	£000	£000	£000	£000
Debenture stock	-	640	-	640
Trade creditors	1168	829	1166	821
Social security and other taxes	140	142	116	122
Provision for net deficiency in assets of subsidiaries	11	11	38	11
Obligations under finance leases	28	-	28	-
Other creditors	216	175	167	133
Accruals and deferred income	368	99	313	65
Property repair provision	59	14	-	-
	1990	1910	1828	1792

The debenture stock was redeemed at par on 30th September 1985.

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	31 July 1986	31 March 1985	31 July 1986	31 March 1985
	£000	£000	£000	£000
Obligations under finance leases	94	-	94	-
Group relief	-	-	-	26
Amounts owed to Falmouth Docks Oil Exploration Base Limited	-	-	149	182
	94	-	243	208

15. SHARE CAPITAL

	Group		Company	
	31 July 1986	31 March 1985	31 July 1986	31 March 1985
	£000	£000	£000	£000
Authorised, allotted, called up and fully paid: 4,750,000 ordinary shares of £1 each	4750	4750	4750	4750

NOTES TO THE ACCOUNTS

(continued)

16. OTHER RESERVES

This arises on the acquisition of the preference shares with a nominal value of £299,000 in The Falmouth Docks and Engineering Company from British Shipbuilders for a consideration of £173,000.

17. DEFERRED TAXATION

No provision is necessary at 31st March 1985 and 31st July 1986.

18. COMMITMENTS

	Group		Company	
	31 July 1986	31 March 1985	31 July 1986	31 March 1985
	£000	£000	£000	£000
Contracted for but not provided for	125	50	43	-
Authorised but not contracted for	-	6	-	-
	125	56	43	-
Estimated grants receivable	-	5	-	-

Future rental obligations under operating leases relating to plant and machinery are as follows:

	Group and Company
	£000
Year ending 31st July	
1987	6
1988	6
1989	6
1990	4
and after	-
	22

19. CONTINGENT LIABILITY

There was outstanding at the year end a performance bond entered into in the ordinary course of business amounting to £66,654. The bond was released on 1st August 1986.

FALMOUTH SHIPREPAIR LIMITED

NOTES TO THE ACCOUNTS

(continued)

20. PENSIONS

The company has signed a Deed of Continued Participation with Hadrian Trustees Limited, which on 6th April 1986 replaced British Shipbuilders Pension Trustee Limited as trustees of the pension scheme. The British Shipbuilders Pension Scheme was renamed The Shipbuilding Industries Pension Scheme on 7th April 1986.

This scheme is contributory and provides pensions related to final pensionable pay. The scheme is externally funded and the company contributes in accordance with the advice of the scheme's actuaries based on their triennial actuarial valuations. The actuarial method adopted is designed to provide for accrued benefits at an intermediate rate higher than that required on the discontinuance basis and lower than that required on a full projected benefit basis.

The last actuarial valuation, carried out at 6th April 1984, disclosed a small surplus. A valuation is at present being carried out and the results should be known in January 1987.

21. HOLDING COMPANY

The company's holding company is Cuehold Limited, a company incorporated in Great Britain.