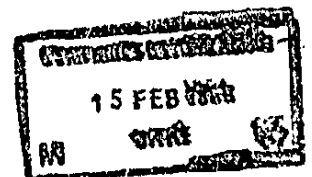


GAVEL SECURITIES LIMITED AND ITS SUBSIDIARIES

31 DECEMBER 1986

1898682



Price Waterhouse



DIRECTORS' REPORT

The directors submit their report and audited accounts for the year ended 31 December 1986.

REVIEW OF THE BUSINESS

The company is a holding company. The principal activities of the group are the exploitation of Trade Marks and Copyrights in connection with Laser sailing boats together with related spares and accessories. New products have been added to the range sold during the period and further new products are under development.

TRADING RESULTS

The consolidated trading loss for the period to 31 December 1986 was £181,675 on a turnover of £2,997,073. No dividend is proposed, and the loss has been deducted from capital and reserves at 31 December 1986.

FIXED ASSETS

The company has acquired no fixed assets during the period. The assets shown in the consolidated balance sheet represent the assets of the two subsidiaries (see note 8).

DIRECTORS

JDT Greenall (Chairman)
TW Coventry
PACH Phipps
IB Bruce
JML Stone

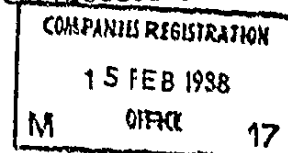
In accordance with the Articles of Association, retirement by rotation does not apply.

The interests of the above named directors in the 10p ordinary shares of the company at 31 December 1986 and 31 December 1985 were as follows:

	<u>31 December 1986</u>	<u>31 December 1985</u>
TW Coventry	111,101	111,101
PACH Phipps	111,101	111,101

JDT Greenall, through Bank of Scotland (Central Nominees) Limited, owns 12,000 ordinary shares in the company at 31 December 1986 (12,000 - 31 December 1985)

At 31 December 1986 and 31 December 1985, TW Coventry, IB Bruce and PACH Phipps also held 72,001 ordinary shares as joint trustees of the IYD Partnership.



DIRECTORS (CONTINUED)

IB Bruce, together with members of his family own 50% of the share capital of 130,300 Canada Inc which owns 49% of the voting stock of Laser International Holdings (1983) Limited. Its subsidiary Bruce Yacht R & D Inc owns 236,993 ordinary shares in the company at 31 December 1986 and 31 December 1985.

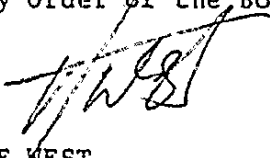
TAXATION STATUS

The company is not a close company under the provisions of the Income and Corporation Taxes Act 1970.

AUDITORS

The auditors Price Waterhouse have indicated their willingness to be re-appointed and a resolution to that effect will be proposed at the Annual General Meeting.

By Order of the Board


LF WEST
Company Secretary

22 September 1987

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF
GAVEL SECURITIES LIMITED AND ITS SUBSIDIARIES

We have audited the financial statements on pages 4 to 15 in accordance with approved Auditing Standards.

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 December 1986 and of the loss and source and application of funds of the group for the year then ended and comply with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE

Chartered Accountants

24 September 1987

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1986

	Notes	1986	22 March 1985 to 31 December 1985
TURNOVER	2	2,997,073	963,802
Cost of sales		<u>2,138,154</u>	<u>692,773</u>
GROSS PROFIT		858,919	271,029
Administrative expenses		(1,008,665)	(411,916)
Interest receivable and similar income		5,505	8,545
Interest payable and similar charges		<u>(37,434)</u>	<u>(13,732)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION DEDUCTED FROM RESERVES	3 & '4	<u>(£181,675)</u>	<u>(£146,074)</u>
AMOUNT SET ASIDE TO RESERVES			
Holding company		(9,370)	2,849
Subsidiaries		<u>(172,305)</u>	<u>(148,923)</u>
		<u>(£181,675)</u>	<u>(£146,074)</u>

CONSOLIDATED BALANCE SHEET - 31 DECEMBER 1986

	<u>Notes</u>	<u>1986</u>	<u>1985</u>
FIXED ASSETS			
Tangible assets	8	<u>143,091</u>	<u>181,330</u>
CURRENT ASSETS			
Stocks	10	522,951	474,198
Debtors	11	503,171	362,846
Cash at bank and in hand		<u>21,086</u>	<u>47,799</u>
		1,047,208	884,843
CREDITORS (amounts falling due within one year)	12	<u>867,699</u>	<u>562,258</u>
NET CURRENT ASSETS		<u>179,509</u>	<u>322,585</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>322,600</u>	<u>503,915</u>
CREDITORS (amounts falling due after more than one year)	13	<u>13,330</u>	<u>12,970</u>
		<u>£309,270</u>	<u>£490,945</u>
CAPITAL AND RESERVES			
Called up share capital	14	292,252	292,252
Capital reserve	14	344,767	-
Share premium account	14	-	920,234
Other reserves	14	-	(575,467)
Profit and loss account	14	<u>(327,749)</u>	<u>(146,074)</u>
		<u>£309,270</u>	<u>£490,945</u>

Approved by the Board on 22 September 1987
and signed on its behalf

DIRECTORS

JDT Greenall
TW Coventry

JDT Greenall
W. Coventry X

BALANCE SHEET - 31 DECEMBER 1986

	<u>Notes</u>	<u>1986</u>	<u>1985</u>
FIXED ASSETS			
Investments	9	1,382,122	1,158,122
Less provision	9	<u>(519,622)</u>	<u>(295,622)</u>
		£62,500	862,500
CURRENT ASSETS			
Debtors	11	126,302	49,386
Cash at bank and in hand		<u>-</u>	<u>36,127</u>
		126,302	85,513
CREDITORS (amounts falling due within one year)	12	302,459	28,300
NET CURRENT (LIABILITIES)/ASSETS		<u>(176,157)</u>	<u>57,213</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>£686,343</u>	<u>£919,713</u>
CAPITAL AND RESERVES			
Called up share capital	14	292,252	292,252
Capital reserve	14	627,461	-
Share premium account	14	-	920,234
Profit and loss account	14	<u>(233,370)</u>	<u>(292,773)</u>
		<u>£686,343</u>	<u>£919,713</u>

Approved by the Board on 22 September 1987
and signed on its behalf

DIRECTORS

JDT Greenall
TW Coventry

JDT Greenall
W. Coventry 7

SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 1986

	<u>1986</u>	<u>22 March 1985 to 31 December 1985</u>
SOURCE OF FUNDS		
Loss on ordinary activities	(181,675)	(146,074)
Adjustments for items not involving the movement of funds:		
Depreciation and amortisation	162,070	33,858
Loss on disposal of fixed assets	<u>10,292</u>	<u>-</u>
FUNDS ABSORBED BY OPERATIONS	(9,313)	(112,216)
FUNDS FROM OTHER SOURCES		
Shares issued in consideration of the acquisition of subsidiary	-	184,492
Net proceeds of issue of share capital	-	1,027,994
Proceeds of disposals of fixed assets	<u>13,555</u>	<u>-</u>
	<u>13,555</u>	<u>1,212,486</u>
	4,242	1,100,270
APPLICATION OF FUNDS		
Goodwill written off	-	575,467
Purchase of tangible fixed assets	<u>147,678</u>	<u>215,188</u>
	<u>147,678</u>	<u>790,655</u>
	(143,436)	309,615
CHANGE IN WORKING CAPITAL		
Increase in stock	48,753	474,198
Increase in debtors	140,325	362,846
(Increase) in creditors	<u>(34,400)</u>	<u>(501,005)</u>
	<u>154,678</u>	<u>336,039</u>
DECREASE IN NET LIQUID FUNDS		
Increase in bank overdrafts net of cash	<u>(£298,114)</u>	<u>(£26,424)</u>

NOTES TO THE ACCOUNTS
31 DECEMBER 1986

1 ACCOUNTING POLICIES

(1) Basis of consolidation

The consolidated accounts are prepared under the historical cost convention. All subsidiary companies make up accounts to a date coterminous with the financial year end of the holding company.

(2) Goodwill

The difference between the cost of shares or business acquired and their fair value of net assets attributable to such businesses at the date of acquisition is written off against reserves.

(3) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. The provision for depreciation is calculated on the net cost of fixed assets in order to write off such cost over the estimated useful lives by annual instalments as follows:

Plant, machinery, fixtures and fittings	15% straight line (yachts and tooling 33 1/3% straight line)
Moulds	33 1/3% straight line
Office equipment	20% straight line
Motor vehicles	25% straight line

The directors, having regard to the carrying value of tooling of a subsidiary company in the light of current trading conditions, consider that the net book amount of tooling should be written down to £Nil at 31 December 1986. A charge of £60,207 to the profit and loss account for the year has therefore been made (see note 8) to reflect this write down.

(4) Development costs

Development costs are included in cost of sales. These costs represent materials, direct labour and appropriate production overheads together with specific development expenditure. Where such costs represent tangible assets they are capitalised and depreciated as set out in note 1(3) above. Other costs are written off in the year in which they are incurred.

(5) Stocks

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

NOTES TO THE ACCOUNTS
31 DECEMBER 1986 (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

(6) Foreign currencies

Foreign currency transactions have been translated at market rates at the time of transactions. Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange differences are taken into account in arriving at the operating loss.

(7) Hire Purchase

Assets acquired under a hire purchase agreement have been capitalised under fixed assets. The corresponding liability is shown under creditors due within one year and creditors due after more than one year.

2 TURNOVER

Turnover represents the invoiced value of goods supplied by the group excluding Value Added Tax.

The geographical analysis of the group's turnover is as follows:

	<u>1986</u>	<u>1985</u>
United Kingdom	1,416,883	351,449
Europe	1,460,084	420,485
Middle and Far East	46,200	59,792
North America	46,206	38,251
Others	27,700	93,825
	<u>£2,997,073</u>	<u>£963,802</u>

3 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION is stated after charging the following amounts:

	<u>1986</u>	<u>1985</u>
Depreciation	£101,863	£33,858
Additional write-off in respect of tooling (note 8)	£60,207	£ -
Auditors' remuneration	£19,000	£11,900
Interest payable on bank borrowings repayable within five years	£15,293	£12,491
Emoluments of the directors of the company (note 5)	£45,268	£26,384
Rental payments under operating lease	£16,500	£7,801
Hire of plant, machinery and vehicles	£8,765	£4,086
Finance charges payable under hire purchase contracts	<u>£4,960</u>	<u>£538</u>

NOTES TO THE ACCOUNTS
31 DECEMBER 1986 (CONTINUED)

4 STAFF COSTS

	<u>1986</u>	<u>1985</u>
Staff costs during the year were as follows:		
Wages and salaries	464,778	147,420
Social security costs	40,367	15,562
Other pension costs	<u>5,176</u>	<u>-</u>
	<u>£510,321</u>	<u>£162,982</u>

The average number of persons employed during the year was 48 (1985 - 40).

5 EMOLUMENTS OF DIRECTORS

	<u>1986</u>	<u>1985</u>
(1) Fees	<u>£Nil</u>	<u>£Nil</u>
(2) The emoluments, excluding pension contributions, of the directors were as follows:		
Chairman	£Nil	£Nil
Highest paid director	<u>£45,000</u>	<u>£19,239</u>
Other directors:		
£Nil - £5,000	2	5
£5,001 - £10,000	<u>1</u>	<u>-</u>

Transactions with directors

During the period (1) £7,500 was paid to Greig Middleton & Co in which JDT Greenall is a director, (2) £7,605 was paid to JML Stone & Co Limited of which JML Stone is a director and shareholder, and (3) £36,000 was paid to Phoenix Services in which TW Coventry is a partner.

6 COMMITMENTS UNDER OPERATING LEASES

The Group had annual commitments under operating leases as set out below:

	<u>1986</u>	<u>1985</u>
	<u>Land and buildings</u>	<u>Land and buildings</u>
Operating lease, which expires in the second to fifth years inclusive	<u>£16,500</u>	<u>£16,500</u>

The lease is non-cancellable until 1 July 1988 from which time it can be cancelled in writing with six months notice.

NOTES TO THE ACCOUNTS
31 DECEMBER 1986 (CONTINUED)

7 TAXATION

No taxation charge arises during the year (1985 £Nil).

8 TANGIBLE ASSETS

<u>Group</u>	Plant, machinery, fixtures and fittings	Moulds	Office equipment	Motor vehicles	Total
<u>Original cost</u>					
At 1 January 1986	203,310	75,970	12,582	73,565	365,427
Additions	42,539	39,913	5,993	59,233	147,678
Disposals	(29,016)	(2,000)	—	(26,195)	(57,211)
At 31 December 1986	216,833	113,883	18,575	106,603	455,894
<u>Depreciation</u>					
At 1 January 1986	115,572	43,119	3,940	21,466	184,097
Charge for year	36,978	34,977	3,256	26,652	101,863
Additional write-off (note 1(3))	60,207	—	—	—	60,207
Disposals	(26,815)	—	—	(6,549)	(33,364)
At 31 December 1986	185,942	78,096	7,196	41,569	312,803
<u>Net book value</u>					
At 31 December 1986	£30,891	£35,787	£11,379	£65,034	£143,091
At 31 December 1985	£87,738	£32,851	£8,642	£52,099	£181,330

NOTES TO THE ACCOUNTS
31 DECEMBER 1986 (CONTINUED)

9 INVESTMENTS IN SUBSIDIARIES

<u>Cost</u>	<u>Loans to group companies</u>	<u>Shares in group companies</u>	<u>Total</u>
At 31 December 1985	574,462	583,660	1,158,122
Addition	<u>224,000</u>	<u>-</u>	<u>224,000</u>
At 31 December 1986	<u>798,462</u>	<u>583,660</u>	<u>1,382,122</u>
<u>Provision for diminution in value</u>			
At 31 December 1985	110,000	185,622	295,622
Provided during year	<u>224,000</u>	<u>-</u>	<u>224,000</u>
At 31 December 1986	<u>334,000</u>	<u>185,622</u>	<u>519,622</u>
<u>Net book amount</u>			
At 31 December 1986	<u>£464,462</u>	<u>£398,038</u>	<u>£862,500</u>
At 31 December 1985	<u>£464,462</u>	<u>£398,038</u>	<u>£862,500</u>

The subsidiary companies are Performance Sailcraft Europe Limited and Preci's Ninety Nine Limited both of which are incorporated in the United Kingdom and are involved in the design, development and manufacture or commissioning of yachts.

Loans to group companies are unsecured and interest free with no fixed repayment terms.

10 STOCKS	<u>1986</u>	<u>Group 1985</u>
Raw materials and consumables	95,904	49,091
Work in progress	32,777	14,167
Finished goods and goods for resale	<u>394,270</u>	<u>410,940</u>
	<u>£522,951</u>	<u>£474,198</u>

The replacement cost of stocks is not materially different from the amounts stated above.

NOTES TO THE ACCOUNTS
31 DECEMBER 1986 (CONTINUED)

11 DEBTORS

	Group		Company	
	1986	1985	1986	1985
Trade debtors	447,066	266,285	-	-
Amounts owed by group companies	-	-	125,350	44,672
Other debtors	17,644	64,144	952	4,714
Prepayments and accrued income	38,461	32,417	-	-
	<u>£503,171</u>	<u>£362,846</u>	<u>£126,302</u>	<u>£49,386</u>

Other debtors of the group are stated after the write off during the current year of a debt of £4,890 due from Mr B Farr.

12 CREDITORS (amounts falling due within one year)

	Group		Company	
	1986	1985	1986	1985
Bank overdrafts	345,624	74,223	217,755	-
Trade creditors	353,868	375,057	-	-
Accruals and deferred income	91,382	51,869	24,125	28,300
Taxation and social security	43,765	32,376	12,723	-
Amounts due to subsidiary companies	-	-	42,796	-
Obligations under hire purchase contracts	25,752	21,724	-	-
Other creditors	<u>7,308</u>	<u>7,009</u>	<u>5,060</u>	<u>-</u>
	<u>£867,699</u>	<u>£562,258</u>	<u>£302,459</u>	<u>£28,300</u>

The bank overdraft is secured by a fixed charge over all fixed assets and a floating charge over all the other assets of the group companies.

13 CREDITORS (amounts falling due after more than one year)

	Group	
	1986	1985
Obligations under hire purchase contracts	<u>£13,330</u>	<u>£12,970</u>

NOTES TO THE ACCOUNTS
31 DECEMBER 1986 (CONTINUED)

14 CAPITAL AND RESERVES

Details of the share capital are as follows:

	<u>Group and company</u>	
	<u>1986</u>	<u>1985</u>
Ordinary shares of 10p each:		
Authorised	<u>£325,000</u>	<u>£325,000</u>
Allotted and fully paid	<u>£292,252</u>	<u>£292,252</u>

On 6 November 1986 a special resolution of the company was passed which approved the cancellation of the share premium account and the write off of the capital reserve arising from the goodwill on the acquisition of the subsidiary company. This approval required confirmation by the Court, and this was received on 8 December 1986. The effect of the cancellation of the share premium account on the reserves of the group and the company is shown below.

	<u>Called up share capital</u>	<u>Capital reserve</u>	<u>Share premium account</u>	<u>Other reserves</u>	<u>Profit and loss account</u>	<u>Total</u>
<u>Group</u>						
At 1 January 1986	292,252	-	920,234	(575,467)	(146,074)	490,945
Effect of cancellation of the share premium account	-	344,767	(920,234)	575,467	-	-
Loss for the year	-	-	-	-	(181,675)	(181,675)
At 31 December 1986	<u>£292,252</u>	<u>£344,767</u>	<u>£ -</u>	<u>£ -</u>	<u>(£327,749)</u>	<u>£309,270</u>
<u>Company</u>						
At 1 January 1986	292,252	-	920,234	-	(292,773)	919,713
Effect of cancellation of the share premium account	-	627,461	(920,234)	-	292,773	-
Loss for the year	-	-	-	-	(233,370)	(233,370)
At 31 December 1986	<u>£292,252</u>	<u>£627,461</u>	<u>£ -</u>	<u>£ -</u>	<u>(£233,370)</u>	<u>£686,343</u>

Gavel Securities Limited has not presented its own profit and loss account as permitted by Section 228 (7) of the Companies Act 1985. The amount of the loss for the period dealt with in the accounts of the company is £233,370.

NOTES TO THE ACCOUNTS
31 DECEMBER 1986 (CONTINUED)

15 DEFERRED TAXATION

The directors consider no provision for deferred taxation is required. The potential deferred taxation, calculated on the liability method at 27% was:

	Group		Company	
	1986	1985	1986	1985
Accelerated (depreciation) /capital allowances	(7,613)	22,021	-	-
Short term timing differences	(4,313)	(5,224)	-	-
Losses carried forward	-	(16,797)	-	-
	<u>(£11,926)</u>	<u>£ -</u>	<u>£ -</u>	<u>£ -</u>

In addition tax losses amounting to £648,000 (subject to agreement by the Inland Revenue) are available for carry forward against future profits.

16 CAPITAL COMMITMENTS

As at 31 December 1986 there was a capital commitment of £54,335 (1985 - £9,000). Contracts approved by the Board of Directors but not contracted amounted to £21,955 (1985 - £52,288).

17 CONTINGENT LIABILITIES

There is a contingent liability of £2,223 in respect of negotiable instruments and documentary credits.

Cross guarantees of £550,000 from Gavel Securities Limited to Performance Sailcraft Europe Limited and Preci Ninety Nine Limited exist as security for the overdraft facility.