

==

40

1898682.

21

GAVEL SECURITIES LIMITED AND ITS SUBSIDIARIES

31 DECEMBER 1985



GAVEL SECURITIES LIMITED AND ITS SUBSIDIARIES

DIRECTORS' REPORT

The directors submit their report and audited accounts for the period 22 March 1985 to 31 December 1985.

INCORPORATION

The company was incorporated on 22 March 1985 under the Companies Acts 1948 to 1981 as a private company limited by shares (see note 16).

INVESTMENT IN SUBSIDIARIES

On 25 July 1985 the company acquired the entire issued share capital of Precis Ninety Nine Limited through the issue of 1,844,918 ordinary shares of 10p each in Gavel Securities Limited in exchange for 1,500,000 ordinary shares of 10p each and 250,000 13% (net) redeemable cumulative preference shares 1986 of £1 each in Precis Ninety Nine Limited.

On the same date the company acquired the entire issued share capital of Performance Sailcraft Europe Limited for a consideration of £385,538 in cash.

Both subsidiary companies are incorporated in the United Kingdom.

PRINCIPAL ACTIVITIES

The principal activity of the company is to act as the holding and administration company for the two subsidiaries. The subsidiary companies are involved in the design, development and manufacture of yachts under the "Laser" trademark, as well as the sale of related spares and accessories.

TRADING RESULTS

The consolidated trading loss for the period to 31 December 1985 was £146,074 on a turnover of £963,802. The business is seasonal and the directors expect that the majority of sales will arise in the latter part of the financial year.

No dividend is proposed, and the loss has been deducted from capital and reserves at 31 December 1985.

FIXED ASSETS

The company has acquired no fixed assets during the period. The assets shown in the consolidated balance represent the assets of the two subsidiaries (see note 9).

REVIEW OF THE BUSINESS

Following its formation in March 1985 the company acquired Performance Sailcraft Europe Limited and Preci Ninety Nine Limited. Performance Sailcraft Europe Limited is involved in the exploitation of the "Laser" and "Laser II" sailboats and the "Laser Shell" rowing boats as well as the sale of related spares and accessories. Preci Ninety Nine Limited has continued its exploitation of the Laser 28 project.

DIRECTORS

JR Wilcox	Resigned 13 May 1985
AN Faulkner	Resigned 13 May 1985
TW Coventry	Appointed 13 May 1985
PACH Phipps	Appointed 13 May 1985
JDT Greenall	Chairman appointed 11 June 1985
IB Bruce	Appointed 11 June 1985
JML Stone	Appointed 18 September 1985

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 1985 were as follows:

TW Coventry	111,101
PACH Phipps	111,101

JDT Greenall, through Bank of Scotland (Central Nominees) Limited, owns 12,000 ordinary shares in the company.

TW Coventry, IB Bruce and PACH Phipps also hold 72,001 ordinary shares as joint trustees of the IYD Partnership.

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.

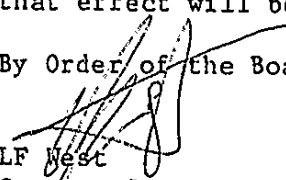
TAXATION STATUS

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

AUDITORS

Price Waterhouse who were appointed by the directors during the period, 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

2 September 1986

Livery House
169 Edmund Street
Birmingham B3 2JB

Telephone: 021-236 5011
Telex: 338689
Telecopier 021-236 9328

Price Waterhouse



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

We have audited the financial statements on pages 5 to 17 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 1985 and of its loss and source and application of funds of the group for the period then ended and comply with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE

Chartered Accountants

2 September 1986

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE PERIOD 22 MARCH 1985 TO 31 DECEMBER 1985

	<u>Notes</u>	<u>22 March 1985 to 31 December 1985</u>
TURNOVER	2	963,802
Cost of sales		<u>692,773</u>
GROSS PROFIT		271,029
Administrative expenses		(411,916)
Interest receivable and similar income		8,545
Interest payable and similar charges		<u>(13,732)</u>
(LOSS) ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION	5	<u>(146,074)</u>
(LOSS) FOR THE FINANCIAL PERIOD		<u>(£146,074)</u>
AMOUNT SET ASIDE TO RESERVES		
Holding company		2,849
Subsidiaries		<u>(148,923)</u>
		<u>(£146,074)</u>

GAVEL SECURITIES LIMITED

PAGE 6

BALANCE SHEET - 31 DECEMBER 1985

	<u>Notes</u>	<u>1985</u>
FIXED ASSETS		
Investments	10	1,158,122
Less provision	10	<u>(295,622)</u>
		862,500
CURRENT ASSETS		
Debtors	12	49,386
Cash at bank and in hand		<u>36,127</u>
		85,513
CREDITORS (amounts falling due within one year)		
Accruals and deferred income		28,300
NET CURRENT ASSETS		<u>57,213</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>£919,713</u>
CAPITAL AND RESERVES		
Called up share capital	16	292,252
Share premium account	17	920,234
Profit and loss account	19	<u>(292,773)</u>
		<u>£919,713</u>

Approved by the Board on 2 September 1986
and signed on its behalf

DIRECTORS

JDT Greenall
TW Coventry

JDT Greenall
[Signature]

X

CONSOLIDATED BALANCE SHEET - 31 DECEMBER 1985

	<u>Notes</u>	<u>1985</u>
FIXED ASSETS		
Tangible assets	9	<u>181,330</u>
		<u>181,330</u>
CURRENT ASSETS		
Stocks	11	474,198
Debtors	12	362,846
Cash at bank and in hand		<u>47,799</u>
		<u>884,843</u>
CREDITORS (amounts falling due within one year)		
Bank overdrafts	13	74,223
Trade creditors		375,057
Other creditors including taxation and social security	14	61,109
Accruals and deferred income		<u>51,869</u>
		<u>562,258</u>
NET CURRENT ASSETS		<u>322,585</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>£503,915</u>
CREDITORS (amounts falling due after more than one year)	15	12,970
CAPITAL AND RESERVES		
Called up share capital	16	292,252
Share premium account	17	920,234
Other reserves	18	(575,467)
Profit and loss account		<u>(146,074)</u>
		<u>£503,915</u>

Approved by the Board on 2 September 1986
and signed on its behalf

DIRECTORS

JDT Greenall
TW Coventry

JDT Greenall
16

Y

SOURCE AND APPLICATION OF FUNDS
FOR THE PERIOD ENDED 31 DECEMBER 198522 March 1985 to
31 December 1985

SOURCE OF FUNDS

Loss on ordinary activities	(146,074)
Adjustments for items not involving the movement of funds:	
Depreciation and amortisation	<u>33,858</u>
Funds absorbed by operations	(112,216)

FUNDS FROM OTHER SOURCES

Shares issued in consideration of the acquisition of subsidiary	184,492
Net proceeds of issue of share capital	<u>1,027,994</u>
	<u>1,212,486</u>
	1,100,270

APPLICATION OF FUNDS

Goodwill written off	575,467
Purchase of fixed assets: Tangible*	<u>215,188</u>

CHANGE IN WORKING CAPITAL

Increase in stock*	474,198
Increase in debtors*	362,846
(Increase) in creditors*	<u>(501,005)</u>

LESS DECREASE IN NET LIQUID FUNDS

Increase in bank overdrafts net of cash*	<u>£26,424</u>
--	----------------

*Summary of the effects of the acquisition of Performance Sailcraft Europe Limited and Precis Ninety Nine Limited are shown on page 9.

GAVEL SECURITIES LIMITED AND ITS SUBSIDIARIES

PAGE 9

SOURCE AND APPLICATION OF FUNDS
FOR THE PERIOD ENDED 31 DECEMBER 1985 (CONTINUED)

	Performance Sailcraft Europe Limited	Precis Ninety Nine Limited	Total
<u>Net assets acquired:</u>			
Fixed assets:			
Tangible	96,949	13,373	110,322
Goodwill	445,850	129,617	575,467
Stocks	278,870	40,702	319,572
Debtors	423,549	42,337	465,886
Cash	5,844	7,941	13,785
Creditors	(853,024)	(48,348)	(901,372)
	<u>£398,038</u>	<u>£185,622</u>	<u>£583,660</u>
<u>Discharged by:</u>			
Cash paid	385,538	-	385,538
Shares issued	-	184,492	184,492
Expenses incurred	<u>12,500</u>	<u>1,130</u>	<u>13,630</u>
	<u>£398,038</u>	<u>£185,622</u>	<u>£583,660</u>

NOTES TO THE ACCOUNTS
31 DECEMBER 1985

1 ACCOUNTING POLICIES

(1) Basis of consolidation

The consolidated accounts are prepared under the historical cost convention in accordance with the Companies Act 1985. 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

- (4) 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(1) above. Other costs are written off in the year in which they are incurred (see note 3).

(5) Stocks

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

Foreign currencies

- (6) 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.

NOTES TO THE ACCOUNTS
31 DECEMBER 1985 (CONTINUED)

2 TURNOVER

- (1) Turnover represents the invoiced value of goods supplied by the company excluding Value Added Tax.

(2) Geographical market

	<u>1985</u>
United Kingdom	351,449
Europe	420,485
Middle and Far East	59,792
North America	38,251
Others	<u>93,825</u>
	<u>£963,802</u>

3 ADMINISTRATIVE EXPENSES

Specific expenditure on development projects has been written off on the basis of work completed during the period ended 31 December 1985. The charge for development expenditure during the period was £52,200.

4 GROUP ACCOUNTS

Turnover and profits of subsidiaries acquired during the period are included from their respective dates of acquisition. Turnover and group loss for the period include £963,802 and £148,923 respectively in respect of the newly acquired subsidiaries.

5 PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION is stated after the following amounts

	<u>1985</u>
(1) Depreciation	33,858
Auditors' remuneration	11,900
Interest payable on bank borrowings repayable within five years	12,491
Emoluments of the directors of the company (note 6)	26,384
Staff costs:	
Wages and salaries	147,420
Social security costs	15,562
Rental payments under operating lease	7,801
Hire of plant, machinery and vehicles	4,086
Finance charges payable under hire purchase contracts	<u>538</u>

NOTES TO THE ACCOUNTS
31 DECEMBER 1985 (CONTINUED)

- 5 PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION is stated after the following amounts (continued)

- (2) The average number of employees employed during the period January to 31 December 1985 was 40.

6 EMOLUMENTS OF DIRECTORS

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

Transactions with directors

During the period £3,750 was paid to Greig Middleton & Co in which JDT Greena in a partner.

During the period £4,375 was paid to JML Stone & Co Limited of which JML Stone is a director and shareholder.

7 COMMITMENTS UNDER OPERATING LEASES

At 31 December 1985 the Group had annual commitments under operating leases as set out below:

	<u>1985</u>
	<u>Land and buildings</u>
Operating lease, which expire in the second to fifth years inclusive	<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 1985 (CONTINUED)

8 TAXATION

No taxation charge arises during the period (1984 £Nil).

9 TANGIBLE ASSETS

	Plant, Fixtures and fittings machinery	Moulds	Office equipment	Motor vehicles	Total
<u>Original cost</u>					
At 22 March 1985	-	-	-	-	-
Transfer on acquisition of subsidiaries	146,621	50,346	7,383	56,211	260,561
Additions	<u>56,689</u>	<u>25,624</u>	<u>5,199</u>	<u>17,354</u>	<u>104,866</u>
At 31 December 1985	<u>203,310</u>	<u>75,970</u>	<u>12,582</u>	<u>73,565</u>	<u>365,427</u>
<u>Depreciation</u>					
At 22 March 1985	-	-	-	-	-
Transfer on acquisition of subsidiaries	109,928	25,497	2,411	12,403	150,239
Charge for period	<u>5,644</u>	<u>17,622</u>	<u>1,529</u>	<u>9,063</u>	<u>33,858</u>
At 31 December 1985	<u>115,572</u>	<u>43,119</u>	<u>3,940</u>	<u>21,466</u>	<u>184,097</u>
<u>Net book value</u>					
At 31 December 1985	<u>£87,738</u>	<u>£32,851</u>	<u>£8,642</u>	<u>£52,099</u>	<u>£181,330</u>

10 INVESTMENTS IN SUBSIDIARIES

On 25 July 1985 the company acquired the entire issued share capital of Precis Ninety Nine Limited through the issue of 1,844,918 ordinary shares of 10p each in Gavel Securities Limited in exchange for 1,500,000 ordinary shares of 10p each and 250,000 13% (net) redeemable cumulative preference share of £1 each in Precis Ninety Nine Limited

On the same date the company acquired the entire issued share capital of Performance Sailcraft Europe Limited for a consideration of £385,538 in cash

Both subsidiary companies are incorporated in the United Kingdom and are involved in the design, development and manufacture or commissioning of yachts.

NOTES TO THE ACCOUNTS
31 DECEMBER 1985 (CONTINUED)

10 INVESTMENTS IN SUBSIDIARIES (Continued)

<u>Cost</u>	<u>Loans to group companies</u>	<u>Shares in group companies</u>	<u>Total</u>
At 22 March 1985	-	-	-
Additions	574,462	583,600	1,158,122
Provision for diminution in value	(110,000)	(185,622)	(295,622)
Net book amount at 31 December 1985	<u>£464,462</u>	<u>£398,038</u>	<u>£862,500</u>

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

11 STOCKS

	<u>1985</u>
Raw materials and consumables	49,091
Work in progress	14,167
Finished goods and goods for resale	<u>410,940</u>
	<u>£474,198</u>

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

12 DEBTORS

	<u>Group 1985</u>	<u>Company 1985</u>
Trade debtors	266,285	-
Amounts owed by group companies	-	44,672
Other debtors	64,144	4,714
Prepayments and accrued income	<u>32,417</u>	<u>-</u>
	<u>£362,846</u>	<u>£49,386</u>

13 BANK OVERDRAFT

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

NOTES TO THE ACCOUNTS
31 DECEMBER 1985 (CONTINUED)

14 OTHER CREDITORS

	<u>Group</u> <u>1985</u>
Taxation and Social Security payments due	£32,376
Obligations under hire purchase contracts	<u>£21,725</u>

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

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

16 SHARE CAPITAL

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

The company was incorporated on 22 March 1985 with an issued share capital of 2 ordinary shares of £1 each. On 11 June 1985 the existing shares were subdivided into 20 ordinary shares of 10p each. On the same date the authorised share capital was increased from £100 to £325,000 through the creation of a further 3,249,000 ordinary shares of 10p each.

On 25 July 1985 the issued share capital was increased to £292,052 through the allotment of 1,844,918 ordinary shares of 10p each in exchange for 1,500,000 ordinary shares of 10p in Precis Ninety Nine Limited and 250,000 13% (net) redeemable cumulative preference shares 1984 of £1 each and the allotment of a further 1,075,600 ordinary shares of 10p each for a cash consideration of £1,075,600 creating a share premium of £968,040. On 18 September 1985 a further 2,000 ordinary shares of 10p each were allotted for a consideration of £2,000 increasing the share premium account by £1,800 to £969,840.

NOTES TO THE ACCOUNTS
31 DECEMBER 1985 (CONTINUED)

17 SHARE PREMIUM ACCOUNT

	<u>1985</u>
At 22 March 1985	-
Share premium arising on issue of shares	969,840
Less expenses incurred in the formation and issue of shares written off	<u>(49,606)</u>
At 31 December 1985	<u>£920,234</u>

18 OTHER RESERVES

	<u>1985</u>
	<u>Other Reserves</u>
At 22 March 1985	-
Excess of fair value over nominal value of shares issued for acquisition	1,660,426
Goodwill arising on consolidation written off	<u>(2,235,893)</u>
At 31 December 1985	<u>(£575,467)</u>

19 GAVEL SECURITIES LIMITED PROFIT AND LOSS ACCOUNT

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 £292,773.

20 DEFERRED TAXATION

The directors consider no provision for deferred taxation is required. The potential deferred taxation, calculated on the liability method at 30% was:

	<u>Group</u>	<u>Company</u>
	<u>1985</u>	<u>1985</u>
Accelerated capital allowances	22,021	-
Short term timing differences	(5,224)	-
Losses carried forward	<u>(16,797)</u>	-
	<u>£ -</u>	<u>£ -</u>

In addition tax losses amounting to £580,000 (subject to agreement by the Inland Revenue) are available for carry forward against future profits.

NOTES TO THE ACCOUNTS
31 DECEMBER 1985 (CONTINUED)

21 CAPITAL COMMITMENTS

As at 31 December 1985 there was a capital commitment of £9,000. Contracts approved by the Board of Directors but not contracted amounted to £52,288.

22 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.