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DEVONPORT ROYAL DOCKYARD LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 1997



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COMPANIES HOUSE 30/01/98

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DEVONPORT ROYAL DOCKYARD LIMITED

Directors:	A F Pryor	Chairman
	Dr G E Gilbert CBE	Chief Executive
	H W Warren	Finance Director
	Sir Ronald Garrick	
	D A M Dunbar	
	H M Bedelian	
	I Tyler	
	T M Noble	

Secretary: H W Warren

Auditors: Ernst & Young
Chartered Accountants
One Bridewell Street
Bristol
BS1 2AA

Bankers: Barclays Bank PLC
19 Princess Street
Plymouth
PL1 2HA

Midland Bank plc
Business Banking Centre
70 Pall Mall
London
SW1Y FEZ

Registered Office: Devonport Royal Dockyard
Devonport
Plymouth
PL1 4SG

Registered Number: 2077752

DEVONPORT ROYAL DOCKYARD LIMITED
DIRECTORS' REPORT
for the year ended 31 March 1997

The Directors submit their report and accounts for the year ended 31 March 1997.

Principle Activities, Business Review and Future Developments

The principle activities of the Company are the refitting and maintenance of naval vessels and associated equipment.

Results and Dividends

The trading profit for the year after taxation was £107,000 (1996 - nil). No dividend was paid in the year (1996 - Nil).

Directors

The Directors during the year were as follows:-

A F Pryor	(Chairman)	(Appointed 23 July 1996)
M J Leece		(Resigned 30 June 1996)
Dr D E Gilbert CBE		(Appointed 24 September 1996)
H W Warren		
R E MacLachlan		(Resigned 13 March 1997)
Sir Ronald Garrick		(Appointed 14 March 1997)
D A M Dunbar		(Appointed 14 March 1997)
H M Bedelian		(Appointed 14 March 1997)

Subsequent to the year end the following were appointed as directors:-

I Tyler	(Appointed 19 June 1997)
T M Noble	(Appointed 18 April 1997)
E R Read	(Appointed 02 May 1997) (resigned 6 November 1997)

The Directors have no interests requiring disclosure under Schedule 7(2) of the Companies Act 1985.

Directors' responsibilities

The directors are required by company law to prepare accounts which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profits of the Company for the period to that date. The accounts must be prepared in compliance with the provisions of the Companies Act 1985 and with applicable accounting standards. In addition, the directors are required to select suitable accounting policies and apply them consistently, to make judgements and estimates that are reasonable and prudent, to take account of expenses and income relating to the period being reported on, and to prepare the accounts on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that the accounts comply with the above requirements. The directors are also responsible for maintaining adequate accounting records to enable them to ensure that the accounts comply with the requirements of the Companies Act 1985, and for taking reasonable steps for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

Board Committees

The remuneration committee of the holding company approve senior managers salaries, performance related bonuses and other benefits. The aim of the committee, which meets regularly, is to assist the directors of the holding company in the exercise of their duties.

Employment of Disabled Persons

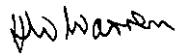
The policy of the Group is to give full consideration to applications for employment from disabled persons who have the aptitudes and abilities to meet the requirement of the job. An employee who becomes disabled will continue to be employed where possible under the same terms and conditions. Training and career development apply wherever appropriate to all employees including disabled persons.

Employee Involvement

The Dorhold Group places considerable emphasis on maintaining good communications with all employees. To this end the Group produces and distributes news bulletins on a regular basis, updating employees on Group policy and performance.

A Group newspaper is also produced, featuring articles on the achievements of the workforce and presenting the views and opinions of employees. The Group also operates a suggestions scheme, encouraging employees to put forward ideas with a view to reducing costs and improving efficiency.

BY ORDER OF THE BOARD



Secretary

REPORT OF THE AUDITORS

to the members of Devonport Royal Dockyard Limited.

We have audited the accounts on pages 5 to 15, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 7 to 8.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

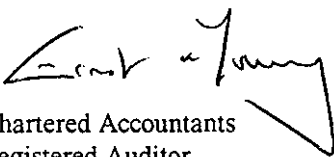
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 March 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Chartered Accountants
Registered Auditor
Bristol

Date: 29 January 1998

DEVONPORT ROYAL DOCKYARD LIMITED

PROFIT AND LOSS ACCOUNT
for the year ended 31 March 1997

	Notes	1997 £'000	1996 £'000
TURNOVER	2		
Continuing operations			
- ongoing		82,288	86,792
acquisitions		25,348	-
		<hr/>	<hr/>
Total turnover		107,636	86,792
Cost of sales - ongoing		82,288	86,792
acquisitions		24,477	-
		<hr/>	<hr/>
Gross profit		871	-
Other operating income		-	-
		<hr/>	<hr/>
OPERATING PROFIT	3	871	-
Continuing operations			
- ongoing		-	-
acquisitions		871	-
Net interest payable	4	62	-
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		809	-
Tax on profit on ordinary activities	5	702	-
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		107	-
		<hr/>	<hr/>
RETAINED PROFIT brought forward		-	-
RETAINED PROFIT carried forward	12	107	-
		<hr/>	<hr/>

The company had no recognised gains or losses other than the retained profit for the period.

The acquisitions relate to the transfer of the trading assets and liabilities of Devonport Management Ltd with effect from 13 March 1997.

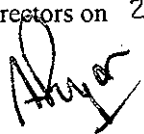
The notes on pages 7 to 15 form part of these accounts.

DEVONPORT ROYAL DOCKYARD LIMITED

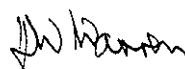
BALANCE SHEET as at 31 March 1997

	Notes	1997 £'000	1996 £'000
FIXED ASSETS			
Tangible assets	6	70,748	-
		<u>70,748</u>	<u>-</u>
CURRENT ASSETS			
Stocks & work in progress	7	16,575	-
Debtors	8	56,136	50
Cash at bank and in hand		13,688	-
		<u>86,399</u>	<u>50</u>
CREDITORS: amounts falling due within one year	9	82,402	-
		<u>82,402</u>	<u>-</u>
Net current assets		<u>3,997</u>	<u>50</u>
Total assets less current liabilities		74,745	50
CREDITORS: amounts falling due after more than one year	10	34,857	-
		<u>39,888</u>	<u>50</u>
CAPITAL AND RESERVES:			
Called up share capital	11	5,350	50
Share Premium	11 & 12	32,700	-
Capital Reserve	12	1,731	-
Profit and loss account	12	107	-
SHAREHOLDERS' FUNDS		<u>39,888</u>	<u>50</u>

Approved by the Board of Directors on 28 January 1998



Director



Director

The notes on pages 7 to 15 form part of these accounts

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 March 1997

1. ACCOUNTING POLICIES

a) Accounting Convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Long term contracts

Contracts are deemed long term if they provide for payments on account, which is generally those contracts which extend for more than three months.

c) Turnover and profit recognition on long term contracts

The sales value of long term contracts is apportioned between the variable element and the contribution to fixed overhead costs. Turnover is recognised on the variable element as work progresses and on the fixed overhead cost element in accordance with the timetable implicit within the contract. Turnover is recognised on variations to the workscope from such contracts only after they have been agreed with the customer.

d) Amounts recoverable on long term contracts

Work in progress on long term contracts is stated at the value of turnover recognised (which includes, where appropriate, an element of profit), less provision for all known expected losses and is shown as amounts recoverable on contracts.

Cash received on account of long term contracts is deducted from amounts recoverable on contracts. Receipts in excess of amounts recoverable are shown as progress claims. Contract provision in excess of amounts recoverable are included in accruals.

e) Other contracts

Turnover is recognised as work progresses but profit is only recognised on completion of the work.

f) Related party transactions

Transactions with group companies have not been disclosed due to advantage being taken of the exemptions granted under Financial Reporting Standard No 8.

g) Stock and work in progress

Stocks (including stock not yet used on projects), are stated at the lower of cost, on a first in first out basis and net realisable value. Work in progress on short term contracts is stated at the lower of cost and the proportion of sale price earned to date; cost includes materials, labour and overheads, allocated by reference to actual levels of activity.

h) Leased Assets

Licence fee and rental costs under operating leases are charged to profit and loss account in the year incurred.

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 March 1997

i) Depreciation

Depreciation is provided on all tangible assets, other than land at rates designed to write off the cost of tangible fixed assets evenly over their expected lives. Depreciation rates are:

Buildings	5 - 25 years
Computer equipment	4 years
Plant, machinery, tools and other fixtures, fittings and equipment	7 years

j) Deferred Taxation

Deferred taxation is provided on the liability method on all timing differences, to the extent that they are expected to reverse in the future, without being replaced, calculated at the rate at which it is estimated that tax will be payable.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

k) Pension Contributions

The cost of providing benefits under the Group's pension scheme is charged over the remaining working lives of the members. On the advice of an independent qualified actuary, contribution payments are made to ensure that the scheme's assets are sufficient to cover future liabilities.

l) Cash Flow Statement

No cash flow statement has been prepared as the company is a wholly owned subsidiary of Dorhold Ltd.

m) Goodwill

Goodwill is the difference between the amount paid on the acquisition of a business and the aggregate fair value of its identifiable net assets.

Goodwill on acquisitions is taken off directly against reserves.

2. TURNOVER

Turnover, which is stated net of value added tax, and profit on ordinary activities before taxation are attributable to the refitting and repair of naval and commercial vessels and associated equipment. Prior to 13 March 1997, turnover was attributable wholly to the recharge of the costs of employing the Dockyard labour force.

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 March 1997

3. OPERATING PROFIT

a)	Operating profit is stated after charging and (crediting):	1997	1996
		£'000	£'000
	Depreciation	6,110	-
	Intercompany leasing charge	(5,830)	-
	Operating lease rentals - hire of plant and machinery	35	-
	Auditors' remuneration - Audit services	6	-
	- Non audit	1	-
	Directors' remuneration (Note 3b)	10	-
	Employee costs (Note 3c)	85,579	86,792

Administration and distribution costs are included in cost of sales as they are fully recoverable under contractual terms with the Company's principal customer.

b)		1997	1996
	Directors' remuneration:-	£'000	£'000
	Fees	-	-
	Performance related bonuses	-	-
	Other emoluments	10	-
		<u>10</u>	<u>-</u>

Two of the directors are members of the Company pension scheme, both of these directors are also members of the Executive pension scheme.

The remuneration of executive directors is set by a committee of non executive directors and includes a performance related bonus which depends upon pre set standards of customer satisfaction and financial results. Performance related bonuses are paid in the year after that in which they are earned.

c)	Employee costs:	1997	1996
		£'000	£'000
	Wages and salaries	74,333	75,664
	Social security costs	5,910	6,018
	Other pension costs	5,336	5,110
	Total employee costs	<u>85,579</u>	<u>86,792</u>

The average number of persons employed by or permanently seconded to the Company during the year was:-

	No	No
Industrial	2,137	2,226
Non Industrial	1,702	1,663
	<u>3,839</u>	<u>3,889</u>

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 March 1997

4. NET INTEREST RECEIVABLE

	1997	1996
	£'000	£'000
Interest payable on bank overdraft	99	-
Interest receivable	(37)	-
	<u>62</u>	<u>-</u>
	=====	=====

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1997	1996
	£'000	£'000
Based on profits for the year:-		
Corporation tax on taxable profits at 33% (1996 33%)	2,102	-
Deferred tax	(1,400)	-
	<u>702</u>	<u>-</u>
	=====	=====

6. TANGIBLE FIXED ASSETS

	Land and Buildings £'000	Plant and machinery £'000	Fixtures fittings, tools and equipment £'000	Total £'000
Cost				
at 1 April 1996	-	-	-	-
additions	59,313	13,687	-	73,000
Disposals	-	(228)	-	(228)
Transfer from fellow subsidiary at net book value	-	1,179	2,836	4,015
	<u>59,313</u>	<u>14,638</u>	<u>2,836</u>	<u>76,787</u>
at 31 March 1997	=====	=====	=====	=====
Depreciation				
at 1 April 1996	-	-	-	-
charge for the year	4,109	1,961	40	6,110
disposals	-	(71)	-	(71)
	<u>4,109</u>	<u>1,890</u>	<u>40</u>	<u>6,039</u>
at 31 March 1997	=====	=====	=====	=====
Net book value at 31 March 1997	<u>55,204</u>	<u>12,748</u>	<u>2,796</u>	<u>70,748</u>
	=====	=====	=====	=====
at 1 April 1996	-	-	-	-
	=====	=====	=====	=====

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 March 1997

7. STOCKS AND WORK IN PROGRESS	1997 £'000	1996 £'000
Stocks	12,474	-
Work in progress on short term contracts	4,101	-
	<u>16,575</u>	<u>-</u>
8. DEBTORS	1997 £'000	1996 £'000
Trade debtors	26,932	-
Amounts recoverable on contracts	16,328	-
Other debtors	4,103	-
Prepayments and accrued income	832	-
Amount due from parent Company	1,279	50
Pension Prepayment	5,262	-
Deferred tax asset	1,400	-
	<u>56,136</u>	<u>50</u>

Included within prepayments is £5,262,000 (Nil 1996) in respect of pension contribution payments made in advance of their recognition in the profit and loss account. This prepayment is being spread over the remaining service lives of the employees and as a result £4,857,000 is due after more than one year.

Deferred Tax Asset	Recognised		Not Recognised	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Depreciation in advance of capital allowances	1,400	-	491	-
Other timing differences	-	-	909	-
	<u>1,400</u>	<u>-</u>	<u>1,400</u>	<u>-</u>

The deferred tax asset represents fixed asset timing differences which are expected to reverse within the next year.

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 March 1997

9. CREDITORS amounts falling due within one year

	1997 £'000	1996 £'000
Bank loan (see Note 10)	5,000	-
Progress claims in excess of work in progress valuation	17,394	-
Trade creditors	37,787	-
Corporation tax payable	3,987	-
Other taxes and social security costs	2,819	-
Other creditors	1,500	-
Accruals	12,750	-
Amount due to subsidiary fellow subsidiaries	760	-
Deferred Income	405	-
	<u>82,402</u>	<u>-</u>

Included in Corporation Tax payable is the sum of £1,885,000 in respect of the tax liability of Devonport Management Limited, which was transferred to Devonport Royal Dockyard Limited on 13 March 1997 with all other trading assets and liabilities.

10. CREDITORS amounts falling due after more than one year.

Loans

	1997 £'000	1996 £'000
Not wholly repayable within 5 years		
£17,850,000 bank loan at 0.75% per annum over LIBOR, repayable in 6 monthly instalments of £1,275,000 commencing September 1997	17,850	-
£17,150,000 bank loan at 0.75% per annum over LIBOR, repayable in 6 monthly instalments of £1,225,000 commencing September 1997	17,150	-
Less included in creditors, amounts falling due within one year	(5,000)	-
	<u>30,000</u>	<u>-</u>
Deferred Income	4,857	-
	<u>34,857</u>	<u>-</u>

DEVONPORT ROYAL DOCKYARD LTD
NOTES TO THE ACCOUNTS
for the year ended 31 March 1997

Included in deferred income is £5,262,000 in respect of revenue from the Ministry of Defence which will be released in line with the amortisation of the pension prepayment (note 8). By matching the deferred income in this way, £4,857,000 is deferred over more than one year.

The shareholders of the parent company have guaranteed the bank borrowings.

11. CALLED UP SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	1997	1996	1997	1996
	No	No	No	No
Ordinary shares at £1 each	5,350,001	50,000	5,350,001	50,000
Special share of £1	1	1	1	1
	<u>5,350,002</u>	<u>50,001</u>	<u>5,350,002</u>	<u>50,001</u>

During the year the authorised share capital was increased by £5,300,001 by the creation of 5,300,001 ordinary shares of £1 each. During the year, 5,300,001 ordinary shares at £1 each, with an aggregate nominal value of £5,300,000 were issued fully paid in exchange for shares in the ultimate parent company. In addition, one ordinary share was issued to the Secretary of State for Defence at a premium of £32,699,999.

The special share, issued to the Secretary of State for Defence, has rights attaching that effectively give him the power, under certain extreme circumstances set out in the Company's Articles of Association, to overrule the votes of the ordinary shares. In all other respects both classes of shares rank pari passu.

**12. RECONCILIATION OF SHAREHOLDERS FUNDS
AND MOVEMENTS ON RESERVES**

	Share Capital	Profit and Loss Account	Capital Reserve	Share Premium	Total Shareholder Funds
	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 1996	50	-	-	-	50
Issue of shares	5,300	-	-	-	5,300
Retained profit for year	-	107	-	-	107
Capital Reserve arising on acquisition	-	-	1,731	-	1,731
Share premium arising on share issues	-	-	-	32,700	32,700
Balance at 31 March 1997	<u>5,350</u>	<u>107</u>	<u>1,731</u>	<u>32,700</u>	<u>39,888</u>

The Capital Reserve has arisen on the transfer of all trading assets and liabilities of Devonport Management Limited, and has been treated in accordance with the company's accounting policy.

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 March 1997

13 PARENT UNDERTAKING

The company's ultimate parent undertaking and controlling party is Dorhold Limited, which is incorporated in England and Wales. Copies of group accounts which include the Company are available from Devonport Royal Dockyard Plymouth PL1 4SG.

14 PENSION SCHEME

The Group operates a defined benefit pension scheme which is funded by the payment of contributions to a fund administered by Devonport Royal Dockyard Pensions Scheme.

The latest actuarial assessment of the scheme was at 31 December 1995. The actuarial method adopted was the projected unit credit method and the principal assumptions used were as follows:

Investment return	9% per annum
Salary increases	7% per annum
RPI increases	5.5% per annum
Dividend Growth	5% per annum

The level of funding, being the actuarial value of assets expressed as a percentage of the benefits accrued to members after allowing for further salary increases was 105%.

This assessment revealed that there was a surplus of £63 million. The market value of the assets of the scheme at the date of the assessment was £406 million.

The actuary recommended that the contribution rate be reduced from 9% to zero for a period of six years due to the large surplus, and the reduction in contributions will take place from 1 April 1997.

A review under SSAP 24 was also carried out for the year ended 31 March 1997. A 'best estimate' bases was adopted, which is different to the basis used by the group for Funding purposes. The following main assumptions were adopted:

Investment return	9.5% per annum
Salary Increase	6.5% per annum
RPI increases	5.5% per annum
Dividend Growth	5.5% per annum

The level of funding being the actuarial value of assets expressed as a percentage of the benefits accrued to members after allowing for further salary increases was 131%.

This review revealed a surplus of £97 million and the value of the schemes assets at 31 March 1996 were assessed as £411 million.

The results of the SSAP 24 calculations indicate that the variation in cost, due to the surplus, is greater than the regular cost and therefore the company pension cost for the year ended 31 March 1997 is nil.

No contributions have therefore been charged to the Profit and Loss accounts for the year in accordance with the SSAP 24 recommendations, contributions paid have been included as a pension prepayment and disclosed in debtors (note 8).

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 March 1997

15 OTHER FINANCIAL COMMITMENTS

At 31 March 1997 the company had a commitment under non-cancellable operating leases to pay in the next year the following amounts.

	1997 £'000
Operating leases for plant and equipment which expire within 1 year	<u>112</u>

Under the Assets Sale Agreement with the Secretary of State of Defence, the company is committed to expend monies maintaining and replacing strategic assets. The amount is limited to £20 million in a financial year or £75 million over 5 years.