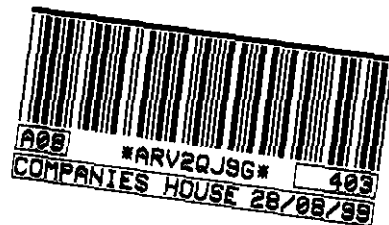


Pendennis Shipyard (Holdings) Limited

Directors' report and financial statements

For the year ended 31 December 1997

Company registration number 2281468



Pendennis Shipyard (Holdings) Limited

Directors' report and financial statements

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Pendennis Shipyard (Holdings) Limited

Directors' report

For the year ended 31 December 1997

The directors present their report on the affairs of the group, together with the financial statements and auditors' report for the year ended 31 December 1997.

Principal activity and business review

The principal activities of the group are the design and manufacture of luxury yachts and fitting out of medium sized yachts.

At an Extraordinary General Meeting of the company held on 25 January 1999 the authorised share capital was increased by £800,000 by the creation of an additional 800,000 Ordinary shares of £1 each and 1,100,000 of the existing Deferred shares were converted into Ordinary shares, both to rank pari passu with the original Ordinary shares. At an Extraordinary General Meeting held on 27 July 1999 the authorised capital was increased by a further £200,000 by the creation of a further 250,000 Ordinary shares of £1 each to rank pari passu with the existing Ordinary shares. The following Ordinary shares have been issued since the year end to provide additional working capital.

29 January 1999	£600,000
1 April 1999	£ 25,000
19 April 1999	£175,000

In the near future a further £130,000 of Ordinary share capital and £120,000 floating rate Convertible Loan Stock 2004 will be issued. The stock may be converted into Ordinary shares to rank pari passu with the existing Ordinary shares at any time after 1 August 2004.

Results and dividends

The results for the year are shown in the profit and loss account on page 4. The directors recommend that no dividend be paid.

Year 2000

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of the company's business depends not only on in-house computer and related systems, but also to some degree, on those of its suppliers and customers. This could expose the company to further risk in the event that there is a failure by other parties to remedy their own year 2000 issues.

Given the complexity of the problem, it is not possible for any organisation to guarantee that no year 2000 problems will remain, because at least some level of failure may still occur. However, the directors believe that the risk to the company is not so significant as to disrupt their commercial activities.

Pendennis Shipyard (Holdings) Limited

Directors and their interests

The directors who served during the year and their interests in the ordinary and deferred share capital of the company were as follows:

	1997		1996	
	Ordinary	Deferred	Ordinary	Deferred
MJ Carr	34,000	887,807	34,000	887,807
H Wiekens	34,000	887,807	34,000	887,807
D Bentley	24,000	626,687	24,000	626,687
PJ Wood	-	-	-	-
TJ Vernon	-	-	-	-
AA Hill	8,000	208,896	8,000	208,896
NJ Horton	-	-	-	-

NJ Horton resigned as a director on 26 May 1999.

T Sainsbury and J Carter were appointed directors on 2 August 1999.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of Robinson Reed Layton as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

By order of the Board


AA Hill
Director

The Docks
FALMOUTH
Cornwall

27 August 1999

Pendennis Shipyard (Holdings) Limited

Auditors' report

to the members of Pendennis Shipyard (Holdings) Limited

We have audited the financial statements on pages 4 to 22.

Respective responsibilities of directors and auditors

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

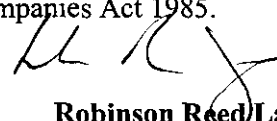
Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning the uncertainty as to the continued support of the groups creditors. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 1997 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Peat House
Newham Road
TRURO
Cornwall
TR1 2DP



Robinson Reed Layton
Chartered Accountants
Registered Auditors

27 August 1999

Pendennis Shipyard (Holdings) Limited

Group profit and loss account

For the year ended 31 December 1997

	Note	1997 £	1996 £
Turnover	3	12,727,324	7,413,061
Cost of sales		(11,371,190)	(6,019,611)
		<hr/>	<hr/>
Gross profit		1,356,134	1,393,450
Administrative expenses		(1,984,955)	(1,363,915)
Other operating income	16	-	40,000
		<hr/>	<hr/>
Operating (loss)/profit		(628,821)	69,535
Interest receivable and similar income		18,064	29,488
Interest payable and similar charges	4	(107,228)	(96,701)
		<hr/>	<hr/>
(Loss)/profit on ordinary activities before taxation	5	(717,985)	2,322
Taxation on (loss)/profit on ordinary activities	8	(821)	-
		<hr/>	<hr/>
(Loss)/profit on ordinary activities after taxation being the (loss)/profit for the financial year		(718,806)	2,322
Accumulated deficit brought forward		(1,249,178)	(1,251,500)
		<hr/>	<hr/>
Accumulated deficit carried forward		(1,967,984)	(1,249,178)
		<hr/>	<hr/>

There were no acquisitions or discontinued operations within the group during 1997 or 1996.

The group has no recognised gains or losses in either 1997 or 1996 other than those passing through the profit and loss account.

Pendennis Shipyard (Holdings) Limited

Balance sheet

As at 31 December 1997

	Note	The Company		The Group	
		1997	1996	1997	1996
		£	£	£	£
Fixed assets					
Tangible assets	9	2,515,670	2,349,499	3,295,820	2,960,473
Investments	10	5	5	-	-
Current assets					
Stocks	11	-	-	77,792	47,827
Debtors:					
- due within one year	12	5,690	24,421	941,915	1,049,044
- due after more than one year	12	-	-	741,700	288,004
Cash at bank and in hand		-	8,648	217,935	168,091
		<u>5,690</u>	<u>33,069</u>	<u>1,979,342</u>	<u>1,552,966</u>
Creditors: amounts falling due within one year	13	(724,840)	(236,780)	(3,719,483)	(2,212,740)
		<u>(719,150)</u>	<u>(203,711)</u>	<u>(1,740,141)</u>	<u>(659,774)</u>
Net current liabilities					
		<u>(719,150)</u>	<u>(203,711)</u>	<u>(1,740,141)</u>	<u>(659,774)</u>
Total assets less current liabilities		1,796,525	2,145,793	1,555,679	2,300,699
Creditors: amounts falling due after more than one year	14	(731,059)	(817,128)	(812,466)	(838,680)
Provisions for liabilities and charges	15	-	-	-	-
Accruals and deferred income	16	-	-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets		1,065,466	1,328,665	743,213	1,462,019
		<u><u>1,065,466</u></u>	<u><u>1,328,665</u></u>	<u><u>743,213</u></u>	<u><u>1,462,019</u></u>
Capital and reserves					
Called up share capital	17	2,711,197	2,711,197	2,711,197	2,711,197
Profit and loss account		(1,645,731)	(1,382,532)	(1,967,984)	(1,249,178)
		<u>(1,645,731)</u>	<u>(1,382,532)</u>	<u>(1,967,984)</u>	<u>(1,249,178)</u>
Shareholders' funds including non-equity interests	18,19	1,065,466	1,328,665	743,213	1,462,019
		<u><u>1,065,466</u></u>	<u><u>1,328,665</u></u>	<u><u>743,213</u></u>	<u><u>1,462,019</u></u>

These financial statements were approved by the board of directors on 27 August 1999 and were signed on its behalf by:



AA Hill
Director

Pendennis Shipyard (Holdings) Limited

Group cash flow statement for the year ended 31 December 1997

	£	1997 £	£	1996 £
Net cash inflow from operating activities		440,965		827,898
Return on investments and servicing of finance				
Interest received	27,169		10,031	
Interest paid	(90,157)		(86,386)	
Interest element of finance lease payments	(15,594)		(9,890)	
	<hr/>		<hr/>	
Net cash (outflow) from returns on investment and servicing of finance		(78,582)		(86,245)
Taxation				
Taxation paid	(821)		(1,622)	
	<hr/>		<hr/>	
Tax paid		(821)		(1,622)
Capital expenditure				
Payments to acquire tangible fixed assets	(436,048)		(656,468)	
Proceeds from the disposal of tangible fixed assets	9,400		255	
	<hr/>		<hr/>	
Net cash outflow from capital expenditure		(426,648)		(656,213)
		<hr/>		<hr/>
		(65,086)		83,818
Financing				
Debt due within a year:				
Capital element of lease purchase payments	(54,514)		(37,451)	
Repayment of loan capital	(56,526)		200,000	
Debt due beyond a year:				
Repayment of loan capital	-		(30,409)	
	<hr/>		<hr/>	
Net cash (outflow)/inflow from financing		(111,040)		132,140
		<hr/>		<hr/>
(Decrease)/increase in cash and cash equivalents		(176,126)		215,958
		<hr/> <hr/>		<hr/> <hr/>

Pendennis Shipyard (Holdings) Limited

Notes to the cashflow statement

For the year ended 31 December 1997

1 Reconciliation of operating profit to net cash inflow from operating activities

	1997 £	1996 £
Operating (loss)/profit	(628,821)	69,535
Depreciation charge	202,579	145,430
Profit on sale of tangible fixed assets	(3,278)	(255)
(Increase)/decrease in stocks	(49,965)	25,053
(Increase)/decrease in debtors	(335,672)	105,399
Increase in creditors	1,256,122	482,736
	<hr/>	<hr/>
Net cash inflow from operating activities	440,965	827,898
	<hr/>	<hr/>

2 Reconciliation of net cashflow to movement in net debt

	1997 £	1996 £
(Decrease)/increase in cash	(176,126)	215,958
Cash inflow/(outflow) from decrease in debt and lease financing	111,040	(132,140)
	<hr/>	<hr/>
Change in net debt resulting from cash flows	(65,086)	83,818
New finance leases	(108,000)	(41,379)
	<hr/>	<hr/>
Movement in net debt in the period	(173,086)	42,439
Net debt at 1 January 1997	(765,429)	(807,868)
	<hr/>	<hr/>
Net debt at 31 December 1997	(938,515)	(765,429)
	<hr/>	<hr/>

Pendennis Shipyard (Holdings) Limited

Notes to the cashflow statement

For the year ended 31 December 1997

3 Analysis of changes in net debt

	At 1 January 1997 £	Cash flow £	Other non cash changes £	At 31 December 1997 £
Cash at bank and in hand	168,091	49,844	-	217,935
Bank overdraft	-	(225,970)	-	(225,970)
		<hr/>		
		(176,126)		
Loans and lease purchase liabilities:				
Due within one year	(94,840)	111,040	(134,214)	(118,014)
Due after one year	(838,680)	-	26,214	(812,466)
	<hr/>	<hr/>	<hr/>	<hr/>
	(765,429)	(65,086)	(108,000)	(938,515)
	<hr/>	<hr/>	<hr/>	<hr/>

Pendennis Shipyard (Holdings) Limited

Notes to the financial statements

For the year ended 31 December 1997

1 **Basis of accounting**

These financial statements have been prepared under the historical cost convention. They have also been prepared on a going concern basis which assumes the continued support of the group's creditors. Should this support be withdrawn the group would be unable to continue trading. Adjustments would have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise and to reclassify fixed assets and long-term liabilities as current assets and liabilities.

Since the year end the company has raised additional finance (see note 24)

2 **Principal accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

2.1 **Consolidation**

The consolidated financial statements incorporate the financial statements of Pendennis Shipyard (Holdings) Limited and its subsidiary undertaking. In accordance with the exemptions granted under Section 230(4) of the Companies Act 1985, a separate profit and loss account dealing with the results of the company only has not been presented.

2.2 **Tangible fixed assets and depreciation**

All fixed assets are shown at cost. Depreciation is provided at rates calculated to write-off the cost of each asset less estimated residual value on a straight-line basis over its expected useful life as follows:

Long term leasehold property	-	2%
Plant and equipment	-	10 - 25%
Fixtures and fittings	-	10 - 33%

No depreciation is charged on leasehold land. The period of lease is 996 years from 21 May 1993.

Assets in the course of construction represents the capital cost of separately identifiable assets which are incomplete at the year end. On completion the costs incurred are analysed into the appropriate class of asset and depreciation charged accordingly.

2.3 **Stocks**

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

2.4 **Turnover and long term contracts**

Turnover represents in the case of long term contracts the proportion of contract value applicable to the activity in the year, ascertained by reference to the state of completion of each contract. The related costs are matched with this turnover, resulting in the reporting of attributable profit proportionate to the contract activity. Where the outcome of a contract cannot be foreseen with reasonable certainty but no loss is expected, turnover and costs are recorded as activity progresses using a zero estimate of profit.

Estimates of total contract costs and revenues are reviewed periodically, and the cumulative effects of changes are recognised in the period in which they are identified. All known or anticipated losses are provided for in full as soon as they are foreseen.

Pendennis Shipyard (Holdings) Limited

Notes to the financial statements

For the year ended 31 December 1997

2 Principal accounting policies

2.4 Turnover and long term contracts (continued)

Net costs incurred in excess of amounts transferred to cost of sales are classified as long-term contract balances. Revenue recognised in excess of amounts billed are classified as amounts recoverable on contracts and included in debtors. Amounts billed in excess of revenues recognised to date are deducted from related long term contract balances with any residual balance being classified as long term contract payments on account and included in creditors. Long term contract balances are stated at contract cost incurred less amounts transferred to cost of sales, foreseeable losses and payments on account.

2.5 Pensions

Contributions to the group's pension scheme providing benefit based on final pensionable pay are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group. For the group's defined contributions scheme, contributions are charged to the profit and loss account as they become available.

2.6 Government grants

Government grants are included within accruals and deferred income in the balance sheet and credited to trading profit over a period of three years.

2.7 Leases

Where an asset is acquired under a lease which entails taking substantially all the risks and rewards of ownership it is recorded in the balance sheet as a tangible asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

2.8 Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise in the foreseeable future.

2.9 Foreign currency

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of 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. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

2.10 Investments

Investments are stated at costs less any amounts written off to reflect a permanent diminution in value.

Pendennis Shipyard (Holdings) Limited

Notes to the financial statements

For the year ended 31 December 1997

3 Analysis of turnover

Analysis of turnover by geographical area is as follows:

	1997 £	1996 £
United Kingdom	2,115,821	4,179,625
Rest of world	10,611,503	3,233,436
	<u>12,727,324</u>	<u>7,413,061</u>

All turnover is derived from the group's principal activities.

4 Interest payable and similar charges

	1997 £	1996 £
On bank loans and overdraft	91,634	86,811
On lease purchase agreements	15,594	9,890
	<u>107,228</u>	<u>96,701</u>

5 (Loss)/profit on ordinary activities before taxation

	1997 £	1996 £
<i>(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Directors' emoluments (see note 5)		
Remuneration as executives	195,981	191,894
Pension contributions	29,033	47,713
Pension paid to past director	15,134	3,750
Depreciation	202,580	145,430
Profit on disposal of fixed assets	(3,278)	(255)
Hire of plant and machinery	44,860	40,035
Auditors' remuneration	10,400	7,620
Regional Selective Assistance (see note 15)	-	(40,000)
	<u></u>	<u></u>

6 Directors' remuneration

The directors' emoluments included:

	1997 £	1996 £
Chairman	6,054	6,060
Highest paid director	52,993	46,353
	<u></u>	<u></u>

Pension contributions were paid to a defined contribution benefit scheme on behalf of 2 directors (1996 : 3).

Pendennis Shipyard (Holdings) Limited

Notes to the financial statements

For the year ended 31 December 1997

7 Staff numbers and costs

The average number of persons (including directors) employed by the group was as follows:

	1997	1996
Production	135	141
Administration	42	37
	<hr/>	<hr/>
	177	178
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	1997 £	1996 £
Wages and salaries	2,634,315	2,673,407
Social security	255,204	257,610
Other pension costs	41,526	60,236
	<hr/>	<hr/>
	2,931,045	2,991,253
	<hr/>	<hr/>

8 Taxation

	1997 £	1996 £
UK corporation tax	821	-
	<hr/>	<hr/>

The group has tax losses of approximately £1,833,000 (1996: £969,000) to carry forward and offset against future profits from the same trades.

Pendennis Shipyard (Holdings) Limited

Notes to the financial statements

For the year ended 31 December 1997

9 Tangible fixed assets - Company

	Long term leasehold property £	Plant and equipment £	Total £
Cost			
At 1 January 1997	2,339,429	173,915	2,513,344
Additions	255,151	-	255,151
Disposal	(4,400)	-	(4,400)
At 31 December 1997	2,590,180	173,915	2,764,095
Depreciation			
At 1 January 1997	111,916	51,929	163,845
Charge for year	61,891	24,713	86,604
Disposals	(2,024)	-	(2,024)
At 31 December 1997	171,783	76,642	248,425
Net book value			
At 31 December 1997	2,418,397	97,273	2,515,670
At 31 December 1996	2,227,513	121,986	2,349,499

The net book value of plant and equipment includes £97,273 (1996 : £121,986) in respect of assets held under lease purchase agreements. Depreciation for the year on these assets was £24,713 (1996 : £24,717).

Pendennis Shipyard (Holdings) Limited

Notes to the financial statements

For the year ended 31 December 1997

9 Tangible fixed assets - Group

	Assets in course of construction £	Long term leasehold property £	Plant and equipment £	Fixtures and fittings £	Total £
Cost					
At 1 January 1997	152,055	2,339,429	701,293	262,065	3,454,842
Additions	-	255,151	241,884	47,013	544,048
Disposals	-	(4,400)	(4,833)	-	(9,233)
Transfer	(152,055)	-	152,055	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1997	-	2,590,180	1,090,399	309,078	3,989,657
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation					
At 1 January 1997	-	111,916	192,340	190,113	494,369
Charge for year	-	61,891	107,105	33,584	202,580
Disposals	-	(2,024)	(1,088)	-	(3,112)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1997	-	171,783	298,357	223,697	693,837
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 31 December 1997	-	2,418,397	792,042	85,381	3,295,820
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1996	152,055	2,227,513	508,953	71,952	2,960,473
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The net book value of plant and equipment includes £284,648 (1996 : £161,367) in respect of assets held under lease purchase agreements. Depreciation for the year on these assets was £45,364 (1996 : £31,313).

Pendennis Shipyard (Holdings) Limited

Notes to the financial statements

For the year ended 31 December 1997

10 Fixed asset investments - Company

	Shares in subsidiary undertaking £	Participating interest shares £	Participating interest loans £	Total £
Cost				
At beginning of year	5	83,333	26,667	110,005
Written off	-	(83,333)	(26,667)	(110,000)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	5	-	-	5
	<hr/>	<hr/>	<hr/>	<hr/>
Provisions				
At beginning of year	-	83,333	26,667	110,000
Written off	-	(83,333)	(26,667)	(110,000)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 December 1997	5	-	-	5
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1996	5	-	-	5
	<hr/>	<hr/>	<hr/>	<hr/>

The subsidiary undertaking is Pendennis Shipyard Limited, a company registered in England and Wales. The company obtained 100% of its ordinary share capital on 1 January 1996. The subsidiary's trade is that of the design and manufacture of luxury yachts and fitting out of medium sized yachts.

The participating interest represents 25% of the ordinary share capital of Magrathea (Pendennis) Limited. This company went into liquidation on 22 November 1995.

11 Stocks

	The Company		The Group	
	1997	1996	1997	1996
	£	£	£	£
Raw materials	-	-	77,792	47,827
	<hr/>	<hr/>	<hr/>	<hr/>

Pendennis Shipyard (Holdings) Limited

Notes to the financial statements

For the year ended 31 December 1997

12 Debtors

	The Company		The Group	
	1997	1996	1997	1996
	£	£	£	£
<i>Amounts falling due within one year:</i>				
Trade debtors	3,862	24,086	147,137	479,924
Amounts recoverable on long term contracts	-	-	272,676	297,740
VAT recoverable	-	-	74,179	80,420
Other debtors	-	335	329,631	132,387
Prepayments and accrued income	1,828	-	118,292	58,573
	<hr/>	<hr/>	<hr/>	<hr/>
	5,690	24,421	941,915	1,049,044
<i>Amounts falling due after more than one year:</i>				
Trade debtors	-	-	496,240	229,703
Amounts recoverable on long term contracts	-	-	245,460	58,301
	<hr/>	<hr/>	<hr/>	<hr/>
	5,690	24,421	1,683,615	1,337,048
	<hr/>	<hr/>	<hr/>	<hr/>

13 Creditors: amounts falling due within one year

	The Company		The Group	
	1997	1996	1997	1996
	£	£	£	£
Bank overdraft	7,505	-	225,970	-
Bank loans (see note 14)	62,090	56,526	62,090	56,526
Obligations under lease purchase agreements (see note 14)	23,979	27,969	55,924	38,314
Long term contracts payments on account	-	-	1,507,197	1,554,431
Trade creditors	-	-	1,108,191	348,029
Corporation tax	-	-	-	-
Other creditors:				
Social security and PAYE	3,215	3,233	81,116	104,085
Other	3,166	-	3,166	-
Accruals and deferred income	3,082	2,268	675,829	111,355
Amount owed to subsidiary company	621,803	146,784	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	724,840	236,780	3,719,483	2,212,740
	<hr/>	<hr/>	<hr/>	<hr/>

The bank overdraft and loan are secured by a charge over all assets of the company.

Pendennis Shipyard (Holdings) Limited

Notes to the financial statements

For the year ended 31 December 1997

14 Creditors: amounts falling due after more than one year

	The Company		The Group	
	1997	1996	1997	1996
	£	£	£	£
Bank loans	707,059	769,149	707,059	769,149
Obligations under lease purchase agreements (payable in second to fifth years inclusive)	24,000	47,979	105,407	69,531
	<u>731,059</u>	<u>817,128</u>	<u>812,466</u>	<u>838,680</u>

The bank loans are repayable by monthly instalments as follows:

	The Company		The Group	
	1997	1996	1997	1996
	£	£	£	£
Within one year	62,090	56,526	62,090	56,526
Between two and five years	321,280	290,809	321,280	290,809
After five years	385,779	478,340	385,779	478,340
	<u>769,149</u>	<u>825,675</u>	<u>769,149</u>	<u>825,675</u>

The bank loans are secured by a charge over all assets of the company and interest is charged at rates of 10.5% to 10.75% per annum.

Obligations under lease purchase agreements are secured on the assets to which they relate.

15 Provision for liabilities and charges

Full provision has been made for deferred tax and the amounts provided are as follows:

	The Company		The Group	
	1997	1996	1997	1996
	£	£	£	£
Accelerated capital allowances	33,000	1,837	65,000	12,764
Other timing differences	-	-	-	(179)
Losses	(33,000)	(1,837)	(65,000)	(12,585)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Pendennis Shipyard (Holdings) Limited

Notes to the financial statements

For the year ended 31 December 1997

16 Accruals and deferred income

	The Company		The Group	
	1997	1996	1997	1996
	£	£	£	£
<i>Regional Selective Assistance</i>				
Balance at 1 January 1997	-	40,000	-	40,000
Released to profit and loss account	-	(40,000)	-	(40,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 1997	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

17 Called up share capital

	1997	1996
	£	£
<i>Authorised</i>		
100,000 ordinary shares of £1 each	100,000	100,000
2,611,197 deferred shares of £1 each	2,611,197	2,611,197
	<hr/>	<hr/>
	2,711,197	2,711,197
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
100,000 ordinary shares of £1 each	100,000	100,000
2,611,197 deferred shares of £1 each	2,611,197	2,611,197
	<hr/>	<hr/>
	2,711,197	2,711,197
	<hr/>	<hr/>

18 Reconciliation of movements on shareholders' funds

	The Company		The Group	
	1997	1996	1997	1996
	£	£	£	£
(Loss)/profit for financial year	(263,199)	(131,032)	(718,806)	2,322
Opening shareholders' funds	1,328,665	1,459,697	1,462,019	1,459,697
	<hr/>	<hr/>	<hr/>	<hr/>
	1,065,466	1,328,665	743,213	1,462,019
	<hr/>	<hr/>	<hr/>	<hr/>

Pendennis Shipyard (Holdings) Limited

Notes to the financial statements

For the year ended 31 December 1997

19 Analysis of shareholders' funds

	The Company		The Group	
	1997	1996	1997	1996
	£	£	£	£
Equity interest	(1,545,731)	(1,282,532)	(1,867,984)	(1,149,178)
Non-equity interests	2,611,197	2,611,197	2,611,197	2,611,197
	<u>1,065,466</u>	<u>1,328,665</u>	<u>743,213</u>	<u>1,462,019</u>

Holders of deferred shares have no voting rights or rights to dividends. They rank immediately after ordinary shareholders in the event of a winding up.

20 Pension schemes

The group operates two pension schemes.

- (i) The subsidiary is an Independent Participating Employer with its own section of The Shipbuilding Industries Pension Scheme ('SIPS') which is administered by trustees and is separate from the company finances, providing benefits based on final pensionable pay. Contributions to SIPS 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 actuary on the basis of triennial valuations using the Attained Age method. 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 9% per annum, that salary increases would average 6.5% per annum and that present and future pensions would increase at the rate of 4.5% per annum.

The most recent actuarial valuation of this section carried out at 1 April 1995 showed the market value of the assets was £81,190 and that the actual value of those assets represented 115% of the benefits that had accrued to all members of this section. The contributions for the section as a whole have been set at 13.1% of pensionable pay in order to amortise the excess of the market value of the section's assets over the benefits accrued to all members, over the remaining service lives of the employees.

The pension charge for the year to 31 December 1997 and contributions payable (included in creditors) are as follows:

Pendennis Shipyard (Holdings) Limited

Notes to the financial statements

For the year ended 31 December 1997

20 Pension schemes

	The Company		The Group	
	1997	1996	1997	1996
	£	£	£	£
Pension charge	3,568	-	14,003	14,332
Contributions payable	485	-	2,018	1,238

With effect from 1 April 1997 the company's section of the SIPS final salary scheme was wound up and all the existing members transferred to the SIPS money purchase pension plan.

- (ii) The group also operates a defined contribution pension scheme.

The pension charge for the year to 31 December 1997 and contributions payable (included in creditors) are as follows:

	The Company		The Group	
	1997	1996	1997	1996
	£	£	£	£
Pension charge	15,170	-	27,523	37,562
Contributions payable	-	-	-	852

21 Contingent liabilities

- (i) The group has received Regional Selective Assistance amounting to £Nil (1996 : £350,000). These grants are repayable in certain circumstances. In accordance with the group's policy for accounting for such grants £Nil (1996 : £Nil) is included in accruals and deferred income (note 16).
- (ii) There is a cross guarantee between all members of the group and Pendennis Shipyard (Composite) Limited in respect of bank borrowings. The amounts guaranteed at the year end for Pendennis Shipyard (Composite) Limited was £5,570 (1996 : £7) and the highest balance during the year was £138,178 (1996 : £7).
- (iii) The group companies are members of a VAT group together with Pendennis Shipyard (Composite) Limited and as such are jointly liable for any outstanding liability. At the year end there was no liability (1996 : £Nil) and the maximum amount owed by the group during the year was £Nil (1996 : £27,647).
- (iv) The company has guaranteed hire purchase agreements entered into Pendennis Shipyard Limited. The amount at the year end owed by Pendennis Shipyard Limited was £113,352 (1996 : £31,897).

Pendennis Shipyard (Holdings) Limited

Notes to the financial statements

For the year ended 31 December 1997

22 Capital commitments

- (i) Capital commitments at the end of the financial year for which no provision has been made:

	The Company		The Group	
	1997	1996	1997	1996
	£	£	£	£
Contracted but not provided	-	46,800	-	60,007

- (ii) Annual commitments under non-cancellable operating leases for plant and machinery expire as follows:

	The Company		The Group	
	1997	1996	1997	1996
	£	£	£	£
After five years	-	-	1,666	1,572

23 Related party disclosures

The accounts include in turnover £24,000 (1996 : £24,000) in respect of rent receivable from Pendennis Shipyard (Composite) Limited at 31 December 1997, a company of which all the directors of Pendennis Shipyard (Holdings) Limited at 31 December 1997, except NJ Horton, are also directors.

The accounts of Pendennis Shipyard Limited include the following transactions with Pendennis Shipyard (Composite) Limited:

	1997	1996
	£	£
Cost of sales	469,531	665,368
Administrative income	232,828	227,635

The balance at 31 December 1997 with Pendennis Shipyard (Composite) Limited is £496,240 (debtor) (1996 : £289,703 (debtor)).

24 Post balance sheet events

At an Extraordinary General Meeting of the company held on 25 January 1999 the authorised share capital was increased by £800,000 by the creation of an additional 800,000 Ordinary shares of £1 each and 1,100,000 of the existing Deferred shares were converted into Ordinary shares, both to rank pari passu with the original Ordinary shares. At an Extraordinary General Meeting held on 27 July 1999 the authorised capital was increased by a further £250,000 by the creation of a further 250,000 Ordinary Shares of £1 each to rank pari passu with the existing Ordinary shares. The following Ordinary shares have been issued since the year end to provide additional working capital:

Pendennis Shipyard (Holdings) Limited

Notes to the financial statements

For the year ended 31 December 1997

24 Post balance sheet events (continued)

29 January 1999	£600,000
1 April 1999	£ 25,000
19 April 1999	£175,000

In the near future a further £130,000 of ordinary share capital and £120,000 floating rate Convertible Loan Stock 2004 will be issued. The stock may be converted into Ordinary shares to rank pari passu with the existing Ordinary shares at any time after 1 August 2004.