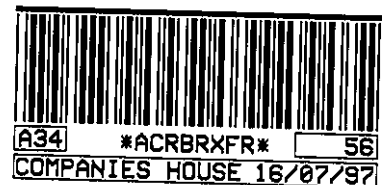


**Falmouth Oil Services
(1994) Limited**

Directors' report and financial statements

31 December 1996

Registered number 2856486



Falmouth Oil Services (1994) Limited

Directors' report and financial statements

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Falmouth Oil Services (1994) Limited

Directors' report

The directors present their annual report together with the financial statements and auditors' report for the year ended 31 December 1996.

Principal activity and business review

The company operates a bonded oil terminal at Falmouth in support of a 24 hour bunkering service to marine vessels of all sizes. A full range of bunker fuels is stocked, including heavy and intermediate fuel oil, marine diesel and gas oil. As part of the all inclusive service offered to vessels calling at Falmouth the company also operates a maritime agency and a fully licensed sloop-reception facility.

The company continued its capital expenditure program during 1996, completing the recommissioning of a disused terminal to supply derv and kerosene in bulk in addition to the range of fuels already supplied. A part interest in a local oil haulage company was also acquired in order to enable the company to service existing requirements in addition to providing bulk fuel deliveries from this new terminal.

Results and dividends

The results for the period are shown on page 5 to the financial statements.

The directors do not recommend the payment of a dividend.

Parent company

The immediate holding company throughout the year was Garraf Limited.

Directors and their interests

The directors who held office during the year were as follows:

CJ Walters

DS Burnet (appointed 14 February 1996)

RY Birley (appointed 14 February 1996)

The interests of the directors who held office at the year end in the shares of Garraf Limited are shown in that company's accounts.

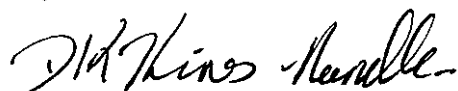
Falmouth Oil Services (1994) Limited

Directors' report *(continued)*

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.

By order of the board



Company Secretary

DK Hines Randle

The Docks
FALMOUTH
Cornwall

1 July 1997

Falmouth Oil Services (1994) Limited

Statement of 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 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 company 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 company 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 company and to prevent and detect fraud and other irregularities.

Auditors' report to the members of Falmouth Oil Services (1994) Limited

We have audited the financial statements on pages 5 to 18.

Respective responsibilities of directors and auditors

As described on page 3 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Robinson Reed Layton
Chartered Accountants
Registered Auditors

10 July 1997

Peat House
Newham Road
TRURO
Cornwall
TR1 2DP

Falmouth Oil Services (1994) Limited

Profit and loss account

for the year ended 31 December 1996

	Notes	1996 £	1995 £
Turnover	1, 2	6,679,718	6,013,021
Cost of sales		<u>(5,961,312)</u>	<u>(5,395,918)</u>
Gross profit		718,406	617,103
Administrative expenses		(697,712)	(705,276)
Other operating income	3	<u>291,933</u>	<u>445,804</u>
Operating profit		312,627	357,631
Interest receivable and similar income		456	8,854
Amounts written off fixed asset investments		(1)	(4,895)
Interest payable and similar charges	6	<u>(92,168)</u>	<u>(76,967)</u>
Profit on ordinary activities before taxation	4	220,914	284,623
Tax on profit on ordinary activities	7	-	-
Profit for the financial year	17	220,914	284,623
Retained profit brought forward		<u>659,591</u>	<u>374,968</u>
Retained profit carried forward		<u>880,505</u>	<u>659,591</u>

There were no acquisitions or discontinued operations during the years ended 31 December 1996 and 1995.

Statement of total recognised gains and losses

for the year ended 31 December 1996

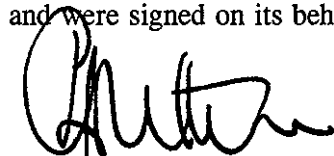
	1996 £	1995 £
Profit for the financial year and total recognised gains and losses relating to the year	220,914	284,623
Prior year adjustment (note 26)	-	211,113
Total gains and losses recognised since last annual report	<u>220,914</u>	<u>495,736</u>

Falmouth Oil Services (1994) Limited

Balance sheet
at 31 December 1996

	Notes	£	1996 £	£	1995 £
Fixed assets					
Tangible assets	8		3,732,285		3,345,796
Investments	9		10,105		10,105
Current assets					
Stocks	10	70,678		41,882	
Debtors	11	931,078		819,263	
Cash at bank and in hand		19,360		5,673	
			<u>1,021,116</u>	<u>866,818</u>	
Creditors: amounts falling due within one year	12	<u>(1,902,807)</u>		<u>(1,292,495)</u>	
Net current liabilities			<u>(881,691)</u>		<u>(425,677)</u>
Total assets less current liabilities			<u>2,860,699</u>		<u>2,930,224</u>
Creditors: amounts falling due after more than one year	13		(747,582)		(774,741)
Provisions for liabilities and charges	14		(67,333)		(47,280)
Accruals and deferred income	15		<u>(165,279)</u>		<u>(448,612)</u>
Net assets			<u>1,880,505</u>		<u>1,659,591</u>
Capital and reserves					
Called up share capital	16		1,000,000		1,000,000
Profit and loss account			<u>880,505</u>		<u>659,591</u>
Equity shareholders' funds	17		<u>1,880,505</u>		<u>1,659,591</u>

These financial statements were approved by the board of directors on 1 July 1996
and were signed on its behalf by:



Director
CJ Walters

Falmouth Oil Services (1994) Limited

Cash flow statement

for the year ended 31 December 1996

	Note	1996 £	1995 £
Net cash inflow from operating activities	20	404,341	169,076
Return on investments and servicing of finance			
Interest received		456	8,837
Interest paid		(76,106)	(76,810)
Interest element of finance lease rental payments		(13,478)	(1,235)
Net cash outflow from returns on investment and servicing of finance		(89,128)	(69,208)
Investing activities			
Purchase of investment		(1)	(15,000)
Disposal proceeds		37,490	-
Purchase of tangible fixed assets		(513,118)	(768,556)
Net cash outflow from investing activities		(475,629)	(783,556)
Financing			
Issue of ordinary share capital		-	-
Grants received		-	170,000
New secured loan		145,000	-
Loan repayments		(126,179)	(75,036)
Capital element of finance lease rental payments		(13,230)	(17,737)
Net cash inflow from financing		5,591	77,227
(Decrease)/Increase in cash and cash equivalents	21	(154,825)	(606,461)

Falmouth Oil Services (1994) Limited

Notes

(forming part of the financial statements)

1 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.

Basis of preparation

The financial statements have been prepared under the historical cost accounting rules.

The company is exempt under s248 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Fixed assets and depreciation

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 leasehold buildings	- 50 years
Plant and equipment	- 4 - 50 years
Tankers	- 8 years
Improvement to leased barges	- unexpired period of barge charter

No depreciation is charged on long leasehold land as the period of lease is 999 years.

Drydock repairs and prepaid survey costs

Provision is made on a daily basis for the estimated costs of repair, generally on the assumption that the vessel will drydock twice during a five year period. Any difference between the actual cost of repairs and the amount accrued is amortised over the period to the next drydock.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Assets held under finance leases are initially recorded at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance. Rentals are apportioned between finance charges to the profit and loss account and reduction of the liability, and allocated to cost of sales and other operating expenses as appropriate.

Pensions

The company contributes to a defined contribution pension scheme. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Falmouth Oil Services (1994) Limited

Notes (continued)

1 Accounting policies (continued)

Stocks

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

Taxation

The charge for taxation is based on the profit for the period 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.

Turnover

Turnover represents the amounts (excluding Value Added Tax) derived from the provision of goods and services to third party customers during the period.

Investments

Investments in subsidiary undertakings are stated at cost less any provision necessary to equate the carrying value of the investment to that subsidiary's balance sheet total.

Government grants

Regional Selective Assistance is included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the period of the project.

2 Analysis of turnover

	1996 £	1995 £
Bunkering services	5,322,723	4,703,239
Agency services	995,475	914,446
Discharges, tank cleaning and waste oil treatment	361,520	395,336
	<hr/> 6,679,718 <hr/>	<hr/> 6,013,021 <hr/>

Falmouth Oil Services (1994) Limited

Notes (continued)

3 Other operating income

	1996 £	1995 £
Exceptional income-loan writedown (see below)	-	152,904
Rental income	8,600	9,567
Release of government grant	283,333	283,333
	<u>291,933</u>	<u>445,804</u>

As part of agreement for the purchase of Falmouth Oil Services (1994) by Garraf Limited debts totalling £152,904 were assigned to the new parent undertaking for consideration of £1. Garraf Limited has agreed not to collect this debt.

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1996 £	1995 £
Auditors' remuneration	8,250	6,000
Depreciation of tangible fixed assets	148,244	110,612
Hire of plant and machinery	10,298	12,687
Operating leases	52,500	42,542
Exchange loss	12,503	13,537
<i>and after crediting</i>		
Profit on disposal	<u>37,490</u>	<u>2,317</u>

5 Staff numbers and costs

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

	1996	1995
Administration	7	7
Sales	2	2
Distribution	59	54
	<u>68</u>	<u>63</u>

Falmouth Oil Services (1994) Limited

Notes (continued)

5 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	1996 £	1995 £
Wages and salaries	1,243,600	1,173,216
Social security costs	118,141	116,975
Other pension costs	39,486	41,253
	<u>1,401,227</u>	<u>1,331,444</u>

Directors remuneration:

	1996 £	1995 £
<i>Directors remuneration was paid in respect of directors of the company as follows:</i>		
Emoluments	7,377	40,716
Fees	18,167	-
	<u> </u>	<u> </u>

The directors' remuneration shown above (excluding pension contributions) included:

Chairman	Nil	Nil
	<u> </u>	<u> </u>
Highest paid director	7,377	40,716
	<u> </u>	<u> </u>

Directors received emoluments (excluding pension contributions) in the following ranges:

Nil	1	2
£1 - £5,000	1	-
£5,001 - £10,000	1	-
£40,001 - £45,000	-	1
	<u> </u>	<u> </u>

6 Interest payable and similar charges

	1996 £	1995 £
On bank loans and overdrafts, and other loans repayable within five years	73,206	75,662
On other loans	18,962	1,305
	<u>92,168</u>	<u>76,967</u>

Included in the above is the interest element of charges payable under finance leases amounting to £13,478 (1995 : £1,235).

Falmouth Oil Services (1994) Limited

Notes (continued)

7 Tax on profit on ordinary activities

	1996 £	1995 £
UK corporation tax at 33% on the profit for the year on ordinary activities	-	-
	<u>-</u>	<u>-</u>

The company has substantial tax losses to carry forward and offset against future profits of the same trade.

8 Tangible fixed assets

	Long leasehold land and buildings £	Improvements to leased barges £	Tankers £	Plant and equipment £	Total £
<i>Cost</i>					
At 1 January 1996	537,540	-	354,250	2,598,129	3,489,919
Additions	150	26,000	1,853	506,730	534,733
Disposals	-	-	-	(1,000)	(1,000)
	<u>537,690</u>	<u>26,000</u>	<u>356,103</u>	<u>3,103,859</u>	<u>4,023,652</u>
<i>Depreciation</i>					
At 1 January 1996	2,215	-	62,235	79,673	144,123
Charged in year	1,416	-	44,563	102,265	148,244
Disposals	-	-	-	(1,000)	(1,000)
	<u>3,631</u>	<u>-</u>	<u>106,798</u>	<u>180,938</u>	<u>291,367</u>
<i>Net book value</i>					
At 31 December 1996	<u>534,059</u>	<u>26,000</u>	<u>249,305</u>	<u>2,922,921</u>	<u>3,732,285</u>
<i>Net book value</i>					
At 31 December 1995	<u>535,325</u>	<u>-</u>	<u>292,015</u>	<u>2,518,456</u>	<u>3,345,796</u>

Included in the total net book value of plant and equipment is £121,988 (1995 : £104,832) in respect of assets held under finance leases. Depreciation for the year on these assets was £10,032 (1995 : £5,351).

Included in long leasehold land and buildings is £425,000 (1995 : £425,000) for long leasehold land which is not being depreciated.

Falmouth Oil Services (1994) Limited

Notes (continued)

9 Fixed asset investments

	Participating interest £	Shares in group undertakings £	Total £
Cost			
At beginning of year	-	15,000	15,000
Additions	1	-	1
	<hr/>	<hr/>	<hr/>
At end of year	1	15,000	15,001
	<hr/>	<hr/>	<hr/>
Provisions			
At beginning of year	-	4,895	4,895
Provided in year	1	-	1
	<hr/>	<hr/>	<hr/>
At end of year	1	4,895	4,896
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 1996	-	10,105	10,105
	<hr/>	<hr/>	<hr/>
At 31 December 1995	-	10,105	10,105
	<hr/>	<hr/>	<hr/>

The companies in which the company's interest is more than 10% are as follows:

	Country of registration	Principal activity	Class and percentage of shares held
Subsidiary undertaking			
Tamlyn Shipping Limited	England and Wales	Dormant	100% ordinary
Participating interest			
Falcon Oil Services Limited	England and Wales	Road haulage	50% ordinary

Financial information in respect of the above companies is as follows:

	Aggregate amount of capital and reserves £	Profit/(loss) for year £
Tamlyn Shipping Limited	10,105	-
Falcon Oil Services Limited	(4,495)	(4,497)

In the opinion of the directors the investments in and amounts due from the company's subsidiary is worth at least the amount at which it is stated in the balance sheet.

10 Stocks

Stocks consist of fuel oil, tanker spares and lubricating oil.

Falmouth Oil Services (1994) Limited

Notes (continued)

11 Debtors

	1996 £	1995 £
Amounts falling due within one year:		
Trade debtors	749,999	587,254
Other debtors	12,680	92,061
Amounts owed by subsidiary undertaking	-	7,178
Amounts owed by undertakings in which the company has a participating interest	18,874	-
Prepayments and accrued income	149,525	132,770
	<u>931,078</u>	<u>819,263</u>

12 Creditors: amounts falling due within one year

	1996 £	1995 £
Bank overdraft (secured)(note 13)	194,549	26,037
Bank loans (secured) (note 13)	162,106	112,106
Obligations under finance leases (note 13)	21,052	16,669
Trade creditors	672,316	855,508
Other creditors	202,628	102,675
Accruals and deferred income	434,196	179,500
Amount owed to parent undertakings	208,870	-
Amount owed to subsidiary undertaking	7,090	-
	<u>1,902,807</u>	<u>1,292,495</u>

13 Creditors: amounts falling due after more than one year

	1996 £	1995 £
Bank loans (secured)	706,715	737,894
Obligations under finance leases (payable in second to fifth years inclusive)	40,867	36,847
	<u>747,582</u>	<u>774,741</u>

The bank loans are repayable by monthly instalments as follows:

	1996 £	1995 £
Within one year	162,106	112,106
In second to fifth years inclusive	691,417	562,894
Over five years	15,298	175,000
	<u>868,821</u>	<u>850,000</u>

Falmouth Oil Services (1994) Limited

Notes (continued)

13 Creditors: amounts falling due after more than one year (continued)

The bank loan and overdraft are secured by a legal charge over freehold and leasehold property at The Docks. Falmouth and ships mortgages over the vessels known as 'Falmouth Enterprise' and 'Falmouth Endeavour'. The legal charges are incorporated in a debenture on Bank's form dated 14 December 1995. Interest is charged on the loan at 2.5% above base.

The finance lease obligations are secured on the relevant fixed assets.

14 Provisions for liabilities and charges

	Other provision £	Dry docking provision £	Total £
At beginning of year	-	47,280	47,280
Charge for year in the profit and loss account	8,000	59,195	67,195
Expenditure in year	-	(47,142)	(47,142)
At end of year	8,000	59,333	67,333

The amounts provided and unprovided for deferred taxation are set out below.

	1996		1995	
	Provided £	Unprovided £	Provided £	Unprovided £
Difference between accumulated depreciation and amortisation and capital allowances	337,137	-	257,960	-
Tax effect of losses carried forward	(256,290)	-	(102,044)	-
Capital gain rolled over	-	66,000	-	66,000
Other timing differences	(80,847)	-	(155,916)	-
	-	66,000	-	66,000

15 Accruals and deferred income

	1996 £	1995 £
<i>Government grants</i>		
At beginning of year	448,612	561,945
Received during year	-	170,000
Credited to trading profit	(283,333)	(283,333)
At end of year	165,279	448,612

Falmouth Oil Services (1994) Limited

Notes (continued)

16 Called up share capital

	1996 £	1995 £
<i>Authorised</i>		
Ordinary shares of £1 each	1,000,000	1,000,000
Redeemable preference shares of £1 each	1,000,000	1,000,000
	<hr/>	<hr/>
	2,000,000	2,000,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	1,000,000	1,000,000
	<hr/>	<hr/>

17 Reconciliation of movements in shareholders' funds

	1996 £	1995 £
Profit for the financial year	220,914	284,623
Opening shareholders' funds	1,659,591	1,374,968
	<hr/>	<hr/>
Closing shareholders' funds	1,880,505	1,659,591
	<hr/>	<hr/>

18 Contingent liabilities

The company received no Regional Selective Assistance in 1996 (1995 : £170,000). These grants are repayable in certain circumstances. In accordance with the company's accounting policy for government grants £165,279 (1995 : £448,612) is included in accruals and deferred income (note 15).

The company's bankers have provided guarantees totalling £470,000 as security for payments to two of the company's main suppliers and HM Customs & Excise

Falmouth Oil Services (1994) Limited

Notes (continued)

19 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	1996 £	1995 £
Operating leases which expire in the second to fifth years inclusive	<u>87,000</u>	<u>42,452</u>

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

	1996 £	1995 £
Operating profit	312,627	357,631
Depreciation charge	148,244	110,612
Profit on disposal of fixed assets	(37,490)	(2,317)
Increase in stocks	(28,796)	(30,549)
Increase in debtors	(111,815)	(170,647)
Increase in creditors	384,851	184,399
Release of capital grant	(283,333)	(283,333)
Increase in provisions	<u>20,053</u>	<u>3,280</u>
Net cash inflow from operating activities	<u>404,341</u>	<u>169,076</u>

21 Analysis of changes in cash and cash equivalents

	Cash £	Overdraft £	Total £
Balance at 1 January 1996	5,673	(26,037)	(20,364)
Net cash outflow	<u>13,687</u>	<u>(168,512)</u>	<u>(154,825)</u>
Balance at 31 December 1996	<u>19,360</u>	<u>(194,549)</u>	<u>(175,189)</u>

Falmouth Oil Services (1994) Limited

Notes (continued)

22 Analysis of changes in financing during the year

	Share capital £	Loans and finance lease obligations £
Balance at 1 January 1996	1,000,000	903,516
Cash inflow/(outflow) from financing	-	5,591
Inception of finance lease contracts	-	21,633
	<hr/>	<hr/>
Balance at 31 December 1996	1,000,000	930,740

23 Related party transactions

The company also made sales of waste oil totalling £44,015 (1995 : £35,382) to Docolon Holdings Limited, a company in which Garraf Limited owns 30% of the issued share capital.

During the year the company paid consultancy fees of £32,188 (£33,624) to Expandroute Limited, a company in which CJ Walters is a director and shareholder.

Included in cost of sales are £35,044 paid to Falcon Oil Services Limited, a company in which Falmouth Oil Services (1994) Limited have a participating interest.

All transactions were entered into on normal commercial terms.

24 Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the fund and amounted to £39,486 (1995 : £41,253). Included within accruals and deferred income is £22,502 (1995 : £23,862) in respect of pension contributions due.

25 Parent company

The entire share capital of the company is owned by Garraf Limited, a company incorporated in the United Kingdom, registered in England and Wales.

26 Prior year adjustment

The prior year adjustment in the accounts for the year ended 31 December 1995 relates to change in the accounting policy applied to government grants and the Inland Revenue's agreement that corporation tax losses in the Righthalt Limited group of companies could be brought forward for use against the profits of the same trade in Falmouth Oil Services (1994) Limited.