

Falmouth Oil Services Limited

Directors' report and financial statements

For the year ended 31 December 2005

Company registration number 2856486



Falmouth Oil Services Limited

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Falmouth Oil Services Limited

Officers and professional advisers

Directors:

CJ Walters
Mr RD Kemp

Company secretary:

DK Hines-Randle

Registered office:

The Docks
FALMOUTH
Cornwall
TR11 4NR

Auditors:

Robinson Reed Layton
Peat House
Newham Road
TRURO
Cornwall
TR1 2DP

Bankers:

National Westminster
15 High Street
BATH

Falmouth Oil Services Limited

Chairman's Report

For the year ended 31 December 2005

Results

Results show a profit on ordinary activities of £247,832 which represents a considerable improvement on the profit of £37,361 recorded the previous year.

2004 was a year of transition for the company with a new terminalling contract as well as the inland supply agreement which had been in place for several years. In addition, at the end of the year the Company acquired the ability to handle low flash slops which had been an objective for some time.

2005 is therefore seen as a year of consolidation for FOS, with the learning cycle of the previous year and all the changes behind us, and this is, I believe, reflected in the good results for the year.

The oil market remained volatile during 2005 with prices seemingly continuing to rise. At the end of the year, however, there was an increase in delivered volumes and an apparent stabilising of the market. Looking at the year overall, volumes increased by 25% over the previous year and it was notable that over one third of annual deliveries took place in the final quarter of the year. This upturn in the market appears to be continuing into 2006.

Our enhanced slop reception facilities have proved to be very successful and exceeded our initial expectations by a substantial margin. Meanwhile our conventional waste oil business benefited from other sources of product and continues to be profitable.

Gasoil operations were affected by some damage to our barge, the 'Industry', at Falmouth after the vessel picked up a line of lobster pots which had been abandoned. This caused major damage to the gearbox and tail shaft and consequently the barge was out of service for much of the year. The damage was covered by insurance and, in addition, the opportunity was taken to give the vessel a major refit while in dry dock. Gasoil operations have been covered admirably by the 'Falmouth Jubilee' which coped well with local deliveries as well as covering her conventional role as our slop reception barge. The 'Industry' is now back in service with a greatly extended life expectancy. Despite the apparent setback, gasoil operations produced profits almost double those forecast for 2005.

In the latter part of the year the business saw a further change with an opportunity to expand into other ports in the United Kingdom and indeed Europe. Almost since the Company commenced trading, the expectation has been that we should service local ports and the Inland market in the South West. At the end of 2005 the Company recruited an experienced marketing manager who was tasked with developing markets elsewhere, by buying and selling product locally. This strategy has been successful from the start and the company has already secured business in the Irish Republic as well as at other ports in the UK.

Prospects for 2006

The year has commenced very well with profits ahead of budget to date.

If 2005 was a year of consolidation, then 2006 is planned as a year of expansion, particularly with the trading potential the Company now has and the increasing ability to source and supply product elsewhere. Indeed, plans are already underway to further enhance our sales team and marketing at other locations is seen as an area for considerable expansion.

In addition, the Company has a wonderful opportunity when European legislation on low sulphur bunker fuel comes into force later in 2006. Falmouth is ideally located 'on the line' where ships will be required to use such fuel and with the deep water port and sea fed terminal as well as our proximity to major shipping routes, the company is in an excellent position to service this new market.

Falmouth Oil Services Limited

Chairman's Report (continued)

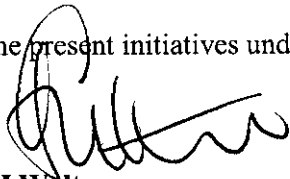
For the year ended 31 December 2005

Further opportunities exist to expand the range of fuels and products which we can receive, store and redeliver from our terminal at Falmouth and the company remains committed to a policy of expansion.

Our engineering subsidiary business has also had some moderate success but now has an opportunity to begin small scale manufacturing for a major customer. This should make this aspect of our business more profitable and we are in the process of relocation to a larger factory to accommodate this expansion.

The local inland market for domestic, agricultural and industrial fuels goes from strength to strength with potential for deliveries of 100,000 tons a year from Falmouth. Having the only sea-fed terminal in Cornwall, supply from Falmouth is both economically and environmentally efficient. With the expansion of the range of fuels available this is an area with considerable scope for development.

The present initiatives under way provide for an exciting time for FOS and future prospects are very good.



CJ Walters
Chairman

Falmouth Oil Services Limited

Directors' report

For the year ended 31 December 2005

The directors present their annual report and financial statements for the year ended 31 December 2005.

Principal activities

The principal activities of the company during the year continued to be the provision of bunkering services to marine vessels through the operation of a bonded oil terminal at Falmouth. The company also operates a maritime agency and a fully licensed slop reception facility, as part of an all inclusive service to vessels calling at Falmouth and is a supplier of marine and engineering maintenance services.

Business review

The balance sheet as detailed on page 9 shows a satisfactory position, shareholders' funds amounting to £1,564,605 (2004: £1,316,773).

Future developments

The directors of the company foresee that the company will continue to grow with the new contracts that are in place.

Results and dividends

The trading results of the year, and the company's financial position at the end of the year are shown in the attached financial statements.

The directors have not recommended the payment of a dividend (2004 : £Nil):

Directors

The directors who served the company during the year were as follows:

CJ Walters
Mr RD Kemp

The company is a wholly owned subsidiary and the interests of the group directors are disclosed in the financial statements of the parent company.

Fixed assets

In the opinion of the directors, there is no significant difference between the present market value of the company's properties and the amounts at which they are stated in the accounts. Details are set out in note 9.

Falmouth Oil Services Limited

Directors' report

For the year ended 31 December 2005

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Robinson Reed Layton be re-appointed auditors of the company will be put to the 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 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.
- have regard to the substance of the reported transaction or arrangement in determining how amounts are presented within items in the profit and loss account and balance sheet, in accordance with generally accepted accounting principles or practice.

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.

Statement of disclosure to auditor

(a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the Board



Director

CJ Walters

The Docks
FALMOUTH
Cornwall
TR11 4NR

2 May 2006

Falmouth Oil Services Limited

Independent auditors' report to the shareholder of Falmouth Oil Services Limited

We have audited the financial statements on pages 8 to 22 for the year ended 31 December 2005. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out herein.

This report is made solely to the company's shareholder, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's shareholder those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholder, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities on page 5 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the chairman's statement and director's report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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.

Falmouth Oil Services Limited

Independent auditors' report
to the shareholder of Falmouth Oil Services Limited

Opinion

In our opinion the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the company's affairs as at 31 December 2005 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

Peat House
Newham Road
TRURO
TR1 2DP

2 May 2006

Falmouth Oil Services Limited

Profit and loss account

For the year ended 31 December 2005

	Notes	2005 £	2004 £
Turnover	2	8,590,917	6,098,922
Cost of sales		(7,114,108)	(4,855,006)
Gross profit		1,476,809	1,243,916
Administrative expenses		(1,163,240)	(1,164,868)
Other operating income	3	18,642	35,655
Operating profit	4	332,211	114,703
Interest receivable		552	139
Interest payable	7	(84,931)	(77,481)
Profit on ordinary activities before taxation		247,832	37,361
Tax on profit on ordinary activities	8	-	-
Profit on ordinary activities after taxation and profit for the financial year		247,832	37,361
Balance brought forward		316,773	279,412
Balance carried forward		564,605	316,773

The profit and loss account has been prepared on the basis that all operations are continuing operations.

The company has no recognised gains or losses other than the results for the year as set out above.

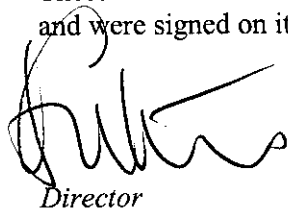
Falmouth Oil Services Limited

Balance sheet

As at 31 December 2005

	Notes	£	2005 £	£	2004 £
Fixed assets					
Tangible assets	9 & 10		4,555,090		4,454,209
Investments	11		10,105		10,105
			<hr/>		<hr/>
			4,565,195		4,464,314
Current assets					
Stocks	12	96,840		61,607	
Debtors	13	1,482,650		690,461	
Cash at bank		47,139		41,686	
			<hr/>	<hr/>	
			1,626,629	793,754	
Creditors: amounts falling due within one year	14	(2,742,946)		(1,690,609)	
			<hr/>	<hr/>	
Net current liabilities			(1,116,317)		(896,855)
			<hr/>		<hr/>
Total assets less current liabilities			3,448,878		3,567,459
Creditors: amounts falling due after more than one year	15		(1,884,273)		(2,250,686)
			<hr/>		<hr/>
Net assets			1,564,605		1,316,773
			<hr/>		<hr/>
Capital and reserves					
Share capital	19		1,000,000		1,000,000
Profit and loss account			564,605		316,773
			<hr/>		<hr/>
Equity shareholder's funds	20		1,564,605		1,316,773
			<hr/>		<hr/>

These financial statements were approved by the Board of directors on 2 May 2006 and were signed on its behalf by:



Director

CJ Walters

Falmouth Oil Services Limited

Cash flow statement

For the year ended 31 December 2005

	Notes	£	2004 £	£	2003 £
Net cash inflow from operating activities	21		230,496		951,085
Returns on investments and servicing of finance					
Interest received		552		139	
Interest paid		(51,407)		(39,189)	
Interest element of hire purchase payments		(33,524)		(36,292)	
Net cash outflow from returns on investments and servicing of finance			(84,379)		(75,342)
Taxation					
Corporation tax paid		-		-	
Capital expenditure					
Payments to acquire tangible fixed assets		(303,712)		(841,143)	
Receipts from sales of tangible fixed assets		400		12,579	
Net cash outflow from capital expenditure			(303,312)		(828,564)
Equity dividends paid			-		-
Cash (outflow)/inflow before financing			(157,195)		47,179
Financing					
Repayment of bank loans		(216,410)		(55,380)	
Capital element of hire purchase payments		(119,116)		(117,640)	
Net outflow from other long-term creditors		(7,000)		(7,000)	
			(342,526)		(180,020)
Decrease in cash in the year	22		(499,721)		(132,841)

Falmouth Oil Services Limited

Notes

(forming part of the financial statements)

1 Accounting policies

1.1 Basis of accounting

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain fixed assets.

1.2 Consolidation

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.

1.3 Turnover

Turnover represents the amount derived from the provision of goods and services falling within the company's activities after deduction of trade discounts and value added tax.

1.4 Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Long leasehold property	50 years on cost
Short leasehold property	10 years on cost
Plant and machinery	Between 4 and 50 years on cost
Barges	10 years on cost

Freehold and leasehold land is not depreciated.

Capital expenditure funded from grants received is capitalised. The amount capitalised is then reduced by the amount of the grant received. The directors consider that this treatment, although not in accordance with Financial Reporting Standard 15 'Tangible Fixed Assets', reflects a more true and fair disclosure of the transaction.

1.5 Stocks

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

1.6 Work in progress

Work in progress is valued on the basis of direct costs plus attributable overheads based on a normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

1.7 Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis.

1.8 Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

1.9 Pension costs

The company operates defined contribution pension schemes. The assets of the schemes are held separately from those of the company in independently administered funds. The pension costs charged to the profit and loss account represent the contributions payable by the company in respect of the accounting year.

Falmouth Oil Services Limited

Notes

(forming part of the financial statements)

1.10 *Deferred taxation*

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

1.11 *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. Gains and losses on translation are included in the profit and loss account.

1.12 *Investment Properties*

In accordance with Statement of Standard Accounting Practice No 19:

- investment properties are revalued annually by the directors on an open market basis and the aggregate surplus or deficit is transferred to a revaluation reserve; and
- no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run.

This treatment, as regards certain of the company's investment properties, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

2 *Turnover*

The turnover and profit before tax are attributable to the one principal activity of the company.

The analysis of turnover by location is as follows:

	2005 £	2004 £
United Kingdom	8,535,891	6,098,922
Europe	55,026	-
	<hr/>	<hr/>
	8,590,917	6,098,922
	<hr/>	<hr/>

3 *Other operating income*

	2005 £	2004 £
Rent receivable	17,210	17,440
Other operating income	1,432	18,215
	<hr/>	<hr/>
	18,642	35,655
	<hr/>	<hr/>

Falmouth Oil Services Limited

Notes

(forming part of the financial statements)

4 Operating profit

	2005 £	2004 £
<i>Operating profit is stated after charging/(crediting):</i>		
Depreciation	315,286	304,170
Loss on disposal of fixed assets	80	667
Auditors' remuneration - as auditors	10,504	12,240
Hire of plant and equipment	6,808	11,244
Rental of other assets	24,610	19,133
Foreign exchange (gains)/losses	(2,640)	6,755
	<u>315,286</u>	<u>304,170</u>

5 Particulars of employees

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

	2005 No	2004 No
Distribution staff	25	21
Administration staff	8	8
Sales staff	4	3
	<u>37</u>	<u>32</u>

The aggregate payroll costs of the above were:

	2005 £	2004 £
Wages and salaries	638,853	558,614
Social security costs	62,412	52,609
Other pension costs	7,420	7,603
	<u>708,685</u>	<u>618,826</u>

6 Directors' emoluments

The directors' aggregate emoluments in respect of qualifying services were:

	2005 £	2004 £
Emoluments receivable	12,000	12,000
	<u>12,000</u>	<u>12,000</u>

Retirement benefits are accruing to one (2004: one) director under defined contribution pension schemes.

Falmouth Oil Services Limited

Notes

(forming part of the financial statements)

7 Interest payable

	2005 £	2004 £
On bank loans and overdrafts	22,151	19,678
On other loans	17,767	13,756
Hire purchase finance charges	33,524	36,292
Other	11,489	7,755
	<u>84,931</u>	<u>77,481</u>

8 Taxation

	2005 £	2004 £
<i>Current year tax</i>		
UK corporation tax	-	-
<i>Deferred tax</i>		
Origination and reversal of timing differences	-	-
	<u>-</u>	<u>-</u>
<i>Tax on profit on ordinary activities</i>	<u>-</u>	<u>-</u>
<i>Factors affecting the tax charge for the year</i>		
Profit on ordinary activities before taxation	247,832	37,361
	<u>247,832</u>	<u>37,361</u>
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2004: 30.00%)	74,350	11,208
	<u>74,350</u>	<u>11,208</u>
Effects of:		
Non deductible expenses	8,311	11,555
Depreciation	94,610	91,451
Capital allowances	(22)	(98,799)
Tax losses arising	13,377	2,905
Tax losses utilised	(190,626)	(18,320)
	<u>(74,350)</u>	<u>(11,208)</u>
<i>Current year tax</i>	<u>-</u>	<u>-</u>

The company has substantial tax losses to carry forward against profits from the same trades which will reduce tax payable in future years.

Falmouth Oil Services Limited

Notes

(forming part of the financial statements)

9 Tangible fixed assets

	Short leasehold property £	Long leasehold property £	Plant and machinery £	Barges £	Total £
Cost					
At 1 January 2005	28,383	487,690	4,994,793	168,808	5,679,674
Additions	-	87,406	160,459	168,782	416,647
Disposals	-	-	(4,500)	-	(4,500)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	28,383	575,096	5,150,752	337,590	6,091,821
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation					
At 1 January 2005	-	14,813	1,756,394	94,258	1,865,465
Charge for the year	2,838	1,426	296,020	15,002	315,286
On disposals	-	-	(4,020)	-	(4,020)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	2,838	16,239	2,048,394	109,260	2,176,731
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 31 December 2005	25,545	558,857	3,102,358	228,330	3,915,090
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	28,383	472,877	3,238,399	74,550	3,814,209
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Included above are assets under hire purchase agreements as follows:

	Plant and machinery £	Barges £	Total £
Net book values			
At 31 December 2005	248,385	-	248,385
	<hr/>	<hr/>	<hr/>
At 31 December 2004	354,491	34,032	388,523
	<hr/>	<hr/>	<hr/>
Depreciation charge for the year			
At 31 December 2005	35,123	-	35,123
	<hr/>	<hr/>	<hr/>
At 31 December 2004	31,445	6,006	37,451
	<hr/>	<hr/>	<hr/>

During the year the group transferred the legal title of certain plant and machinery to a finance company, however, as there was no change to the group's rights to benefits or exposure to risks, the assets continue to be shown on the company's balance sheet.

Falmouth Oil Services Limited

Notes

(forming part of the financial statements)

10 Tangible fixed assets

**Investment
properties
£**

Cost or valuation

At 1 January 2005 and 31 December 2005

640,000

The freehold properties of the company held for investment purposes were valued at 31 December 2005 on an open market basis by C Walters, a director of the company, at the amounts shown above.

The historic cost of the company's investment properties is £640,000. If depreciation had been provided on such properties the accumulated depreciation at that date based on cost would be £25,600 (2004: £12,800).

If the company's properties were disposed of at market value a corporation tax liability of £nil (2004: £nil) would arise.

11 Investments

**Shares in group
Undertakings
£**

Cost

At 1 January 2005 and 31 December 2005

10,105

Subsidiary Undertaking	Country of incorporation	Principle activity	Class and percentage of shares held
Tamlyn Shipping Limited	England and Wales	Dormant	100% ordinary

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

	Aggregate amount of capital and reserves	Result for the year
Tamlyn Shipping Limited	10,105	-

Falcon Oil Services Limited was struck off the Register of Companies on 22 February 2005.

12 Stocks

	2005 £	2004 £
Raw materials	96,840	61,607

13 Debtors

	2005 £	2004 £
Trade debtors	1,259,067	511,120
Corporation tax repayable	-	960
Prepayments and accrued income	223,583	178,381
	1,482,650	690,461

Falmouth Oil Services Limited

Notes

(forming part of the financial statements)

14 Creditors: amounts falling due within one year

	2005 £	2004 £
Bank loans and overdrafts	1,059,655	550,482
Other loans	150,000	-
Trade creditors	761,030	646,793
Amounts owed to group undertakings	55,000	103,642
<i>Other creditors including taxation and social security:</i>		
Other taxation and social security	59,506	32,105
Hire purchase agreements	64,135	86,755
Other creditors	33,504	14,982
Directors current accounts	50,000	37,541
	<hr/>	<hr/>
	2,232,830	1,472,300
Accruals and deferred income	510,116	218,309
	<hr/>	<hr/>
	2,742,946	1,690,609
	<hr/>	<hr/>

Falmouth Oil Services Limited

Notes

(forming part of the financial statements)

15 Creditors: amounts falling due after more than one year

	2005 £	2004 £
Bank loans	25,399	90,919
Other loans	204,133	516,022
Hire purchase agreements	58,074	41,635
Amounts owed to group undertakings	1,020,667	1,026,110
Other creditors	576,000	576,000
	<hr/>	<hr/>
	1,884,273	2,250,686
	<hr/>	<hr/>

Analysis of loans

Not wholly repayable within five years other than by instalments	339,133	494,022
Wholly repayable within five years	111,043	179,564
	<hr/>	<hr/>
	450,176	673,586
	<hr/>	<hr/>
Included in current liabilities	(220,644)	(66,645)
	<hr/>	<hr/>
	229,532	606,941
	<hr/>	<hr/>

Loan maturity analysis

In more than one year but not more than two years	32,399	97,919
In more than two years but not more than five years	8,000	15,000
In more than five years	189,133	494,022
	<hr/>	<hr/>

The bank borrowings are secured by way of fixed and floating charges over the group's assets.

Net obligations under hire purchase agreements

Repayable within one year	64,135	86,755
Repayable between one and five years	58,074	41,635
	<hr/>	<hr/>
	122,209	128,390
	<hr/>	<hr/>
Included in current liabilities	(64,135)	(86,755)
	<hr/>	<hr/>
	58,074	41,635
	<hr/>	<hr/>

Net obligations under hire purchase contracts are secured on the assets to which they relate.

Falmouth Oil Services Limited

Notes

(forming part of the financial statements)

16 Commitments under operating leases

At 31 December 2005, the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings £	2005 Other items £	Land and buildings £	2004 Other items £
Operating leases which expire:				
Within one year	7,750	35,021	12,500	-
In two to five years	-	4,811	3,000	42,200
After more than 5 years	5,300	-	5,300	-
	<u>13,050</u>	<u>39,832</u>	<u>20,800</u>	<u>42,200</u>

17 Pension scheme

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £7,420 (2004: £7,603) including contributions in respect of employees. Contributions amounting to £1,494 (2004: £2,899) were payable to the fund at the year end and are included in creditors.

18 Related party transactions

The company has taken advantage of the exemption from disclosing transactions with group undertakings.

On 23 August 2002, CJ Walters, a director of Garraf Limited (the parent company) and the ultimate controlling party purchased Zilva Corporation interest in Garraf Limited and its share of the assigned overdraft owed by Falmouth Oil Services Limited. The amount left on the assigned overdraft payable to CJ Walters is £339,133 (2004: £494,022) included in creditors due after one year. Interest of £13,756 (2004: £13,756) was paid in respect of this loan during the year. Included in accruals is an amount of £192,963 (2004: £192,963) of interest accrued on the loan in previous years.

During the year the company paid rent to CJ Walters of £5,300 (2004 : £5,300).

At the year end the company owed CJ Walters £Nil (2004: £7,541).

CJ Walters has provided a personal guarantee to the bank limited to £50,000 (2004: £50,000).

CJ Walters is also a director of Christian Walters Limited a company incorporated in the UK. During the year the company provided administration services to Christian Walters Limited of £Nil (2004: £6,000). The amount outstanding at the year end was £Nil (2004: £5,287) and is included in trade debtors.

During the year the company received a loan from Christian Walters Limited of £25,000. The balance at the year end is £25,000, included in accruals. Interest of £5,287 was charged during the year.

During the year, the company received a loan of £50,000 (2004: £50,000) from R Kemp, a director of the company. At the end of the year, £50,000 (2004: £30,000) remained outstanding to R Kemp included in creditors due within one year. Interest of £6,260 (2004: £2,000) was payable on the loan during the year.

The company also paid R Kemp £9,600 (2004: £4,400) during the year for consultancy services.

Falmouth Oil Services Limited

Notes

(forming part of the financial statements)

19 Share capital

	2005 £	2004 £
Authorised share capital:		
1,000,000 ordinary shares of £1 each	1,000,000	1,000,000
1,000,000 preference shares of £1 each	1,000,000	1,000,000
	<hr/>	<hr/>
	2,000,000	2,000,000
	<hr/>	<hr/>
Allotted, called up and fully paid:		
1,000,000 ordinary shares of £1 each	1,000,000	1,000,000
	<hr/>	<hr/>

20 Reconciliation of movements in shareholder's funds

	2005 £	2004 £
Profit for the financial year	247,832	37,361
Opening shareholder's funds	1,316,773	1,279,412
	<hr/>	<hr/>
Closing shareholder's funds	1,564,605	1,316,773
	<hr/>	<hr/>

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

	2005 £	2004 £
Operating profit	332,211	114,703
Depreciation	315,286	304,170
Loss on disposal of fixed assets	80	667
(Increase)/decrease in stocks	(35,233)	51,454
(Increase)/decrease in debtors	(792,189)	204,601
Increase in creditors	410,341	275,490
	<hr/>	<hr/>
Net cash inflow from operating activities	230,496	951,085
	<hr/>	<hr/>

Falmouth Oil Services Limited

Notes

(forming part of the financial statements)

22 Reconciliation of net cash inflow to movement in net debt

	2005 £	2004 £
Decrease in cash in the period	(499,721)	(132,841)
Net cash outflow from bank loans	216,410	55,380
Cash outflow in respect of hire purchase	119,116	117,640
Net cash outflow from other long-term creditors	7,000	7,000
	<hr/>	<hr/>
Movement in net debt resulting from cash flows	(157,195)	47,179
New finance leases	(112,935)	(77,661)
	<hr/>	<hr/>
Movement in net debt	(270,130)	(30,482)
Net debt at 1 January 2005	(1,244,127)	(1,213,645)
	<hr/>	<hr/>
Net debt at 31 December 2005	(1,514,257)	(1,244,127)
	<hr/>	<hr/>

23 Analysis of change in net debt

	At 1 January 2005 £	Cash flows £	Other non cash changes £	At 31 December 2005 £
Net cash:				
Cash in hand and at bank	41,686	5,453		47,139
Overdrafts	(490,837)	(505,174)		(996,011)
	<hr/>	<hr/>		<hr/>
	(449,151)	(499,721)		(948,872)
	<hr/>	<hr/>		<hr/>
Debt:				
Debt due within one year	(67,801)	(145,843)		(213,644)
Debt due after one year	(598,785)	369,253		(229,532)
Hire purchase agreements	(128,390)	119,116	(112,935)	(122,209)
	<hr/>	<hr/>	<hr/>	<hr/>
	(794,976)	342,526	(112,935)	(565,385)
	<hr/>	<hr/>	<hr/>	<hr/>
Net debt	(1,244,127)	(157,195)	(112,935)	(1,514,257)
	<hr/>	<hr/>	<hr/>	<hr/>

24 Ultimate parent company

The parent company is Garraf Limited, a company registered in England and Wales.

25 Control

The ultimate controlling party is CJ Walters (director).

Falmouth Oil Services Limited

Notes

(forming part of the financial statements)

26 Capital Commitments

At 31 December 2005, the company had capital commitments as follows:

	2005 £	2004 £
Contracted for but not provided in the financial statements	-	56,000

27 Contingent liability

There is a cross guarantee in place whereby the company has guaranteed the overdraft of its parent undertaking. The amount outstanding at the end of the year was £15 (2004: £11) and the maximum amount outstanding during the year was £15 (2004: £Nil).

Falmouth Oil Services Limited

Detailed profit and loss account

For the year ended 31 December 2005

	Notes	2005 £	2004 £
Turnover		8,590,917	6,098,922
Cost of sales			
Opening stock		61,607	113,061
Purchases		6,748,150	4,453,521
Wages and salaries		361,746	317,415
Social security costs		35,779	28,977
Pension contributions		3,666	3,639
		<hr/>	<hr/>
		7,210,948	4,916,613
Closing stock		(96,840)	(61,607)
		<hr/>	<hr/>
		(7,114,108)	(4,855,006)
Gross profit		1,476,809	1,243,916
Overheads			
Administrative expenses	1	(1,163,240)	(1,164,868)
		<hr/>	<hr/>
		313,569	79,048
Other operating income	2	18,642	35,655
		<hr/>	<hr/>
Operating profit and profit on ordinary activities before interest		332,211	114,703
Interest receivable		552	139
		<hr/>	<hr/>
		332,763	114,842
Interest payable	3	(84,931)	(77,481)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		247,832	37,361
		<hr/>	<hr/>

Falmouth Oil Services Limited

Notes to the detailed profit and loss account

For the year ended 31 December 2005

	£	2005 £	£	2004 £
1. Administrative expenses				
<i>Personnel costs</i>				
Directors salaries	12,000		12,000	
Directors NIC	909		929	
Wages and salaries	265,107		229,199	
Social security costs	25,724		22,703	
Pension contributions	3,754		3,964	
		307,494		268,795
<i>Establishment expenses</i>				
Rent	15,000		10,833	
Rates	84,609		88,100	
Insurance	118,932		168,162	
Repairs and maintenance	2,380		10,054	
		220,921		277,149
<i>General expenses</i>				
Motor expenses	21,404		21,084	
Travel expenses	26,546		16,404	
Hotel and subsistence	5,939		7,128	
Telephone, telex and fax	22,370		17,822	
Office expenses	21,437		18,579	
Printing, postage and stationery	13,857		15,586	
Sundry expenses	7,858		277	
Advertising	6,467		4,939	
Quality assurance	4,503		5,578	
Subscriptions	14,567		11,908	
Entertaining	25,940		28,435	
Exchange (gains)/losses	(2,640)		6,755	
Management charges payable	17,200		21,167	
Professional fees	9,195		46,071	
Legal fees	26,091		15,996	
Auditors' remuneration	10,504		12,240	
Depreciation – short leasehold	2,838		-	
Depreciation – long leasehold	1,426		1,374	
Depreciation – plant and machinery	296,020		296,272	
Depreciation – barge	15,002		6,524	
Loss on disposal of fixed assets	80		667	
		546,604		554,806
<i>Financial costs</i>				
Bad debts written off	1,899		8,318	
Bank charges	86,322		55,800	
		88,221		64,118
		1,163,240		1,164,868

Falmouth Oil Services Limited

Notes to the detailed profit and loss account

For the year ended 31 December 2005

	2005 £	2004 £
2. Other operating income		
Rental income	17,210	17,440
Other operating income	1,432	18,215
	<hr/>	<hr/>
	18,642	35,655
	<hr/>	<hr/>
	2005 £	2004 £
3. Interest payable		
Interest payable	41,204	28,768
Bank loan interest	9,280	12,421
Hire purchase interest	33,524	36,292
Interest payable re insurance	923	-
	<hr/>	<hr/>
	84,931	77,481
	<hr/>	<hr/>