

A&P Group Holdings Limited
(formerly DMWSL 206 Limited)
Annual Report and Accounts
1998

Registered number: 3447260



A&P Group Holdings Limited
(formerly DMWSL 206 Limited)

Contents

	Pages
Directors and Advisers	1
Chairman's Statement	2 - 3
Directors' Report	4 - 6
Directors' Responsibilities Statement	7
Report of the Auditors	8
Consolidated Profit and Loss Account	9
Consolidated Balance Sheet	10
Company Balance Sheet	11
Consolidated Cash Flow Statement	12
Notes to the Financial Statements	13 - 32

A&P Group Holdings Limited (formerly DMWSL 206 Limited)

Directors and Advisers

Directors

T Astley
T Farazmand*
P Haslehurst (Chairman)
M Holding FCMA
D Ring (Chief Executive)
B Slade*
K Thompson

* Non-executive Director

Secretary

M Holding FCMA

Registered Office

A&P Holdings Limited
Imperial House
Lypiatt Road
Cheltenham
Gloucestershire
GL50 2QJ

Registered Auditors

PricewaterhouseCoopers
89 Sandyford Road
Newcastle upon Tyne
NE99 1PL

Solicitors

Dickinson Dees
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE99 1SB

Bankers

Bank of Scotland
London Chief Office
38 Threadneedle Street
London
EC2P 2EH

A&P Group Holdings Limited (formerly DMWSL 206 Limited)

Chairman's Statement

I present to you the first annual report and accounts of the company. The company was incorporated on 9 October 1997, and on 23 December 1997 acquired the whole of the share capital of A&P Holdings Limited and its subsidiary companies. I joined the board as chairman in April 1999.

During the year ended 31 December 1998 the group continued to trade in all of its traditional markets and turnover totalled £102.7 million but 1998 proved to be a difficult year. The group recorded a loss before interest, tax and amortisation of goodwill of £4.7 million after incurring losses on a number of major contracts. Action has been taken at board level to introduce more rigorous and comprehensive risk assessment processes in addressing future business opportunities.

Following the low level of Royal Fleet Auxiliary business in 1997 there was increased activity in 1998 with a corresponding threefold increase in turnover for this sector of our business. Although there was a 10% increase in the volume of ferry work, there was, however, a significant fall in the available market for cruise ships refitting in north-west Europe. This was as a result of dry-docking cycles changing from a bi-annual to a tri-annual pattern. Low oil prices, the strength of sterling, the economic crisis in Asia, and our time consuming activities in ship conversion all contributed to a one-third fall in trading vessel turnover. Ships in this category include tankers, bulkers, reefers and offshore support vessels.

We recall with sadness that in October 1998 Frank Nugent, the chief executive, died suddenly. Frank joined the A&P Group in 1993 and led the management team which successfully developed the group's market position. I am delighted that David Ring joined the company as chief executive on 1 August 1999. His experience as a managing director in continuous improvement and turnaround situations in an engineering environment will prove invaluable to us, as we embark on our strategic objective of expanding our business of ship repair and conversion into a total quality global maritime services organisation to satisfy the needs of our customer base more comprehensively.

At this juncture I would like to thank Mick Holding for the exceptional way that he provided management continuity as acting chief executive during the interim period.

Management has been restructured thus improving top management focus. Clive Towl, managing director of Northern Operations based on the Tyne, Ian Pike, managing director at Falmouth, Mike Smith, managing director at Southampton and Paul Huseman, managing director at Chatham and Dover now report directly to the chief executive. The North Shields yard with its one dry dock has been closed and a range of other overhead savings have been achieved in the other five businesses. At the same time management is in the process of being strengthened as required and continuous improvement programmes are to be extended across the group.

A&P Group Holdings Limited
(formerly DMWSL 206 Limited)

Chairman's Statement (continued)

I would like to thank my non-executive colleagues on the board for the help and support that they have given to me during my first four months. In 1999 there is still little evidence of any underlying improvement in the market place, but we are beginning to gain business and market share through improved focus, quality and service. At the same time we are achieving improvements in productivity and other operating efficiencies and I am confident that the group in its more focused form, and with the newly reorganised management team, has the opportunity for a secure and substantially more profitable future.

A handwritten signature in dark ink, appearing to read 'V. ... A. ...', with a large, sweeping loop at the beginning.

Chairman

23 September 1999

A&P Group Holdings Limited (formerly DMWSL 206 Limited)

Directors' Report

The directors present their Annual Report and the audited financial statements for the 15 months ended 31 December 1998.

Principal activities and business review

The company was incorporated on 9 October 1997 as DMWSL 206 Limited. On 19 December 1997, the company changed its name to A&P Group Holdings Limited and on 23 December 1997 it acquired the entire shareholding of A&P Holdings Limited, as detailed in note 25 to the accounts.

The group's principal activities are ship repair, marine consultancy and port operations. It is the intention of the directors to develop the business as outlined in the Chairman's Statement on pages 2 and 3.

Refinancing

Following the recent refinancing of the company, the directors have reviewed the group's budget and forecasts for 1999 and 2000. After taking into account the cash flow implications of the plans, including proposed capital expenditure, and comparing these with the banking facilities available to the group, the directors are satisfied that it is appropriate to produce the accounts on a going concern basis. The effects of the refinancing on the company's debt repayment profile are discussed in note 16.

Results and dividends

The loss for the period after taxation amounted to £9,670,000. The directors do not recommend the payment of any dividend.

Directors and their interests

The names of the directors who held office during the period and at the date of this report, except where indicated, were as follows:

T Astley	(appointed 20 November 1998)
T Farazmand	(appointed 18 December 1997)
P Haslehurst	(appointed 23 April 1999)
M Holding	(appointed 28 July 1998)
D Ring	(appointed 1 August 1999)
B J Slade	(appointed 23 December 1997)
K Thompson	(appointed 1 August 1999)
S Dinnen	(appointed 18 December 1997; resigned 23 July 1999)
S K Jervis	(appointed 23 December 1997; resigned 13 March 1998)
P J Lester	(appointed 23 December 1997; resigned 30 April 1999)
F Nugent	(appointed 23 December 1997; deceased 22 October 1998)
25 Nominees Limited	(appointed 9 October 1997, resigned 18 December 1997)

A&P Group Holdings Limited

(formerly DMWSL 206 Limited)

At 31 December 1998, the following directors had beneficial interests in the shares of the company as detailed below:

	B Ordinary Shares of £1.00 each	B Preference shares of £0.10 each
B J Slade	2,543	28,174
M Holding	10,898	120,748
	<u> </u>	<u> </u>

These shares were allotted on 23 December 1997.

The directors have no other interests required to be disclosed under Section 234 of the Companies Act 1985.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The group places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the group.

Charitable donations

The group made donations of £2,580 during the period to charities associated with the maritime industry and charities local to the trading subsidiaries.

A&P Group Holdings Limited **(formerly DMWSL 206 Limited)**

Year 2000

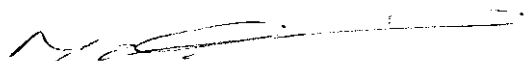
A project team, reporting directly to the Chief Executive, was appointed in early 1998, to review the operations of the group and identify any potential problems that could be caused by the Year 2000. Working in accordance with the A&P Group Year 2000 Strategy and Policy, the team has considered both IT and non-IT related issues. At 30 April 1999 the directors considered that the group systems and operations were Year 2000 ready. Given the complexity of the Year 2000 problem, it is not possible for the group or any other organisation, to be certain that no Year 2000 problems will occur even if its own systems are compliant as there is a high degree of reliance on third parties. Whilst actions have been taken to mitigate this risk the group is exposed to risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

All Year 2000 costs, which have not been quantified as they are immaterial to the results of the group, have been treated as expenditure in the period incurred.

Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers will be proposed at the annual general meeting.

By order of the board



Company Secretary

25 September 1999

**A&P Group Holdings Limited
(formerly DMWSL 206 Limited)**

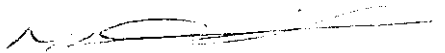
Directors' Responsibilities Statement

The directors are required by UK company law to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company and the group as at the end of the financial period and of the profit or loss of the group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the period ended 31 December 1998. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



Company Secretary

28 September 1999

A&P Group Holdings Limited (formerly DMWSL 206 Limited)

Report of the Auditors to the Members of A&P Group Holdings Limited

We have audited the financial statements on pages 9 to 32 which have been prepared under the historic cost convention and the accounting policies set out on pages 13 to 15.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 7, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

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. 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit 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 affairs of the company and the group at 31 December 1998 and of the loss and cash flows of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants and Registered Auditors
Newcastle upon Tyne

28 September 1999

A&P Group Holdings Limited
(formerly DMWSL 206 Limited)

Consolidated Profit and Loss Account
for the period ended 31 December 1998

	Notes	1998 £'000
Turnover	2	102,700
Cost of sales		(100,231)
		<hr/>
Gross profit		2,469
Other operating expenses:		
Excluding amortisation of goodwill	3	(7,201)
Amortisation of goodwill	3	(915)
		<hr/>
Loss on ordinary activities before interest	2	(5,647)
Interest receivable		209
Interest payable and similar charges	4	(4,421)
		<hr/>
Loss on ordinary activities before taxation	5	(9,859)
Taxation	7	189
		<hr/>
Loss on ordinary activities after taxation		(9,670)
Dividends and appropriation	9	-
		<hr/>
Loss for the period	20	(9,670)
		<hr/> <hr/>

All of the activities of the group are continuing. The loss on ordinary activities before taxation relates to acquired activities.

The company has no recognised gains and losses other than the losses above and therefore no separate statement of total recognised gains and losses has been presented.

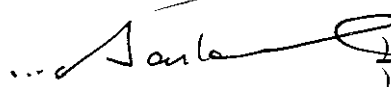
There is no difference between the loss on ordinary activities before taxation and the loss for the period stated above and their historical cost equivalents.

A&P Group Holdings Limited (formerly DMWSL 206 Limited)

Consolidated Balance Sheet at 31 December 1998

	Notes	1998 £'000
Fixed assets		
Intangible assets	10	17,246
Tangible assets	11	35,342
		<u>52,588</u>
Current assets		
Stocks	13	734
Debtors: Amounts falling due after one year	14	8,674
Debtors: Amounts falling due within one year	14	17,734
		<u>27,142</u>
Creditors: amounts falling due within one year	15	(43,028)
Net current liabilities		<u>(15,886)</u>
Total assets less current liabilities		36,702
Creditors: amounts falling due after more than one period	16	(36,067)
Provisions for liabilities and charges	17	(5,674)
Accruals and deferred income	18	(784)
Net liabilities		<u>(5,823)</u>
Capital and reserves		
Called up share capital	19	376
Shares to be issued	25	548
Share premium account	20	2,923
Profit and loss account	20	(9,670)
		<u>(5,823)</u>
Equity shareholders' deficit		(9,140)
Non-equity shareholders' funds		3,317
Total shareholders' deficit	21	<u>(5,823)</u>

The financial statements on pages 9 to 32 were approved by the board of directors on 22/9/99 and were signed on its behalf by:

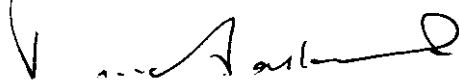

 Directors

A&P Group Holdings Limited
(formerly DMWSL 206 Limited)

Company Balance Sheet
at 31 December 1998

	Notes	1998 £'000
Fixed assets		
Investments	12	43,517
Current assets		
Debtors	14	5,686
Creditors: amounts falling due within one year	15	(13,655)
Net current liabilities		(7,969)
Total assets less current liabilities		35,548
Creditors: amounts falling due after more than one year	16	(35,909)
Net liabilities		(361)
Capital and reserves		
Called up share capital	19	376
Shares to be issued	25	548
Share premium account	20	2,923
Profit and loss account	20	(4,208)
		(361)
Equity shareholders' deficit		(3,678)
Non-equity shareholders' funds		3,317
Total shareholders' deficit		(361)

The financial statements on pages 9 to 32 were approved by the board of directors on 22/2/99 and were signed on its behalf by:

) Directors


A&P Group Holdings Limited
(formerly DMWSL 206 Limited)

Consolidated Cash Flow Statement
for the period ended 31 December 1998

	Notes	1998 £'000
Net cash outflow from operating activities	22	(3,861)
Returns on investments and servicing of finance		
Interest received		209
Interest paid		(3,003)
Issue costs on new loans		(1,210)
Interest on finance leases		(55)
Dividends paid		(77)
Net cash outflow from returns on investments and servicing of finance		(4,136)
Taxation		
UK corporation tax paid		(19)
Capital expenditure and financial investments		
Purchase of tangible fixed assets		(1,951)
Sale of tangible fixed assets		13
Net cash outflow from capital investment		(1,938)
Acquisitions and disposals		
Purchase of subsidiary undertaking (including acquisition costs)	25	(33,758)
Overdraft acquired with subsidiary		(7,319)
Net cash outflows for acquisitions		(41,077)
Net cash outflow before financing		(51,031)
Financing		
Issue of shares		2,150
New term loans raised		16,072
Repayment of term loan		(746)
New other loans raised		16,455
Repayment of other loans		(10)
Repayment of principal under finance leases		(258)
Net cash inflow from financing		33,663
Decrease in cash in the period	23	(17,368)

A&P Group Holdings Limited (formerly DMWSL 206 Limited)

Notes to the Financial Statements for the period ended 31 December 1998

1 Principal accounting policies

The financial statements are prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared under the historical cost convention.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December 1998. The results of subsidiaries sold and acquired are included in the consolidated profit and loss account up to, or from, the date control passed. Intra-group sales and profits are eliminated fully on consolidation.

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses that arise after the company has gained control of the subsidiary are charged to the post-acquisition profit and loss account.

Goodwill

Goodwill represents the excess of the fair value of the consideration given over the fair value of the separable net assets acquired. The goodwill arising is shown as an intangible fixed asset and each acquisition is assessed to determine the useful economic life of the goodwill. Goodwill arising in the period is to be amortised over 20 years, being the period that the directors estimate that the value of the underlying business acquired is expected to exceed the value of the underlying assets.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values on a straight line basis over the expected useful economic lives of the assets concerned.

A&P Group Holdings Limited (formerly DMWSL 206 Limited)

Notes to the Financial Statements for the period ended 31 December 1998

1 Principal accounting policies (continued)

Tangible fixed assets (continued)

The annual rates used for this purpose are:

Dock installations	1½ - 3 1/3%
Freehold buildings	2%
Leasehold property	Term of lease
Plant and machinery	2½ - 33 1/3%
Tugs	10%

Freehold land is not depreciated.

It is the group's policy to maintain dock installations to a high standard in order to protect its trade. Maintenance expenditure is written off as and when incurred. Improvements are capitalised and depreciated over the remaining useful economic lives.

Investments

Fixed asset investments are stated at cost less provisions made for permanent diminution in value.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchase outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms the useful lives of equivalent owned assets.

Stocks

Stocks are stated at the lower of cost and net realisable value. Provision is made for obsolete, slow moving or defective items where appropriate.

A&P Group Holdings Limited (formerly DMWSL 206 Limited)

Notes to the Financial Statements for the period ended 31 December 1998

1 Principal accounting policies (continued)

Contract balances

Amounts recoverable on contracts are shown at valuation. Valuation includes the cost of materials, direct labour, overheads (based on normal levels of activity) together with attributable profit estimated to be earned to date. Full provision is made for any known or anticipated losses.

Amounts recoverable on contracts are shown net of payments on account received and receivable.

Government grants

Grants that relate to specific capital expenditure are treated as deferred income which is then credited to the profit and loss account over the related asset's useful life.

Other grants are credited to the profit and loss account when received.

Turnover

Turnover comprises the sales value of goods and services in the normal course of business. All sales are shown exclusive of Value Added Tax.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is considered probable that a liability or asset will crystallise.

Pension scheme arrangements

The company operates defined benefit pension schemes. The funds are valued every three periods by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening periods the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the schemes.

The company provides no other post-retirement benefits to its employees.

A&P Group Holdings Limited (formerly DMWSL 206 Limited)

Notes to the Financial Statements for the period ended 31 December 1998

2 Segmental and geographical analysis

The analysis by class of business of the group's turnover, (loss)/profit before interest and taxation and net assets/(liabilities) is set out below:

	Turnover £'000	(Loss)/profit before interest and taxation £'000	Net assets/ (liabilities) £'000
Ship repair and marine consultancy services	100,496	(5,257)	(9,372)
Port operations	2,204	525	3,549
Amortisation of goodwill	-	(915)	-
	<u>102,700</u>	<u>(5,647)</u>	<u>(5,823)</u>

The above business analyses of turnover, (loss)/profit before tax and net assets/(liabilities) in the period ended 31 December 1998 includes contributions from the acquired A&P Holdings Limited group of companies as follows:

	Turnover £'000	(Loss)/profit before interest and taxation £'000	Net assets/ (liabilities) £'000
Ship repair and marine consultancy services	100,496	(6,120)	(8,877)
Port operations	2,204	525	3,549
	<u>102,700</u>	<u>(5,595)</u>	<u>(5,328)</u>

The analysis by geographical destination of the group's turnover is set out below:

	1998 £'000
United Kingdom	63,554
Rest of Europe	10,813
North America	24,264
Rest of World	4,069
	<u>102,700</u>

A&P Group Holdings Limited (formerly DMWSL 206 Limited)

Notes to the Financial Statements for the period ended 31 December 1998

3 Other operating expenses

	1998 £'000
Administrative expenses	7,201
Amortisation of goodwill	915
	<hr/> 8,116 <hr/>

4 Interest payable and similar charges

	1998 £'000
On bank loans and overdrafts	3,054
Other loans	1,161
Finance lease interest	55
Amortisation of issue costs	151
	<hr/> 4,421 <hr/>

5 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):

	1998 £'000
Depreciation of tangible fixed assets:	
Owned assets	1,215
Assets held under finance leases and hire purchase contracts	'99
Amortisation of goodwill	915
Dock maintenance	165
Loss on sale of tangible fixed assets	6
Hire of plant and machinery – operating leases	238
Hire of other assets – operating leases	610
Auditors' remuneration for:	
Audit services (company £Nil)	58
Other services to the group (company £Nil)	54
Amortisation of government grants	(145)
Insurance recoveries	(77)
	<hr/>

Auditors' remuneration is borne by subsidiary undertakings and accordingly there is no charge to the company.

Included within the cost of the A&P Holdings Limited acquisition are fees paid to the auditors for other services of £9,000.

A&P Group Holdings Limited
(formerly DMWSL 206 Limited)

Notes to the Financial Statements
for the period ended 31 December 1998

6 Staff costs

The average weekly number of persons (including executive directors) employed by the group during the period was:

	1998 Number
Production	1,986
Administration	126
	<u>2,112</u>
	<u>1998 £'000</u>
Staff costs (for the above persons):	
Wages and salaries	41,675
Social security costs	3,486
Other pension costs (see note 28)	1,075
	<u>46,236</u>

Directors' emoluments

	1998 £
Aggregate emoluments	311,031
Company pension contributions to money purchase schemes	27,369
Fees to third parties in respect of directors' services	30,000
	<u>368,400</u>

One director accrued retirement benefits under the group's defined benefit schemes.

Emoluments payable to the highest paid director are as follows:

	1998 £
Aggregate emoluments	136,503
Company pension contributions to money purchase schemes	19,333
	<u>155,836</u>

Company contributions to money purchase schemes relate to directors' own personal pension plans.

**A&P Group Holdings Limited
(formerly DMWSL 206 Limited)**

**Notes to the Financial Statements
for the period ended 31 December 1998**

7 Taxation

	1998 £'000
United Kingdom corporation tax at 31% (1997: 31.49%)	
Deferred	189

The group has estimated tax losses available for carry forward against future taxable profits of approximately £9,300,000, subject to Inland Revenue agreement.

8 Result of holding company

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been presented in these financial statements. Of the loss attributable to shareholders for the financial period, a loss of £4,208,000 is dealt with in the accounts of the company.

9 Dividends and appropriations

Subsequent to the year end the holders of the "A" and "B" Preference Shares waived all entitlement to dividends in respect of the period. Accordingly, no account has been taken of the appropriation in respect of the dividend for the period.

A&P Group Holdings Limited (formerly DMWSL 206 Limited)

Notes to the Financial Statements for the period ended 31 December 1998

10 Intangible fixed assets

	Goodwill £'000
Cost	
Additions and at 31 December 1998	18,161
Aggregate amortisation	
Charge for the period and at 31 December 1998	915
Net book amount	
At 31 December 1998	<u>17,246</u>

The goodwill arising on the acquisition of A&P Holdings Limited is being amortised on a straight line basis over 20 years. Details of the acquisition are provided in note 25.

11 Tangible fixed assets

	Land and buildings (including dock installations)		Plant, machinery and tugs	Total
	Freehold £'000	Leasehold £'000	£'000	£'000
Cost				
Acquisitions	26,052	4,056	14,054	44,162
Additions	818	749	384	1,951
Disposals	-	(2)	(116)	(118)
At 31 December 1998	<u>26,870</u>	<u>4,803</u>	<u>14,322</u>	<u>45,995</u>
Aggregate depreciation				
Acquisitions	612	601	8,225	9,438
Charge for the period	206	148	960	1,314
Eliminated in respect of disposals	-	(2)	(97)	(99)
At 31 December 1998	<u>818</u>	<u>747</u>	<u>9,088</u>	<u>10,653</u>
Net book amount				
At 31 December 1998	<u>26,052</u>	<u>4,056</u>	<u>5,234</u>	<u>35,342</u>

Freehold land and buildings includes freehold land which is not depreciated amounting to £2,218,000.

Included in plant and machinery at 31 December 1998 are leased assets with a net book amount of £747,000.

A&P Group Holdings Limited (formerly DMWSL 206 Limited)

Notes to the Financial Statements for the period ended 31 December 1998

12 Fixed asset investments

Company	Interests in subsidiary undertakings £'000
Cost and net book value	
Additions and at 31 December 1998	43,517

Interests in subsidiary undertakings

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the figures of the group.

Undertaking	Principal activity	Description of shares held	Proportion of nominal value of shares held	
			Group %	Company %
A&P Holding Limited *	Holding company	Ordinary £1 shares	100	100
A&P Falmouth Limited *	Ship repair and general engineering services	Ordinary £1 shares	100	-
A&P Tyne Limited *	Ship repair and general engineering services	Ordinary £1 shares	100	-
A&P Chatham Limited *	Ship repair and general engineering services	Ordinary £1 shares	100	-
A&P Southampton Limited *	Ship repair and general engineering services	Ordinary £1 shares	100	-
A&PA Property Limited*	Property management	Ordinary £1 shares	100	-
The Falmouth Docks and Engineering Company (formed under the Falmouth Docks Act 1959)	Owner and manager of wharves and dry docks; cargo handling and services	Ordinary £1 shares	100	-
		3½% Preference Shares of £1 each	100	-

* The above companies are registered in England and Wales.

A&P Group Holdings Limited
(formerly DMWSL 206 Limited)

Notes to the Financial Statements
for the period ended 31 December 1998

13 Stocks

Stocks comprise raw materials and consumables.

14 Debtors

	Group 1998 £'000	Company 1998 £'000
Amounts falling due after one year:		
Amounts recoverable on contracts	8,674	-
	<u>8,674</u>	<u>-</u>
Amounts falling due within one year:		
Trade debtors	4,239	-
Amounts recoverable on contracts	11,832	-
Amounts owed by group undertakings	-	5,686
Corporation tax recoverable	173	-
Other debtors	634	-
Prepayments and accrued income	856	-
	<u>17,734</u>	<u>5,686</u>

15 Creditors: amounts falling due within one year

	Group 1998 £'000	Company 1998 £'000
Bank overdrafts	17,368	9,322
Term loan (see note 16)	1,504	1,504
Other loans (see note 16)	10	-
Obligations under finance leases	281	-
Trade creditors	16,100	-
Other taxation and social security	1,384	-
Accruals and deferred income	5,010	1,458
Other creditors (see note 16)	1,371	1,371
	<u>43,028</u>	<u>13,655</u>

The bank overdraft and term loan are secured by a fixed and floating charge over the assets of the Group.

A&P Group Holdings Limited (formerly DMWSL 206 Limited)

Notes to the Financial Statements for the period ended 31 December 1998

16 Creditors: amounts falling due after more than one year

	Group 1998 £'000	Company 1998 £'000
Term loan	13,288	13,288
Other loans	17,612	17,612
Obligations under finance leases	158	-
Other creditors	5,009	5,009
	<u>36,067</u>	<u>35,909</u>

Group and company other creditors relate to deferred consideration payable in connection with the A&P Holdings Limited acquisition. Further details are provided in note 25.

	Group 1998 £'000	Company 1998 £'000
Analysis of borrowings		
Borrowings are repayable as follows:		
Within one year:		
Term loan	1,504	1,504
Other loan	10	-
Finance leases	281	-
Between one and two years:		
Term loan	1,918	1,918
Finance leases	158	-
Between two and five years:		
Term loan	6,370	6,370
Due wholly or partly by instalments after five years:		
Other loan	17,612	17,612
Due otherwise by instalments after five years:		
Term loan	5,000	5,000
	<u>32,853</u>	<u>32,404</u>

Term loans include an amount of £9,792,000 which bears interest of 2% above LIBOR. The balance of £5,000,000 bears interest of 3.25% above LIBOR. The company has entered into an interest rate swap agreement, such that at 31 December 1998 the LIBOR element of £14,389,000 of the term loan has been fixed at 7.11% until 29 December 2000. The amount fixed reduces by scheduled loan repayments. Other loans are provided by the company's ultimate controlling party and carry a fixed rate of 6.25% per annum.

Group and company term and other loans are stated net of amortised issue costs of £534,000 and £525,000 respectively. The group and company incurred total issue costs of £610,000 and £600,000 on these loans. These costs are allocated to the profit and loss account on a straight line basis over the terms of these loans.

A&P Group Holdings Limited (formerly DMWSL 206 Limited)

Notes to the Financial Statements for the period ended 31 December 1998

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

In September 1999 the company was refinanced resulting in additional facilities and changes to the repayment conditions in respect of the existing Term loan. The effects of these changes are as follows:

- the above Term loan together with an additional facility of £5 million will be repayable in instalments of £1 million in both 2001 and 2002 with the then outstanding balance repayable in equal annual instalments in 2003 and 2004.
- additional other loans of £5 million have been secured and other loans of £1.9 million have been converted by the lender into a non-returnable capital contribution.

In addition to the above the company has secured additional short term bank loans of £10 million.

17 Provisions for liabilities and charges

Group	Deferred taxation £'000	Pension provisions £'000	Other provisions £'000	Total £'000
Arising on acquisition	645	384	84	1,113
Profit and loss account	(189)	166	4,584	4,561
At 31 December 1998	<u>456</u>	<u>550</u>	<u>4,668</u>	<u>5,674</u>

Other provisions relate to anticipated contract losses and have been accounted for in accordance with SSAP 9 'Stocks and long term contracts'.

Deferred taxation

Group	Amount provided £'000	Amount unprovided £'000
Tax effect of timing differences:		
Excess of tax allowances over depreciation	604	-
Other timing differences	(65)	-
Losses	(44)	-
	<u>495</u>	<u>-</u>
Less: advance corporation tax	(39)	-
	<u>456</u>	<u>-</u>

There is no deferred tax liability in the company.

A&P Group Holdings Limited (formerly DMWSL 206 Limited)

Notes to the Financial Statements for the period ended 31 December 1998

18 Accruals and deferred income

Group	£'000
Government grants	
Arising on acquisition	929
Amortisation for the period	(145)
	<hr/>
At 31 December 1998	784
	<hr/> <hr/>

19 Called up share capital

	1998 £
Authorised	
873,012 "A" Ordinary Shares of 1p each	8,730
114,000 "B" Ordinary Shares of £1 each	114,000
3,300,000 "A" Preference Shares of 10p each	330,000
2,200,000 "B" Preference Shares of 10p each	220,000
5,000,000 "C" Preference Shares of 10p each	500,000
	<hr/>
	1,172,730
	<hr/> <hr/>
	1998 £
Allotted, called-up and fully paid	
434,720 "A" Ordinary Shares of 1p each	4,347
95,000 "B" Ordinary Shares of £1 each	95,000
1,716,000 "A" Preference Shares of 10p each	171,600
1,052,512 "B" Preference Shares of 10p each	105,251
	<hr/>
	376,198
	<hr/> <hr/>

All classes of share were issued on 23 December 1997 with the exception of 100 "A" Ordinary Shares of 10p each which were issued at par upon incorporation. Shares were issued for cash with the exception of the "B" Ordinary Shares and "B" Preference Shares which were issued as part consideration for the acquisition of A&P Holdings Limited. The "A" Ordinary Shares were issued at a premium of 99 pence per share, the "B" Ordinary Shares at par, and all classes of Preference Shares at a premium of 90 pence per share.

"A" Ordinary Shares of 1p and "B" Ordinary Shares of £1

These shares rank pari passu, except that holders of 50% of the "A" shares have the right to appoint or remove directors of the company.

**A&P Group Holdings Limited
(formerly DMWSL 206 Limited)**

**Notes to the Financial Statements
for the period ended 31 December 1998**

19 Called up share capital (continued)

“A” Preference Shares of 10p, “B” Preference Shares of 10p and “C” Preference Shares of 10p

All classes of preference shares confer the right to receive a fixed cash dividend of 5% per annum on the subscription value of each share. The “C” Preference Shares rank ahead of the “A” Preference Shares which in turn rank ahead of the “B” Preference Shares with respect to such payments. The holders of the “A” and “B” Preference Shares waived their entitlement to a dividend subsequent to the year end.

One half of each class of “A” and “B” Preference Shares is redeemable at the subscription value on 31 October 2005, with the balance redeemable on 30 April 2006. Earlier redemption is permitted at the option of the shareholder and with the agreement of the senior director appointed by the holder of the majority of the “A” Ordinary Shares, as long as the “B” Preference Shares are redeemed pro rata to the number of “A” and “B” Preference Shares outstanding at that time. The “C” Preference Shares are redeemable at subscription value, at intervals of six months, at the option of the shareholder.

Preference shareholders are entitled to receive notice of and to attend and speak at, but not vote at, all General Meetings of the company.

Share options

On 23 December 1997 the company granted an option to subscribe for 37,012 “A” Ordinary Shares of 10p each at par. This option is still outstanding.

Post balance sheet events

In February 1999 the company issued 117,786 10p “B” Preference Shares at a price of £117,786 as part payment of the deferred acquisition consideration detailed in note 25.

In September 1999 the “A” and “B” Preference Shares were converted into 17,160,000 and 10,525,120 1 pence Ordinary Shares at a value equal to the original issue price of the Preference Shares together. The “B” Ordinary Shares were also converted into 9,500,000 1 pence Ordinary Shares at a total value equal to the original issue price.

A&P Group Holdings Limited
(formerly DMWSL 206 Limited)

Notes to the Financial Statements
for the period ended 31 December 1998

20 Share premium account and reserves

	Group		Company	
	Share premium account £'000	Profit and loss account £'000	Share premium account £'000	Profit and loss account £'000
Loss for the period	-	(9,670)	-	(4,208)
Premium on shares issued during period	2,923	-	2,923	-
At 31 December 1998	<u>2,923</u>	<u>(9,670)</u>	<u>2,923</u>	<u>(4,208)</u>

21 Reconciliation of movements in shareholders' funds

Group	1998 £'000
Loss for the financial period	(9,670)
Issue of share capital including share premium	3,299
Deferred acquisition consideration	548
Net deduction to and closing shareholders' funds	<u>(5,823)</u>

22 Reconciliation of operating profit to net cash outflow from operating activities

	1998 £'000
Operating loss	(5,647)
Amortisation of goodwill	915
Amortisation of government grant	(145)
Depreciation of tangible fixed assets	1,314
Loss on sale of tangible fixed assets	6
Decrease in stocks	33
Increase in trade debtors and amounts recoverable on contracts	(9,800)
Decrease in other debtors	171
Decrease in prepayments and accrued income	343
Increase in trade creditors	4,552
Increase in other taxation and social security	193
Decrease in other creditors	(311)
Decrease in accruals and deferred income	(235)
Increase in provisions	4,750
	<u>(3,861)</u>

A&P Group Holdings Limited
(formerly DMWSL 206 Limited)

Notes to the Financial Statements
for the period ended 31 December 1998

23 (a) Reconciliation of net cash flow to movement in net debt

	£'000
Decrease in cash in the period	(17,368)
Cash from movement in debt	(30,303)
Change in net debt resulting in cash flows	(47,671)
Loans and finance leases acquired with subsidiary	(717)
Other non-cash changes	(1,833)
Movement in net debt in the period and at 31 December 1998	(50,221)

(b) Analysis of net debt

	At 9 October 1997 £'000	Cash flow £'000	Acquisition (excluding cash and overdrafts) £'000	Other non-cash changes £'000	At 31 December 1998 £'000
Overdraft	-	(17,368)	-	-	(17,368)
Debt due after one year (net of issue costs)	-	(29,067)	-	(1,833)	(30,900)
Debt due within one year	-	(1,494)	(20)	-	(1,514)
Finance leases due after one year	-	267	(425)	-	(158)
Finance leases due within one year	-	(9)	(272)	-	(281)
	-	(30,303)	(717)	(1,833)	(32,853)
	-	(47,671)	(717)	(1,833)	(50,221)

24 Major non-cash transactions

Part of the consideration for the purchase of A&P Holdings Limited comprised shares and other loans in the form of loan notes. Further details are provided in note 25.

A&P Group Holdings Limited (formerly DMWSL 206 Limited)

Notes to the Financial Statements for the period ended 31 December 1998

25 Acquisitions

On 23 December 1997, A&P Group Holdings Limited, acquired the entire shareholding of A&P Holdings Limited and has accounted for it using acquisition accounting. Details of the acquisition are as follows:

	Book value £'000	Revaluation £'000	Fair value £'000
Tangible fixed assets	34,724	-	34,724
Stock	767	-	767
Debtors	21,990	(5,701)	16,289
Creditors: falling due in less than one year	(24,573)	616	(23,957)
Creditors: falling due greater than one year	(425)	-	(425)
Provisions for liabilities and charges	(1,012)	(101)	(1,113)
Accruals and deferred income	(929)	-	(929)
	<hr/>	<hr/>	<hr/>
Net assets acquired	30,542	(5,186)	25,356
	<hr/>	<hr/>	<hr/>
Goodwill			18,161
			<hr/>
Consideration			43,517
			<hr/>
Consideration satisfied by:			
Cash			32,570
Shares issued			1,148
Other loans			1,682
Costs of acquisition			1,188
			<hr/>
			36,588
Contingent consideration:			
Cash			5,072
548,310 "B" Preference shares of 10p each to be issued at a premium of 90 pence			548
Other loans			1,309
			<hr/>
			43,517
			<hr/>

The revaluation adjustments to contract balances have been made to reflect the recoverable value of these assets at the date of acquisition.

The contingent consideration is dependent on the outcome of three particular contracts. Two of these contracts were settled soon after the balance sheet date and the third is expected to be settled in the foreseeable future. In the opinion of the directors, it is unlikely that there will be any major change to the value shown.

A&P Group Holdings Limited (formerly DMWSL 206 Limited)

Notes to the Financial Statements for the period ended 31 December 1998

25 Acquisitions (continued)

Details of shares issued in connection with the deferred consideration are provided in note 19. As a result of the share restructuring in August 1999 the remainder of the deferred consideration will be satisfied through the issue of 1 pence Ordinary Shares of equal value to the original "B" Preference Shares.

From 23 December 1997 to 31 December 1998, the A&P Holdings Limited group of companies had turnover of £102.7m, an operating loss of £5.6m, a loss before tax of £5.7m and taxation credits of £0.2m.

In the year prior to acquisition the group had turnover of £91.4m (1996: 118.9m), an operating profit of £0.5m (1996: £8.0m), profit before tax of £0.3m (1996: £8.0m) and profit after tax of £0.3m (1996: £6.8m). There were no difference between the results after tax and the recognised gains and losses for these periods.

The acquisition contributed to the current year group cash flows as follows:

	£'000
Net cash outflow from operating activities	3,861
Net cash inflow from returns on investments and servicing of finance	(77)
Taxation paid	19
Net cash outflow from capital investment	1,938
Net cash outflow from financing	258
	<hr/>
Net decrease in cash	5,999
	<hr/>

26 Capital commitments

The group had contracted but not provided for capital commitments of £287,000. The company had no such commitments.

A&P Group Holdings Limited (formerly DMWSL 206 Limited)

Notes to the Financial Statements for the period ended 31 December 1998

27 Financial commitments

At 31 December 1998 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings £'000	Plant and machinery £'000
Expiring within one year	-	16
Expiring between two and five years inclusive	21	258
Expiring in over five years	560	-
	<u>581</u>	<u>274</u>

28 Pension arrangements

The group provides pensions to substantially all of its employees through three defined benefit pension schemes, the assets of which are held in separate administered trusts.

The group pension charge for the period was £1,075,000.

Included in the balance sheet under creditors falling due within one year is £70,000 representing outstanding contributions, and included under provisions is £550,000 representing the excess of the accumulated pension cost over the amount funded.

The pension charge is assessed in accordance with the advice of qualified independent actuaries using the projected unit method and the attained age method. The assumptions which have the most significant effect on the result of the valuations are those relating to rate of return on investments and the rates of increase in salaries and pensions.

Details of the latest actuarial valuation of the scheme is given below:

	A&P pension scheme	A&P Ship Repairers pension scheme	Shipbuilding Industry pension scheme (SIPS)
Latest actuarial valuation	5 April 1998	6 April 1996	6 April 1998
Assumptions:			
Investment returns	6.6%	9%pa	8.25%pa
Average salary increase	5.5%	6.5%pa	5.5%pa
Market value of scheme's assets	£9,004,000	£6,754,148	£18,436,143
Actuarial value as a percentage of benefits accrued to members (after allowing for future increases in earnings)	112%	105%	99%

**A&P Group Holdings Limited
(formerly DMWSL 206 Limited)**

**Notes to the Financial Statements
for the period ended 31 December 1998**

29 Related party transactions

Prior to 23 December 1997, A&P Holdings Limited paid fees of £278,000 on behalf of A&P Group Holdings Limited in respect of the acquisition of the company.

There are no further related party transactions requiring disclosure under Financial Reporting Standard No. 8 'Related Party Disclosures'.

30 Ultimate controlling party

For the purpose of Financial Reporting Standard No 8 "Related Party Disclosures", The Royal Bank of Scotland Group plc is regarded as the ultimate controlling party by reason of its share holding in A&P Group Holdings Limited through its subsidiary Royal Bank Investments Limited. Royal Bank Investments Limited is an investment company and neither The Royal Bank of Scotland Group plc nor Royal Bank Investments Limited direct the financial and operating policies of this Company.