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FERRYMASTERS LIMITED

DIRECTORS' REPORT AND ACCOUNTS

31st DECEMBER 1985

PEAT, MARWICK, MITCHELL & CO.
Century House, 7 Tib Lane, Manchester M2 6DS.

FERRYMASTERS LIMITEDDIRECTORS' REPORT

The directors present their annual report and the audited accounts for the year ended 31st December 1985.

PRINCIPAL ACTIVITIES

The nature of the business of the company is international haulage between Great Britain and the Continent. There has been no change in the company's activities during the year and no future changes are envisaged.

BUSINESS REVIEW

The directors consider the results for the year to be satisfactory bearing in mind the competitive nature of the market in which the company operates.

DIRECTORS AND DIRECTORS' INTERESTS

The directors who held office during the year were:

G.H. Ruff	- (Chairman)
B.R. Rosier	- (Managing Director - resigned 31st October 1985)
J.E. Brooke	- (Managing Director - appointed 1st November 1985)
G.B. Whitehead	
G. Hesselgren	
H.E. Meyer	
M.T. Monaghan	
D. Munt	
A. Houghton	- (resigned 31st December 1985)

Mr. J.E. Brooke who was appointed during the year, and Messrs. G.H. Ruff and H.E. Meyer who retire in accordance with the company's articles of association, being eligible, offer themselves for re-election at the Annual General Meeting.

The interests (all of which are beneficial) of the directors of the company, as recorded in the register of directors' interests were:

The Peninsular & Oriental Steam Navigation Company
£1 Deferred Ordinary Shares
31st December 1985 1st January 1985

G.H. Ruff	1,000	-
G.B. Whitehead	5,000	-
D. Munt	1,409	1,128

The other directors holding office at 31st December 1985 had no interests in any shares, debentures or loan stock of the company, the company's ultimate holding company or any subsidiary thereof at either the beginning or the end of the year.

FERRYMASTERS LIMITED

DIRECTORS' REPORT

EMPLOYEES

The company recognises the need to keep employees informed and encourages identification with their employer. A company newsletter maintains regular contact with employees at all locations.

Internal training courses have been developed and induction training allows new employees to become familiar with the structure of the company and its procedures shortly after taking up employment with the company.

Briefings and notices are issued on a regular basis to employees allowing them to understand their role in the organisation more clearly.

PROPOSED DIVIDENDS

The directors propose a final dividend of £575,000 (1984: £650,000) for the year.

FIXED ASSETS

Changes in fixed assets during the year are set out in note 10 of these accounts.

TAX STATUS

The company is not a close company as defined by Section 282 of the Income and Corporation Taxes Act 1970.

EMPLOYMENT OF DISABLED PERSONS

Contacts are maintained with Disablement Resettlement Officers with a view to ensuring full and fair consideration of any disabled applicant for employment. The company endeavours to retain any existing employee who may become disabled, providing specialised training where appropriate. If modified or additional facilities are needed for a disabled employee, all reasonable steps are taken to provide them.

AUDITORS

In accordance with Article 27 (1) of the Companies (Northern Ireland) Order 1978, a resolution for the re-appointment of Peat, Marwick, Mitchell & Co. as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board


C.G. Smith
Secretary

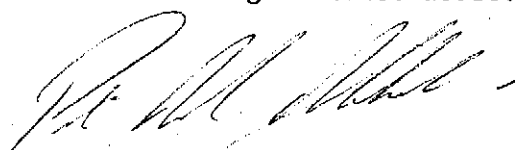
25th March 1986

REPORT OF THE AUDITORS TO THE MEMBERS OF
FERRYMASTERS LIMITED

We have audited the accounts on pages 4 to 13 in accordance with approved Auditing Standards.

In our opinion the accounts, which have been prepared on the basis of the accounting policies set out on page 6, give a true and fair view of the state of the company's affairs at 31st December 1985 and of its profit for the year to that date and comply with the Companies Acts (Northern Ireland) 1960 to 1983.

The Company has not prepared a statement of source and application of funds which is required by Statement of Standard Accounting Practice No.10.



PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants

Manchester

25th March 1986

FERRYMASTERS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31st DECEMBER 1985

	<u>Note</u>	<u>1985</u> <u>£'000</u>	<u>1984</u> <u>£'000</u>
TURNOVER	2	81,075	68,581
Cost of sales		(78,534)	(66,780)
GROSS PROFIT		2,541	1,801
Administrative expenses		(1,517)	(1,552)
OPERATING PROFIT		1,024	249
Interest receivable	6	255	82
Interest payable	7	(320)	(428)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	3	959	(97)
Tax on profit/(loss) on ordinary activities	8	-	-
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		959	(97)
Dividends	9	(950)	(650)
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR		9	(747)
Retained profit brought forward		1,862	2,609
RETAINED PROFIT CARRIED FORWARD		1,871	1,862

The notes on pages 6 to 13 form part of these accounts.

FERRYMASTERS LIMITEDBALANCE SHEET AT 31st DECEMBER 1985

	<u>Note</u>	<u>1985</u>	<u>1984</u>
		<u>£'000</u>	<u>£'000</u>
FIXED ASSETS			
Tangible assets	10	4,378	4,088
Interest in leased assets	11	4,746	4,306
		<u>9,124</u>	<u>8,394</u>
CURRENT ASSETS			
Stock		495	599
Debtors	12	8,340	8,465
Cash at bank and in hand		82	33
		<u>8,917</u>	<u>9,097</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	13	(10,742)	(11,715)
NET CURRENT LIABILITIES		(1,825)	(2,618)
TOTAL ASSETS LESS CURRENT LIABILITIES		7,299	5,776
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	14	(5,156)	(3,669)
PROVISIONS FOR LIABILITIES AND CHARGES	15	(262)	(235)
NET ASSETS		<u>1,881</u>	<u>1,872</u>
CAPITAL AND RESERVES			
Called-up share capital	16	10	10
Profit and loss account		<u>1,871</u>	<u>1,862</u>
		<u>1,881</u>	<u>1,872</u>

The accounts were approved by the board of directors on 25th March 1986 and were signed on its behalf by:

G.H. Ruff

)

J.E. Brooke

)

) Directors

[Signature]

The notes on pages 6 to 13 form part of these accounts.

FERRYMASTERS LIMITEDNOTES TO THE ACCOUNTS1. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of accounting

The financial statements are prepared on the historical cost basis of accounting.

(b) Depreciation and amortisation

Depreciation on tangible fixed assets is calculated on a straight line basis to write down the cost over their estimated useful lives to estimated residual values which are reviewed annually. The periods used are as follows:

Freehold land	- not depreciated
Leasehold land and buildings	- over the period of the lease
Other tangible assets	- 4 to 20 years

(c) Interest in leased assets

The net interest in leased assets consists of the total capital payments made to the lessor less aggregate depreciation on those assets.

(d) Stocks

Stocks are valued at the lower of cost and net realisable value. Stocks consist of raw materials and consumables.

(e) Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. All exchange differences are included in the profit and loss account.

(f) Deferred taxation

Deferred taxation arises when items are recognised for tax purposes in periods that differ from the periods in which items are recognised for accounting purposes. No provision is made for deferred taxation since, in the opinion of the directors the reduction in the tax charge will continue for the foreseeable future.

FERRYMASTERS LIMITEDNOTES TO THE ACCOUNTS2. TURNOVER

Turnover represents the amounts invoiced, excluding value added tax, in respect of work done during the year. All turnover relates to the principal activity of the business and is analysed by market area as follows:

	<u>1985</u> <u>£'000</u>	<u>1984</u> <u>£'000</u>
United Kingdom	29,196	28,331
Continental Europe	45,813	38,460
Other external	989	843
Inter Group	<u>5,077</u>	<u>947</u>
	<u>81,075</u>	<u>68,581</u>

3. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging the following:

	<u>1985</u> <u>£'000</u>	<u>£'000</u>	<u>1984</u> <u>£'000</u>	<u>£'000</u>
Depreciation of tangible fixed assets	999		878	
Depreciation on leased assets	<u>1,703</u>		<u>1,562</u>	
		2,702		2,440
Directors' emoluments (see note 4):				
As directors		91		59
Remuneration as executives		-		-
Hire of plant and machinery		80		408
Auditors' remuneration and expenses		<u>11</u>		<u>10</u>

4. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

The emoluments of the highest paid director were £33,659 (1984:£25,400); the emoluments of the other directors were within the following ranges:

	<u>1985</u> <u>Number</u>	<u>1984</u> <u>Number</u>
£5,001 - £10,000	-	1
£20,001 - £25,000	1	1
£25,001 - £30,000	<u>1</u>	<u>1</u>

The chairman, Mr. G.H. Ruff, and three other directors, Messrs. Rosier, Brooke and Whitehead were paid by P & O European Transport Services Limited, another company in the P & O Group, without specific recharge. Accordingly, the emoluments of these directors are disclosed in the accounts of P & O European Transport Services Limited. Messrs. Meyer and Hesselgren perform all their services overseas and therefore their emoluments are not included in the above figures.

FERRYMASTERS LIMITEDNOTES TO THE ACCOUNTS5. STAFF NUMBERS AND COSTS

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

	<u>1985</u> <u>Number</u>	<u>1984</u> <u>Number</u>
Administration	59	57
Other	<u>579</u>	<u>582</u>
	<u>638</u>	<u>639</u>

The aggregate payroll costs of these persons were as follows:

	<u>1985</u> <u>£'000</u>	<u>1984</u> <u>£'000</u>
Wages and salaries	6,880	6,242
Social security costs	466	472
Other pension costs	<u>308</u>	<u>296</u>
	<u>7,654</u>	<u>7,010</u>

6. INTEREST RECEIVABLE

	<u>1985</u> <u>£'000</u>	<u>1984</u> <u>£'000</u>
From group companies	252	77
Other	<u>3</u>	<u>5</u>
	<u>255</u>	<u>82</u>

7. INTEREST PAYABLE

	<u>1985</u> <u>£'000</u>	<u>1984</u> <u>£'000</u>
On leased assets	144	108
Other	<u>176</u>	<u>320</u>
	<u>320</u>	<u>428</u>

8. TAXATION

Taxation for the year, calculated at 41.25% (1984: 46.25%), has been eliminated as a result of group relief claimed of £293,000 (1984: £413,000 surrendered), for which no payment is made, and £93,000 (1984: £384,000) in respect of timing differences on which, in accordance with the company's accounting policy, no provision for deferred taxation is made.

FERRYMASTERS LIMITED
NOTES TO THE ACCOUNTS

9. DIVIDENDS

	<u>1985</u> <u>£'000</u>	<u>1984</u> <u>£'000</u>
Interim dividend paid	375	-
Proposed final dividend	<u>575</u>	<u>650</u>
	<u>950</u>	<u>650</u>

10. TANGIBLE FIXED ASSETS

	<u>Land and buildings</u>	<u>Short Leasehold</u>	<u>Equipment on ships</u>	<u>Plant and machinery</u>	<u>Fixtures fittings, tools and equipment</u>	<u>Total</u>
	<u>Freehold</u> <u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Cost						
At 1st January						
1985	419	243	109	7,551	260	8,582
Additions	-	45	-	1,568	76	1,689
Disposals	-	-	-	(855)	(1)	(856)
Reallocations	(6)	(2)	-	(2)	8	(2)
Intergroup transfers	-	-	-	15	-	15
At 31st December						
1985	<u>413</u>	<u>286</u>	<u>109</u>	<u>8,277</u>	<u>343</u>	<u>9,428</u>
Depreciation						
At 1st January						
1985	77	150	27	4,120	120	4,494
Charged in year	6	18	5	941	29	999
Disposals	-	-	-	(459)	-	(459)
Intergroup transfers	-	-	-	16	-	16
At 31st December						
1985	<u>83</u>	<u>168</u>	<u>32</u>	<u>4,618</u>	<u>149</u>	<u>5,050</u>
Net book value						
At 1st January						
1985	<u>342</u>	<u>93</u>	<u>82</u>	<u>3,431</u>	<u>140</u>	<u>4,088</u>
At 31st December						
1985	<u>330</u>	<u>118</u>	<u>77</u>	<u>3,659</u>	<u>194</u>	<u>4,378</u>

FERRYMASTERS LIMITEDNOTES TO THE ACCOUNTS11. INTEREST IN LEASED ASSETS

	<u>Ships</u> <u>£'000</u>	<u>Plant and</u> <u>machinery</u> <u>£'000</u>	<u>Total</u> <u>£'000</u>
CAPITAL PAYMENTS			
Capital payments at 1st January 1985	3,834	7,428	11,262
Capital payments during the year	867	1,492	2,359
Disposals	-	(585)	(585)
Inter group transfers	-	41	41
Reclassifications	-	2	2
Capital payments at 31st December 1985	4,701	8,378	13,079
DEPRECIATION			
At 1st January 1985	1,976	4,980	6,956
Charge for the year	316	1,387	1,703
Disposals	-	(363)	(363)
Inter group transfers	-	37	37
At 31st December 1985	2,292	6,041	8,333
NET BOOK VALUE			
At 1st January 1985	1,858	2,448	4,306
At 31st December 1985	2,409	2,337	4,746

12. DEBTORS

	<u>1985</u> <u>£'000</u>	<u>1984</u> <u>£'000</u>
Due within one year:		
Trade debtors	4,565	4,335
Amounts owed by group companies	1,472	1,511
Other debtors	691	758
Prepayments and accrued income	1,612	1,702
	8,340	8,306
Due after more than one year:		
Amounts owed by group companies	-	159

FERRYMASTERS LIMITED
NOTES TO THE ACCOUNTS

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>1985</u> <u>£'000</u>	<u>1984</u> <u>£'000</u>
Trade creditors	3,465	4,143
Amounts owed to group companies	1,251	3,420
Other creditors including taxation and social security	226	350
Bank loans and overdrafts	138	2,602
Accruals and deferred income	5,087	550
Proposed dividend	575	650
	<u>10,742</u>	<u>11,715</u>

Other creditors including taxation and social security comprise:

	<u>1985</u> <u>£'000</u>	<u>1984</u> <u>£'000</u>
Social security	93	141
Other creditors	<u>133</u>	<u>209</u>
	226	350

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>1985</u> <u>£'000</u>	<u>1984</u> <u>£'000</u>
Amounts owed to group companies:	<u>5,156</u>	<u>3,669</u>

15. PROVISIONS FOR LIABILITIES AND CHARGES

	<u>1985</u> <u>£'000</u>
Dry Docking Provisions for ships:	
Balance at 1st January 1985	235
Utilised during the year	(165)
Charge for the year in the profit and loss account	192
Balance at 31st December 1985	<u>262</u>

FERRYMASTERS LIMITEDNOTES TO THE ACCOUNTS16. CALLED-UP SHARE CAPITAL

	<u>1985</u> <u>£'000</u>	<u>1984</u> <u>£'000</u>
Authorised, allotted, called-up and fully paid:		
10,000 ordinary shares of £1 each	<u>10</u>	<u>10</u>

17. DEFERRED TAXATION

Deferred taxation has not been provided for in these accounts, as explained in note 1. The full potential liability, as calculated under the liability method, is set out below:-

	<u>1985</u> <u>£'000</u>	<u>1984</u> <u>£'000</u>
Accelerated capital allowances: tangible assets	1,098	1,102
: leased assets	1,661	1,507
Other timing differences	(96)	(39)
	<u>2,663</u>	<u>2,570</u>

18. OPERATING LEASES

Payments committed to be made during the following year are £289,000. (1984: £253,000). This obligation consists of payments on leases whose commitments expire:

	<u>1985</u> <u>£'000</u>	<u>1984</u> <u>£'000</u>
Within one year	25	12
Within 2 - 5 years	85	1
In more than 5 years	179	240
	<u>289</u>	<u>253</u>

19. COMMITMENTS

Capital commitments at 31st December 1985, for which no provision has been made in these accounts, were as follows:

	<u>1985</u> <u>£'000</u>	<u>1984</u> <u>£'000</u>
Contracted	434	422
Authorised but not contracted	-	122
	<u>434</u>	<u>544</u>

FERRYMASTERS LIMITEDNOTES TO THE ACCOUNTS19. COMMITMENTS(contd)

The company has commitments in respect of leased assets for payments which fall due as follows:

	<u>1985</u> <u>£'000</u>	<u>1984</u> <u>£'000</u>
- within one year	2,056	2,081
- between two and five years	3,767	4,385
- after five years	-	125
	<u>5,823</u>	<u>6,591</u>

20. CONTINGENT LIABILITIES

The company is contingently liable to its bankers in respect of guarantees and indemnities to third parties amounting to £3,098,000 (1984: £2,993,000).

21. PENSIONS

The P & O Group pension schemes cover all material obligations to retired and current Ferrymasters employees. Based on the latest actuarial valuation, present funding arrangements are considered sufficient to meet the future liabilities of these schemes.

22. ULTIMATE HOLDING COMPANY

The company's ultimate holding company is the Peninsular and Oriental Steam Navigation Company, incorporated in Great Britain.