SC 9656.

J. & J. Denholm Limited

Report and accounts
for the year ended 31 December 1996

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Calendar

1 April 1997	Interim dividend payment
23 April 1997	Annual General Meeting
1 October 1997	Final dividend payment

Company Registration No. SC9656

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COMPANIES HOUSE 23/05/97

Directors, officers and auditors

Directors

***†Sir Ian Denholm CBE** Non-executive Chairman
Appointed in 1952 and Chairman since 1972. Sir Ian is a past President of The Baltic International Maritime Council and The Chamber of Shipping and was previously Chairman of Murray International Trust plc and Deputy Chairman of The Peninsular and Oriental Steam Navigation Company. (Age 69)

***†J. M. Brown MA(Cantab)** Non-executive
Appointed in 1980. He was previously Technical Director of the Ship Management division and is a past Vice-President of the Institute of Marine Engineers. (Age 61)

J. D. D. Brown FICS
Appointed in 1975. He is responsible for the Group's shipowning and shipbroking activities. Outside directorships include The Hadley Shipping Company Ltd. (Age 64)

J. S. Denholm CA
Appointed in 1980. Chief Executive since 1993. He is also a Director of Murray Emerging Economies Trust plc. (Age 40)

***†D. J. Freeland** Non-executive
Appointed in 1995. He was previously a partner in the city law firm of Norton Rose for 25 years specialising in commercial shipping law. (Age 58)

D. J. Harris CA
Appointed in 1993. She is Finance Director and is also a Director of Cuthbert, Service & Jackson Ltd. (Age 37)

J. F. S. Parker BA
Appointed in 1994. He is Company Secretary and is also a Director of Serco Denholm Ltd. (Age 55)

*Member of remuneration committee
†Member of the audit committee

Registered office

Inter-City House
80 Oswald Street
Glasgow G1 4PX

Auditors

Arthur Andersen
199 St Vincent Street
Glasgow G2 5QD

Notice of meeting

Notice is hereby given that the 81st Annual General Meeting of J. & J. Denholm Limited will be held at Inter-City House, 80 Oswald Street, Glasgow on 23 April 1997 at 9.30 am for the following purposes:

1. To approve the Directors' report and accounts for the year ended 31 December 1996.
2. To declare the dividends as recommended by the Directors.
3. To re-elect the following Directors:
   Sir Ian Denholm
   J. M. Brown
4. To re-appoint Arthur Andersen as auditors and to authorise the Directors to fix their remuneration.

Financial Highlights

	1996 £'000	1995 £'000
Summary of results		
Operating results by activity:		
Shipowning	**648**	1,075
Ship management	**664**	527
Shipping services	**740**	961
Seafoods	**3,287**	2,276
Industrial services	**(739)**	(304)
Administrative expenses	**(829)**	(703)
Operating result	**3,771**	3,832
Net income from investments	**874**	1,317
Result before tax	**4,645**	5,149
Earnings per share	**316p**	331p

The calculation of earnings per share is based on earnings, after deducting tax and minority interests, and on 1,021,722 shares being the total shares in issue during the year.

Chairman's statement

An excellent performance by our Seafoods business was offset by disappointing performances by our other businesses. Overall operating profits were only slightly lower than last year. However, there was a significant reduction in investment income and the profit for the year before tax at £4,645,000, was £504,000 less than last year.

Review of Activities

The **Shipowning** results were reduced from £1,075,000 to £648,000 as the Broompark's earnings fell sharply and had it not been for the contributions from our investment in Nortide and our ship broking businesses, shipowning would have shown a loss.

Freight rates for Broompark collapsed from a level of around $9,000 per day at the beginning of the year to a low point of around $4,000 in November. While rates did recover slightly to finish the year at around $6,000 per day, over the year Broompark only made a contribution of £64,000 compared with £1,106,000 last year.

The broking operations of Denholm Coates and S. C. Chambers made a creditable contribution to profits, of £140,000, in a very difficult market.

Our shipping investments performed well largely due to Nortide. An attractive offer was received for Nordholm which was duly sold in November. Included in the shipowning result is our share of the gain on sale of Nordholm amounting to £513,000. In July an investment was made in a company specialising in the shipping of forest products. This investment made a modest contribution.

Since the year end the earnings for Broompark have remained depressed and, with no sign of any improvement, she is unlikely to make any contribution this year. With no likelihood of any significant improvement in the medium term we have decided to offer her for sale. Furthermore our broking businesses will be hard pressed to match the 1996 result. We are optimistic about the prospects for our shipping investments. The market for Nortide's products carrier has remained buoyant and we hope to capitalise on this by selling Nordfarer—producing another substantial gain. In the absence of a gain arising from the sale of Broompark or Nordfarer, the results from shipowning will almost certainly fall again in 1997.

The **Ship Management** activities encountered difficult trading conditions and the result would have been less than last year's had it not been for a number of non recurring items.

The results of the core ship management operation fell short of expectations largely due to delays in completing the restructuring of the operations in Hong Kong and U.S.A. However, this was offset by strong performances from the manning and technical services operations which both gained new business.

During the year Serco Denholm, in which we hold 10%, won three substantial long-term contracts to provide marine support services for the Royal Navy at Plymouth, Portsmouth and the Clyde. This new venture has started well.

The outlook is not encouraging as, with no sign of an end to recession in the dry bulk trades, a number of our customers are considering selling their ships and the ship management business will do well to maintain this year's results in 1997.

During the year the **Shipping Services** business was further expanded. A freight forwarding operation was established at Heathrow. Petrasco, an Aberdeen based freight forwarder, was purchased and we acquired an interest in The Shaw Lovell Group which has a network of offices throughout the UK.

As was to be expected the Heathrow operation lost money in its first year but the new acquisitions both performed better than anticipated and contributed substantially to the overall result. However, Denholm International Freight and Denholm Shipping Services both underperformed. In the U.S. our associate company Christian Bay returned to profit.

The outlook for 1997 is encouraging. The problems that beset Denholm Shipping Services and Denholm International Freight are largely resolved and furthermore 1997 will benefit from a full year's contribution from both Petrasco and The Shaw Lovell Group.

The **Seafoods** business had a record year with both the fishselling and fish processing activities generally performing well.

While poor weather affected fishing in the first quarter, fishing was rarely disrupted thereafter. With fish prices remaining firm both the port offices and the boat portfolio benefited and Denholm Fishselling made record profits. 1997 started well before bad weather struck in February. While Denholm Fishselling should have another good year it is unlikely that it will match 1996.

Alexander Buchan, our primary processor of pelagic fish, had an excellent year and also made record profits. Landings of both herring and mackerel were good and with strong demand for pelagic fish world-wide they were able to improve their margins in spite of both the strengthening pound and having to pay the boats significantly more for raw materials. The outlook for Buchan in 1997 is uncertain as the continued strength of the pound against European currencies will reduce the profitability of our export business. Poor weather on the fishing grounds has reduced production volumes during the first quarter.

R. Croan & Sons, whose principal activity is smoking pelagic fish, had a more difficult time. In a depressed market place they were unable fully to pass on to their customers the increase in cost of raw materials and consequently made a small loss as their margins were squeezed. Pressure on this sector of the industry is expected to continue and some restructuring is anticipated. Until this takes place results are unlikely to show any significant improvement.

Cawoods salt fish business started well but as the year progressed encountered fierce competition in the U.K. market. This and the impact of the strong pound on export markets depressed the result for the year. In the course of the year the Grimsby processing operation was moved to a new factory developed for Cawoods at a cost of £1.4 million. With the intense competition for U.K. market share continuing into 1997 Cawoods profit for the current year will be adversely affected.

Industrial Services performed poorly in 1996. While the Aberdeen and Liverpool businesses made steady progress, the Middlesbrough operation incurred significant losses due to a combination of reduced activity in its core cleaning business and problems on a major concrete cutting contract. Key Scaffolding, which was acquired in February, had a difficult year with margins in the marine containment business under severe pressure, resulting in a modest loss.

Steps have already been taken to improve the quality of the management and prevent a recurrence of the problems encountered in Middlesbrough. The division now has a clear strategy in place. The benefits of this should begin to show through in 1997 when we anticipate a significant reduction in the losses, if not a return to profit.

Income from our **Investments** declined significantly due to reduced amounts held on deposit, and the absence of any material gains on sale of investments. In spite of a strong cash flow the amounts held on deposit declined due largely to expenditure of £3,867,000 on purchasing new businesses, and £2,040,000 on the purchase of a new factory for Cawoods and a warehouse in Liverpool.

Dividends

While it is difficult to be confident that we will achieve the same level of profits in 1997 as we did in 1996, the financial position of your Company is strong and the Board has decided to recommend an increase in the dividend from 70p to 72p a share thus maintaining the 1995 dividend in real terms. An interim dividend of 48p will be paid on 1 April and, subject to Shareholders' approval at the Annual General Meeting, a final dividend of 24p will be paid on 1 October 1997.

Ian Denholm

Sir Ian Denholm
Chairman
18 March 1997

Directors' report

The Directors submit their report and accounts for the year ended 31 December 1996.

Results and dividends

The Group profit for the year after taxation and minority interests was £3,229,000 (1995—£3,384,000) and has been dealt with as shown in the profit and loss account.

An interim dividend of 48p per share has been declared and will be paid on 1 April 1997. The Directors recommend a final dividend of 24p per share, making a total for the year of 72p. If approved, the final dividend will be paid on 1 October 1997. Dividends will be paid to shareholders recorded on the share register one month before the due date of payment.

Principal activities and review of business

The principal activities of the Group during the year were shipowning, ship management, shipping services, industrial services and seafood-related activities. A full review of the business is given in the Chairman's statement.

Donations

Group donations to charitable organisations amounted to £17,000 (1995—£15,000). A political contribution of £1,000 (1995—£1,000) was made to the Conservative Party.

Future developments

Future developments are dealt with in the Chairman's statement.

Employees

The Group takes a positive view of employee communications and has maintained its established system of keeping employees informed of performance, development and progress by way of briefings by management and through the medium of a Group newsletter.

The Group's aim is to meet the objectives of the code of good practice on the employment of disabled people. Full and fair consideration is given to disabled applicants for employment and training, and career development is encouraged on the basis of their aptitude and abilities. It remains Group policy to retain employees who become disabled whilst in its service and to provide specialised training where appropriate.

Directors

The Directors at 31 December 1996 and the date of this report are shown on page 2.

J. E. Boyd retired from the Board on 24 April 1996.

In accordance with the company's Articles Sir Ian Denholm and J. M. Brown retire from the Board but, being eligible, offer themselves for re-election.

Corporate Governance

The remuneration committee is responsible for determining Directors' contracts of service and making recommendations on Board appointments. The membership of the remuneration committee is given on page 2.

The audit committee reviews the scope and function of both internal and external auditing activities. It is the role of the committee to approve the nomination of the external auditors of the Group for election by the shareholders. Membership of the committee is given on page 2.

Directors' interests in share capital

The interests of Directors in the share capital of the Company at 31 December 1996 and 31 December 1995 were as follows:

	Ordinary Shares	
	1996	1995
Beneficial	**No.**	No.
Sir Ian Denholm	**731**	731
J. E. Boyd (retired 24 April 1996)	**—**	—
J. D. D. Brown	**63,475**	63,475
J. M. Brown	**56,634**	56,634
J. S. Denholm	**25,123**	25,123
D. J. Freeland	**—**	—
D. J. Harris	**—**	—
J. F. S. Parker	**—**	—
Joint interests as Directors		
Sir Ian Denholm, J. D. D. Brown, J. M. Brown and J. S. Denholm	**353,074**	353,074
Interests as Trustees		
Sir Ian Denholm and J. S. Denholm	**35,767**	39,630

There have been no changes in Directors' interests in share capital since the year end.

Re-appointment of auditors

Arthur Andersen offer themselves for re-appointment in accordance with Section 384 of the Companies Act 1985.

Directors' responsibilities

The Directors of J. & J. Denholm Limited are required by U.K. company law to prepare accounts which give a true and fair view of the state of affairs of the Group and Company as at the end of the financial year, and of the profit or loss for the year. They are also responsible for ensuring that proper and adequate accounting records have been maintained, and that reasonable procedures have been followed for safeguarding the assets of the Group and for preventing and detecting fraud and other irregularities. Appropriate accounting policies, which follow generally accepted accounting practice and are explained in the notes to the accounts, have been applied consistently. In addition, reasonable and prudent judgements and estimates have been used in the preparation of the accounts.

By order of the Board on 24 March 1997

J. F. S. PARKER

Secretary

Report of the Auditors

to the Shareholders of J. & J. Denholm Limited

We have audited the accounts on pages 10 to 24 which have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets, and the accounting policies set out on page 13.

Respective responsibilities of directors and auditors

As described on page 8 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, 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 accounts 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 accounts.

Opinion

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

Arthur Andersen

Chartered Accountants and Registered Auditors

199 St Vincent Street
GLASGOW
G2 5QD

24 March 1997

Arthur Andersen.

Group profit and loss account

for the year ended 31 December 1996

Notes		1996 £'000	1995 £'000
1	Turnover	**101,007**	77,765
	Cost of sales	**(98,186)**	(74,190)
		2,821	3,575
	Administrative expenses	**(829)**	(703)
3	Other operating items	**330**	378
4	Income from interests in associated undertakings	**1,449**	582
1	**Operating result**	**3,771**	3,832
5	Income from investments	**945**	1,317
	Other current loan interest payable	**(71)**	—
	Profit on ordinary activities before taxation	**4,645**	5,149
6	Taxation on profit on ordinary activities	**(1,360)**	(1,756)
	Profit on ordinary activities after taxation	**3,285**	3,393
21	Minority interests	**(56)**	(9)
20	**Profit attributable to shareholders**	**3,229**	3,384
7, 20	Dividends	**(736)**	(715)
	Retained profit for the year	**2,493**	2,669

Statement of Total Recognised Gains and Losses

for the year ended 31 December 1996

	1996 £'000	1995 £'000
Profit attributable to shareholders	**3,229**	3,384
Exchange difference arising on translation of foreign equity investments	**(345)**	50
Unrealised surplus on revaluation of listed fixed asset investments	**81**	153
Total recognised gains and losses relating to the year	**2,965**	3,587

The accounting policies and notes on pages 13 to 24 form part of these accounts

Group and Company balance sheets

at 31 December 1996

Notes		Group 1996 £'000	Group 1995 £'000	Company 1996 £'000	Company 1995 £'000
	Fixed assets				
8	Intangible assets	**2,123**	457	**—**	—
9	Tangible assets	**18,109**	12,763	**223**	327
10	Associated undertakings	**7,276**	6,206	**—**	—
11	Listed investments	**2,200**	3,219	**2,200**	3,219
12	Unlisted investments	**454**	461	**17,266**	11,977
		30,162	23,106	**19,689**	15,523
	Current assets				
13	Stocks	**3,065**	2,786	**3**	—
14	Debtors	**24,744**	19,108	**2,994**	1,034
15	Cash at bank and in hand	**11,234**	16,450	**2,189**	5,020
		39,043	38,344	**5,186**	6,054
	Creditors				
16	Amounts falling due within one year	**(23,085)**	(18,879)	**(1,176)**	(1,545)
	Net current assets	**15,958**	19,465	**4,010**	4,509
	Total assets less current liabilities	**46,120**	42,571	**23,699**	20,032
	Creditors				
16	Amounts falling due after more than one year	**(3,790)**	(3,053)	**(4,056)**	—
	Provisions for liabilities and charges				
18	Deferred taxation	**(2,263)**	(1,988)	**—**	(2)
	Net assets	**40,067**	37,530	**19,643**	20,030
	Capital and reserves				
19	Called up share capital	**1,022**	1,022	**1,022**	1,022
20	Profit and loss account	**38,441**	36,198	**18,482**	18,855
20	Revaluation reserve	**139**	153	**139**	153
	Shareholders' funds	**39,602**	37,373	**19,643**	20,030
21	Minority interest	**465**	157	**—**	—
	Total capital and reserves	**40,067**	37,530	**19,643**	20,030

Approved by the Board on 24 March 1997

J. S. Denholm, Director

J. D. D. Brown, Director

The accounting policies and notes on pages 13 to 24 form part of these accounts.

Group statement of cash flows

for the year ended 31 December 1996

Notes		1996		1995	
		£'000	£'000	£'000	£'000
25	**Net cash inflow from operating activities**		**1,931**		2,840
	Returns on investments and servicing of finance				
	Interest received	**737**		1,082	
	Interest paid	**(71)**		—	
	Dividends received from associated undertakings	**390**		534	
	Dividends received	**75**		76	
	Dividends paid	**(719)**		(653)	
			412		1,039
	Taxation				
	Tax paid		**(1,712)**		(1,184)
	Investing activities				
	Purchase of tangible fixed assets	**(4,879)**		(2,454)	
27	Purchase of businesses	**(3,867)**		(446)	
	Purchase of associated undertakings	**(851)**		(3,367)	
	Loan to associated undertaking	**(250)**		—	
	Sale of tangible fixed assets	**634**		154	
	Sale of associated undertakings	**775**		972	
	Sale of investments	**1,406**		13	
	Grants received	**24**		35	
			(7,008)		(5,093)
	Net cash (outflow) before financing		**(6,377)**		(2,398)
	Financing				
	Capital element of finance lease repayments		**(165)**		—
26	**(Decrease) in cash and cash equivalents**		**(6,542)**		(2,398)

The accounting policies and notes on pages 13 to 24 form part of these accounts.

Accounting policies

Accounting convention
The accounts have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable accounting standards.

Basis of consolidation
(i) **Subsidiary Undertakings**
The Group accounts consolidate the accounts of J. & J. Denholm Ltd and all of its subsidiary undertakings.

The profit or losses of subsidiary undertakings acquired or sold during the year are included as from, and up to, their respective dates of acquisition, or disposal.

Goodwill arising on the purchase of subsidiaries or businesses is written off against reserves in the year of acquisition, or capitalised as an intangible asset and written off over a maximum of ten years.

(ii) **Associated Undertakings**
(a) Interests in fishing vessels
The Group has interests in a number of fishing vessels, some of which are operated in partnership with the other owners, and some of which are held through shareholdings in companies. The results of both the incorporated and unincorporated interests are consolidated in the Group accounts under the equity method of accounting in accordance with SSAP1.

(b) Other associated undertakings
Undertakings, other than subsidiary undertakings, in which the Group has an investment representing not less than 20% of the voting capital, and over which it exerts significant influence, are treated as associated undertakings. In addition undertakings in which the Group has an investment of less than 20%, but over which it exerts significant influence, are also treated as associated undertakings.

Premiums paid on acquisition of associated undertakings are capitalised and written off over a maximum of ten years. These premiums are included as part of the investment.

Investments
Unlisted fixed asset investments are shown at cost less provision for permanent diminution in value. Listed fixed asset investments are revalued annually.

Depreciation
Depreciation is calculated on a straight line basis to write off the cost, less estimated residual value, of tangible fixed assets over their anticipated useful lives as follows:

Freehold land and agricultural buildings	—Nil
Freehold buildings	—over 50 years
Leasehold property	—over the lesser period of the lease or 50 years
Vessels	—over 15 to 20 years
Other assets	—over 4 to 15 years

Government grants
Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments.

Deferred taxation
Provision is made for deferred taxation, using the liability method, on all timing differences to the extent that it is probable that the liability will crystallise. Advance corporation tax on dividends is carried forward where there is a reasonable expectation of recovery against future corporation tax liabilities.

Foreign currencies
Transactions denominated in foreign currencies are translated at the rate of exchange on the day the transaction occurs or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate ruling on the balance sheet date or, if appropriate, at a forward contract rate. Exchange differences arising in the ordinary course of trading are included in operating profit.

On consolidation, assets and liabilities of subsidiary and associated undertakings are translated into sterling at closing rates of exchange. Profit and loss and cash flow statements are translated at average rates of exchange. Exchange differences resulting from the retranslation of net investments in subsidiary and associated undertakings, net of any exchange gain or loss arising as a consequence of hedging operations, are dealt with in reserves.

Pensions
The Group operates a defined benefit pension scheme in respect of certain employees of J. & J. Denholm Limited and its subsidiary undertakings. Pension benefits are funded by payments to a trustee administered fund.

The cost of providing pensions is charged against profits on a systematic basis, with pension surpluses and deficits arising allocated over the average remaining service lives of current employees. Differences between the amounts charged in the profit and loss account and payments made to the scheme are treated as assets or liabilities.

The Group also operates defined contribution pension schemes. Contributions are charged to profit and loss account as incurred.

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

Cost of raw materials represents purchase price. Cost of processed stocks includes purchase cost plus labour and attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less further cost expected to be incurred to completion and disposal.

Leasing
Rentals in respect of operating leases are charged to the profit and loss account as incurred. Fixed assets leased under finance leases are capitalised and depreciated over their expected useful lives. The finance charges are allocated over the primary period of the lease in proportion to the capital element outstanding.

Notes to the accounts

1 Turnover and profit

(i) Turnover is stated exclusive of value added tax and comprises:

(*a*) Freight earned less commissions and voyage costs on shipowning activities.
(*b*) Commission earned on fishselling activities.
(*c*) Fees earned on manning activities.
(*d*) Invoiced sales of all other activities.

(ii) Analysis of turnover and operating result:

	1996		1995	
	Turnover	**Operating Result**	Turnover	Operating Result
	£'000	**£'000**	£'000	£'000
Area of activity:				
Shipowning	**1,686**	**648**	2,638	1,075
Ship management	**14,862**	**664**	14,283	527
Shipping services	**38,155**	**740**	26,006	961
Seafoods	**39,211**	**3,287**	31,609	2,276
Industrial services	**7,093**	**(739)**	3,229	(304)
Administrative expenses	**—**	**(829)**	—	(703)
	101,007	**3,771**	77,765	3,832

(iii) The operating result is arrived at after charging/(crediting):

	1996	1995
	£'000	£'000
Depreciation	**2,334**	1,733
Provision for drydocking costs	**263**	236
Payments under operating leases:		
—Land and buildings	**756**	654
—Plant and machinery	**163**	77
Government grants	**(37)**	(32)
Hire of plant and machinery	**673**	229
Auditors' remuneration—audit	**158**	120
—non audit	**114**	—

(iv) In addition the auditors received £95,000 (1995—£Nil) in connection with acquisitions.

2 Employees

(i) Average monthly number of employees by activity:

	1996 Number	1995 Number
Shipowning	**40**	30
Ship management	**440**	435
Shipping services	**255**	161
Seafoods	**299**	309
Industrial services	**158**	97
Administration	**18**	16
	1,210	1,048

The average monthly number of employees attributed to shipowning includes the seastaff on the Group's vessels who are employees of the management company. The average number of employees attributed to the management companies excludes seastaff, other than where the management company supplies them as principals.

(ii) Costs of employment:

	1996 £'000	1995 £'000
Wages and salaries	**17,498**	14,196
Social security costs	**1,330**	960
Pension costs (note 24)	**887**	737
	19,715	15,893

Pension costs have been credited with £398,000, (1995—£398,000) arising from variations in pension costs, in accordance with SSAP 24 ('Accounting for Pension Costs'), which were identified by the most recent actuarial valuation. These variations are being amortised over ten years, the average service life of employees.

(iii) Directors' emoluments:

Directors' emoluments comprise:	1996 £'000	1995 £'000
Fees to non-executive Directors	**67**	77
Emoluments to executive Directors (including bonus)	**255**	267
Pension contributions paid	**34**	23
	356	367

Included in executive Directors' emoluments is £10,600 (1995—£41,000) payable to executive Directors under the group executive bonus scheme. Payments under this scheme are non pensionable and are dependent upon the group achieving targeted returns on capital that are set by the remuneration committee.

Directors surrendered fees to the Group of £11,000 (1995—£11,000), which were receivable by them in respect of outside directorships.

The emoluments of the Directors of the Company, excluding pension contributions, are detailed as follows:

	1996 £'000	1995 £'000
Chairman	**38**	36
Highest paid Director	**104**	111

All Directors in scale:	1996 Number	1995 Number
£ 0 - £ 5,000	**1**	—
£ 5,001 - £ 10,000	**—**	1
£ 10,001 - £ 15,000	**2**	3
£ 30,001 - £ 35,000	**1**	1
£ 35,001 - £ 40,000	**1**	1
£ 55,001 - £ 60,000	**1**	1
£ 60,001 - £ 65,000	**1**	1
£100,001 - £105,000	**1**	—
£110,001 - £115,000	**—**	1

3 Other operating items

	1996 £'000	1995 £'000
Gain on disposal of tangible fixed assets	190	35
Gain on disposal of interests in fishing vessels	264	294
Amortisation of goodwill on associated undertakings	(10)	(10)
Amortisation of premiums on acquisition of businesses	(336)	(126)
Foreign exchange (losses)/gains	(108)	29
Rental income	160	66
Miscellaneous income	170	90
	330	378

4 Income from interests in associated undertakings

	1996 £	1995 £
Shipowning investments	680	10
Ship management investments	77	—
Shipping services investments	(102)	1
Seafoods—interests in fishing vessels	794	571
	1,449	582

5 Income from investments

	1996 £'000	1995 £'000
Dividends and interest:		
Fixed asset investments—unlisted	75	76
Fixed asset investments—listed	119	128
Short-term deposits	618	954
	812	1,158
Gain on sale of associated undertakings	—	146
Gain on sale of investments	133	13
	945	1,317

6 Taxation on profit on ordinary activities

	1996 £'000	1995 £'000
UK corporation tax—current	845	1,491
—deferred	32	25
	877	1,516
Tax credits attributable to dividends received	14	14
Foreign taxes	20	3
Associated undertakings	399	134
	1,310	1,667
Adjustments in respect of prior years—corporation tax	43	51
—deferred tax	7	38
	1,360	1,756

7 Dividends

	1996 £'000	1995 £'000
Ordinary shares		
Interim dividend 48p per share (1995—47p)	491	480
Final dividend 24p per share (1995—23p)	245	235
	736	715

8 Intangible fixed assets

Group	Cost £'000	Amortisation £'000	Net book Amount £'000
Goodwill on acquisition of businesses:			
At 1 January 1996	685	(228)	457
Additions	2,002	—	2,002
Charge for year	—	(336)	(336)
At 31 December 1996	2,687	(564)	2,123

Goodwill additions arise on the basis of the following combined fair value table for acquisitions during the year:

	Book value £'000	Accounting policy alignment £'000	Total £'000
Intangible fixed assets	159	(159)	—
Tangible fixed assets	3,451	(35)	3,416
Investments	6	60	66
Stock	76	—	76
Debtors and prepayments	4,990	—	4,990
Cash	741	—	741
Total assets	9,423	(134)	9,289
Bank overdraft	(43)	—	(43)
Creditors and accruals	(4,667)	—	(4,667)
HP creditors	(367)	—	(367)
Tax	(120)	(150)	(270)
Bank loans	(1,675)	—	(1,675)
Other loans	(230)	—	(230)
Net assets	2,321	(284)	2,037
Minority interest			(270)
Fair value of net assets acquired			1,767
Consideration:			
Cash paid, including acquisition costs			2,890
Deferred consideration			879
			3,769
Goodwill			2,002

The goodwill in the year arises on the acquisition of Key Scaffolding Ltd (acquired 2 February 1996), The Shaw Lovell Group Ltd (acquired 3 May 1996) and Petrasco Services Ltd (acquired 3 September 1996), and is being amortised over periods of between one and ten years.

The deferred consideration arises predominantly from the acquisition of Key Scaffolding Ltd (£600,000) and reflects the issue of interest bearing loan notes to the vendors, which are repayable over five years. The balance of the deferred consideration (£279,000) arises from the acquisition of Petrasco Services Ltd and represents the current best estimate of the additional consideration payable which is dependent upon future earnings of Petrasco Services Ltd.

9 Tangible fixed assets

Group	Land and buildings £'000	Vessels £'000	Other assets £'000	Total £'000
Cost				
At 1 January 1996	6,878	9,557	9,714	26,149
Exchange adjustments	(5)	—	(28)	(33)
Additions	2,444	—	5,851	8,295
Disposals	(349)	—	(1,429)	(1,778)
At 31 December 1996	8,968	9,557	14,108	32,633
Depreciation				
At 1 January 1996	786	6,995	5,605	13,386
Exchange adjustments	—	—	(28)	(28)
Charge for year	182	247	1,905	2,334
On disposals	(26)	—	(1,142)	(1,168)
At 31 December 1996	942	7,242	6,340	14,524
Net book amounts				
At 31 December 1996	**8,026**	**2,315**	**7,768**	**18,109**
At 31 December 1995	6,092	2,562	4,109	12,763

Company	Land and buildings £'000	Other assets £'000	Total £'000
Cost			
At 1 January 1996	267	244	511
Additions	—	119	119
Disposals	(166)	(70)	(236)
At 31 December 1996	101	293	394
Depreciation			
At 1 January 1996	26	158	184
Charge	3	48	51
On disposals	—	(64)	(64)
At 31 December 1996	29	142	171
Net book amounts			
At 31 December 1996	**72**	**151**	**223**
At 31 December 1995	241	86	327

Group and Company

The net book amount of land and buildings comprises:

	Group		Company	
	1996 £'000	1995 £'000	**1996 £'000**	1995 £'000
Freehold property	**5,796**	3,619	—	166
Lease with more than 50 years unexpired	**361**	1,582	—	—
Lease with less than 50 years unexpired	**1,869**	891	72	75
	8,026	6,092	72	241

Included in other assets are items of plant and equipment held under finance leases and hire purchase contracts with a net book value of £275,000 (1995—£Nil). Depreciation on these assets in the year amounted to £109,000 (1995—£Nil).

10 Associated undertakings

Group	Share of net tangible assets £'000	Loans to associates £'000	Premiums on Acquisition £'000	Total £'000
At 1 January 1996	6,137	39	30	6,206
Exchange difference	(259)	—	—	(259)
Acquired in year	861	56	—	917
Advanced in year	—	450	—	450
Repaid in year	—	(200)	—	(200)
Share of retained profits	739	—	—	739
Amortisation of goodwill	—	—	(10)	(10)
Disposals in year	(511)	(56)	—	(567)
At 31 December 1996	6,967	289	20	7,276

Acquisitions in the year were predominantly further investments in fishing vessels.

During the year the Group acquired a 10% holding in Serco Denholm Ltd. As a result of the company's presence on the Board of Serco Denholm Ltd the Directors believe they exert significant influence over the company.

The Group's share of profits retained in associated undertakings at 31 December 1996 is £1,154,000 (1995—£333,000).

Details of principal associated undertakings are shown in Note 29.

11 Listed investments

Group and Company	1996 £'000	1995 £'000
Valuation		
At 1 January	**3,219**	3,066
Disposals in year	**(1,100)**	—
Revaluation	**81**	153
At 31 December	**2,200**	3,219

The historic cost of listed investments at 31 December 1996, all of which were listed on the U.K. Stock Exchange, was £2,061,000.

12 Unlisted fixed asset investments

Group	1996 £'000	1995 £'000
Cost		
At 1 January	**461**	461
Disposals	**(7)**	—
At 31 December	**454**	461

Unlisted fixed asset investments include the following companies in which the Group had an interest of more than 20% at the year end:

	Class of shares	Group's interest	Country of Registration
Gallic Management Co. Ltd	Ordinary	25%	England
	Preference	25%	

The Group has a participating interest in the share capital of Gallic Management Co. Ltd. However, in the opinion of the Directors, having due regard to the disposition of the other shareholdings, the Group is not in a position to exercise a significant influence over Gallic Management Co. Ltd; accordingly it has not been accounted for as an associated undertaking.

The aggregate of share capital and reserves of Gallic Management Co. Ltd at 31 March 1996 was £4,195,000 (1995—£3,885,000) and the profit after tax for the year ended 31 March 1996 was £385,000 (1995—£250,000). £11,000 of dividends were received during the year.

12 Unlisted fixed asset investments—continued

Company	Subsidiary undertakings £'000	Unlisted investments £'000	Total £'000
Cost			
At 1 January and 31 December 1996	2,042	106	2,148
Amounts written off			
At 1 January and 31 December 1996	(31)	—	(31)
Loans to subsidiary undertakings			
At 1 January 1996	9,860	—	9,860
Advanced in year	5,289	—	5,289
At 31 December 1996	15,149	—	15,149
Net book amounts			
At 31 December 1996	**17,160**	**106**	**17,266**
At 31 December 1995	11,871	106	11,977

Details of principal subsidiary undertakings are shown in Note 29.

13 Stocks

	Group		Company	
	1996 £'000	1995 £'000	**1996 £'000**	1995 £'000
Finished goods and goods for resale	**2,591**	2,535	**—**	—
Other	**474**	251	**3**	—
	3,065	2,786	**3**	—

14 Debtors

	Group		Company	
	1996	1995	**1996**	1995
Amounts falling due within one year:	**£'000**	£'000	**£'000**	£'000
Trade debtors	**20,636**	15,447	**—**	—
Other debtors	**2,591**	1,765	**33**	69
Prepayment and accrued income	**1,517**	1,896	**50**	54
Amounts due from subsidiary undertakings	**—**	—	**2,911**	911
	24,744	19,108	**2,994**	1,034

15 Cash at bank and in hand

	Group		Company	
	1996 £'000	1995 £'000	**1996 £'000**	1995 £'000
Cash and bank balances	**6,859**	13,408	**2,189**	5,020
Short-term funds held on behalf of clients	**4,375**	3,042	**—**	—
	11,234	16,450	**2,189**	5,020

16 Creditors

	Group		Company	
	1996	1995	**1996**	1995
Amounts falling due within one year:	**£'000**	£'000	**£'000**	£'000
Bank overdraft	**59**	—	**—**	—
Trade creditors	**9,508**	7,271	**4**	51
Amounts due to subsidiary undertakings	**—**	—	**2**	222
Current corporation tax	**798**	1,498	**—**	27
Other taxes and social security costs	**932**	869	**382**	306
Proposed dividends	**736**	719	**736**	719
Other creditors	**7,787**	5,685	**—**	103
Accruals and deferred income	**3,178**	2,837	**52**	117
Obligations under finance lease/hire purchase contracts	**87**	—	**—**	—
	23,085	18,879	**1,176**	1,545

16 Creditors—continued

	Group		Company	
	1996	1995	**1996**	1995
Amounts falling due after more than one year:	**£'000**	£'000	**£'000**	£'000
Deferred pension credit	**1,981**	2,196	**—**	—
Accruals and deferred income	**1,694**	857	**—**	—
Amounts due from subsidiary undertakings	**—**	—	**4,056**	—
Obligations under finance leases/hire purchase creditors	**115**	—	**—**	—
	3,790	3,053	**4,056**	—

17 Obligations under finance leases and hire purchase contracts

	Group	
	1996	1995
	£'000	£'000
Amounts payable:		
Within one year	**103**	—
Within two to five years	**132**	—
	235	—
Less finance charges allocated to future periods	**(33)**	—
	202	—
Current obligations	**87**	—
Non-current obligations	**115**	—
	202	—

18 Deferred taxation

	Group		Company	
	1996	1995	**1996**	1995
	£'000	£'000	**£'000**	£'000
At 1 January	**1,988**	1,925	**2**	6
Charge/(release) in year	**69**	25	**(2)**	(4)
Adjustments in respect of prior years	**206**	38	**—**	—
At 31 December	**2,263**	1,988	**—**	2

The deferred tax provision comprises:	Group		Company	
	1996	1995	**1996**	1995
	£'000	£'000	**£'000**	£'000
Excess of capital allowances over depreciation	**1,811**	1,507	**—**	(6)
Roll-over of balancing charge on ship	**1,218**	1,218	**—**	—
Other timing differences	**(112)**	(10)	**—**	8
Pension credit	**(654)**	(727)	**—**	—
	2,263	1,988	**—**	2

There is no unprovided deferred tax at 31 December 1996 or 1995.

19 Called up share capital

	Ordinary £1 shares £'000
Equity	
Authorised share capital	
At 1 January 1996 and 31 December 1996	1,172
Issued and fully paid	
At 1 January 1996 and 31 December 1996	1,022

20 Reconciliation of shareholders' funds and movement on reserves

Group	Share Capital £'000	Profit & Loss Reserve £'000	Revaluation Reserve £'000	**1996 Total £'000**	1995 Total £'000
At 1 January	1,022	36,198	153	**37,373**	34,501
Profit for the year	—	3,229	—	**3,229**	3,384
Dividend	—	(736)	—	**(736)**	(715)
Exchange (loss)/gain on foreign equity investments	—	(345)	—	**(345)**	50
Transfer on sale of listed fixed asset investment	—	95	(95)	**—**	—
Revaluation of listed investments	—	—	81	**81**	153
At 31 December	1,022	38,441	139	**39,602**	37,373

The cumulative amount of goodwill written off, since 1 January 1989, net of goodwill relating to undertakings disposed of at 31 December 1996 and 31 December 1995 is £163,000.

Company	Share Capital £'000	Profit & Loss Reserve £'000	Revaluation Reserve £'000	**1996 Total £'000**	1995 Total £'000
At 1 January	1,022	18,855	153	**20,030**	19,548
Profit for the year	—	268	—	**268**	1,044
Dividend	—	(736)	—	**(736)**	(715)
Transfer on sale of listed fixed asset investment	—	95	(95)	**—**	—
Revaluation of listed investments	—	—	81	**81**	153
At 31 December	1,022	18,482	139	**19,643**	20,030

As permitted by S230 of the Companies Act 1985, J. & J. Denholm Ltd has not presented its own Profit and Loss Account. The profit after taxation dealt with in the accounts of J. & J. Denholm Ltd is shown above.

21 Minority interests

	1996 £'000
At 1 January	**157**
Profit on ordinary activities after taxation	**56**
Dividends paid	**(3)**
Acquisition of subsidiary undertaking	**271**
Exchange differences	**(16)**
At 31 December	**465**

22 Contingent liabilities

	Group		Company	
	1996 £'000	1995 £'000	**1996 £'000**	1995 £'000
Contingencies in respect of fishing activities	**2,410**	1,624	**2,700**	2,700
Guarantees in respect of Seafoods	**—**	—	**901**	901
Guarantees in respect of Shipping Services	**2,573**	2,203	**2,450**	2,080
Guarantees in respect of Ship Management	**21**	21	**21**	21
Contingencies in respect of Ship Management	**1,100**	—	**1,100**	—
Guarantees in respect of Industrial Services	**655**	55	**600**	—
	6,759	3,903	7,772	5,702

Other contingent liabilities also arise in the ordinary course of business in respect of ship's insurance and ship management contracts.

23 Financial commitments

	Group	
	1996 £'000	1995 £'000
Authorised and contracted capital expenditure amounted to	**80**	213

23 Financial commitments—continued

Annual commitments under non-cancellable operating leases amounted to:

	Group		Company	
	1996	1995	**1996**	1995
Land and Buildings	**£'000**	£'000	**£'000**	£'000
Lease expiring:				
Within one year	**211**	136	**—**	—
Within two to five years	**347**	332	**32**	32
More than five years	**63**	65	**—**	—
	621	533	**32**	32

24 Pensions

(i) Defined benefits

The contributions to the defined benefit scheme are determined with the advice of independent qualified actuaries on the basis of triennial valuations using the projected unit method.

The most recent actuarial assessment was at June 1995 and related to service by members up to 30 June 1995, the main assumptions used were that investment returns would be 8.5% p.a. and salary increases would average 7% p.a.

At the date of the last valuation of the Denholm Pension Scheme, the market value of the scheme's assets was £14,127,000 and the actuarial value of the assets was sufficient to cover 112% of the benefits based on projected salaries which had accrued to members.

The surplus disclosed by the valuation will be eliminated from the fund over the average remaining service life of current employees by means of an employer's partial contribution holiday.

The surplus in the scheme is being recognised in the accounts as a variation from regular cost over ten years, the average remaining service life of current employees.

(ii) Defined contribution

The pension cost represents contributions payable by the Group and amounted to £111,000 (1995—£99,000).

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

	1996	1995
	£'000	£'000
Operating profit	**3,771**	3,832
Depreciation	**2,334**	1,733
Amortisation of intangible fixed assets	**346**	136
Profit on sale of tangible fixed assets/investments	**(190)**	(35)
Profit on sale of associated undertakings	**(264)**	(294)
Bad debt provision increase/(decrease)	**237**	(47)
(Increase) in stocks	**(203)**	(281)
(Increase) in debtors	**(535)**	(3,265)
(Decrease)/increase in creditors	**(1,864)**	1,509
(Decrease)/increase in deferred pension credit	**(215)**	166
Share of associated undertakings' results	**(1,449)**	(582)
Government grant amortisation	**(37)**	(32)
Net cash inflow from operating activities	**1,931**	2,840

26 Analysis of changes in cash and cash equivalents during the year

	1996	1995
	£'000	£'000
Balance at 1 January	**13,408**	15,773
(Decrease) in cash and cash equivalents	**(6,542)**	(2,398)
Exchange adjustments	**(66)**	33
Balance at 31 December	**6,800**	13,408

27 Purchase of businesses

	1996	1995
	£'000	£'000
Cash consideration	**2,890**	446
Cash at bank and in hand acquired	**(741)**	—
Bank overdrafts of acquired subsidiary undertakings	**43**	—
Repayment of bank loan on acquisition of subsidiary undertaking	**1,675**	—
	3,867	446

28 Related party transactions

Transactions with the Directors of J. & J. Denholm Limited are disclosed in note 2.

During the year the Group acquired the entire share capital of Petrasco Services Limited. 50% of these shares were acquired from a member of the Denholm family (N. A. R. Willis). Details of the acquisition are included in note 8.

The Group's insurance business is placed through Cuthbert, Service & Jackson Limited, an associated company of the Group. The total invoiced value of this business in 1996 was £440,000.

During the year the Group entered into a joint venture with Serco plc forming Serco Denholm Limited, a facilities management company, in which the Group's investment is 10%. Denholm were reimbursed £234,079 in respect of payments made on behalf of Serco Denholm Limited, and during the period August/December 1996 Turner & Hickman Limited, a subsidiary of the Group, provided purchasing services to Serco Denholm Limited supplying goods to the value of £423,849 including a handling fee of up to 8%.

As explained in the Accounting Policies on page 13, the Group holds a number of interests in fishing vessels which are accounted for as associated undertakings. Denholm Fishselling Limited also act as agents to these vessels and £2,194,000 of the Group turnover arises from commission earned on fish sales and from chandlery sales to them. At 31 December 1996 debts due from these related parties totalled £411,875 which is included within trade debtors. Included within trade creditors is £276,849 in respect of amounts due to these fishing vessels. Denholm Fishselling Limited also provides limited guarantees in respect of vessels' bank overdrafts. This liability is included within contingent liabilities at note 22.

The Group holds a 25% investment in Nortide Shipping Limited, a joint venture company, and during the year acted as Ship Manager to the "Nordfarer" and as manning agent in respect of the "Nordholm". The Denholm Line Steamers Ltd also acts as financial manager to Nortide. The total income derived from these activities amounted to £104,000.

29 Principal subsidiary and associated undertakings

		Country of Registration/Incorporation
Shipowning	*Denholm Shipping Company Ltd	England
	The Denholm Line Steamers Ltd	Scotland
	Denholm Coates & Co Ltd	England
	S. C. Chambers & Co Ltd (49%) [A]	England
	Nortide Shipping Ltd (25%) [A]	Bermuda
Ship Management	*Denholm Ship Management (Holdings) Ltd	Scotland
	Denholm Ship Management Ltd	Scotland
	Denholm Ship Management (Overseas) Ltd	Bermuda
	Denholm Ship Management (IOM) Ltd	Isle of Man
	Oceanair Travel Ltd	Hong Kong
	†Denklav Marine Services Ltd (50%)	Hong Kong
	Serco Denholm Ltd (10%) [A]	England
Shipping Services	*Denholm Agency Holdings Ltd	Scotland
	Denholm Shipping Services Ltd	Scotland
	Denholm International Freight Ltd	England
	Christian Bay Shipping Co. Inc. (44%) [A]	USA
	Petrasco Services Ltd	Scotland
	†The Shaw Lovell Group Ltd (50%)	England
Seafoods	*Denholm Seafoods Ltd	Scotland
	Denholm Fishselling Ltd	Scotland
	R. Croan & Sons Ltd	Scotland
	Cawoods (Fishcurers) Ltd	Scotland
	Alexander Buchan Ltd	Scotland
Industrial Services	*Denholm Industrial Services (Holdings) Ltd	England
	Denholm Industrial Services Ltd	Scotland
	Key Scaffolding Ltd	England

All companies are 100% owned and all holdings are of ordinary shares unless indicated otherwise. The companies marked (*) are owned directly by J. & J. Denholm Ltd. The companies marked † are consolidated by virtue of dominant influence due to the nature of the business relationship. The companies marked [A] are associated undertakings. In all cases the Group's voting rights in subsidiaries equate to the respective percentage interest in ordinary shares.

In addition to the associated undertakings noted above the Group has an interest in 68 fishing vessels which are held by Denholm Fishselling Ltd.