

# J. & J. Denholm Limited

9656

## Report and accounts

for the year ended 31 December 1998

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<b>Calendar</b>	1 April 1999	Interim dividend payment
	17 May 1999	Annual General Meeting
	1 October 1999	Final dividend payment

**Company  
Registration No.**

SC009656

*[Handwritten signature]*



## Directors, officers and auditors

### President

#### **Sir Ian Denholm CBE**

Appointed President on his retirement from the Board on 16 April 1998.

### Directors

#### **J. S. Denholm CA** Chairman and Chief Executive

Appointed a Director in 1980, he has been Chief Executive since 1993 and became Chairman in 1998. He is also a Director of Murray Emerging Economies Trust plc. (Age 42)

#### **†J. D. D. Brown FICS**

Appointed a Director in 1975, he is responsible for the Group's shipowning activities. Outside directorships include The Hadley Shipping Company Ltd and Gallic Management Company Ltd. (Age 66)

#### **\*†J. M. Brown MA(Cantab)** Non-executive

Appointed a Director in 1980, he was previously Technical Director of Denholm Ship Management and is a past Vice-President of the Institute of Marine Engineers. (Age 63)

#### **\*†D. J. Freeland** Non-executive

Appointed a Director in 1995, he is an independent Shipping Consultant specialising in asset financing. He was previously a partner in the city law firm of Norton Rose. (Age 59)

#### **D. J. Harris CA**

Appointed a Director in 1993, she is Finance Director and is also a Director of Cuthbert, Service & Jackson Ltd. (Age 39)

#### **\*J. D. F. Miller CBE** Non-executive

Appointed a Director in 1997, he is Chairman of The Wolverhampton & Dudley Breweries plc, Chairman of the Scottish Qualifications Authority and of the Court of Stirling University, Vice-Chairman of Forth Valley Enterprise, Director of Scottish Life, and a former Director of Coats Viyella plc. (Age 64)

#### **J. F. S. Parker BA**

Appointed a Director in 1994, he is Company Secretary and is also a Director of Serco-Denholm Ltd. (Age 57)

\*Member of remuneration committee

†Member of the audit committee

### Registered office

Inter-City House  
80 Oswald Street  
Glasgow G1 4PX

### Auditors

Arthur Andersen  
191 West George Street  
GLASGOW G2 2LB

## **Chairman's statement**

### **Results and Prospects**

As the year progressed it became apparent that the bright hopes we had at the outset of 1998 were unlikely to be fulfilled. While at the end of the day the results have come out well ahead of last year at £4,688,000, this has only been achieved by virtue of the substantial exceptional gain of £1,998,000 that arose on the tragic loss of "Silvery Sea". The underlying profits before tax were only marginally ahead of 1997 at £2,690,000.

The economic outlook is not encouraging. Ship Management and Seafoods continue to be affected by the fallout from the problems in the Asian economies and the Industrial Services and Shipping Services businesses are likely to be affected by a slow down of the domestic economy. However, in spite of the outlook we anticipate an improvement in the underlying result in 1999 as a result of better performances by Industrial Services, following its success in securing a major contract, and Shipping Services, who have restructured their business to improve profitability.

### **Dividends**

In view of the prospects for 1999 and the strong position of your company, the Board has decided to recommend an increase in the dividend of 4p to 78p a share. An interim dividend of 48p will be paid on 1st April and, subject to shareholders' approval, a final dividend of 30p will be paid on 1 October 1999.

### **Board membership**

My father, Sir Ian Denholm, retired from the Board at last year's Annual General Meeting after 46 years as a Director and 26 years as Chairman. Over the years he has made an enormous contribution to the Group and my colleagues and I were delighted that he agreed to continue his association with the Company by accepting the position of President.



John S. Denholm  
Chairman

19 March 1999

## Financial Highlights

### Ordinary profits before tax arising from:

	1998	Restated 1997
	£'000	£'000
Shipowning	408	42
Ship management	743	416
Shipping services	(27)	867
Seafoods	3,556	1,656
Industrial services	143	15
Administrative expenses	(790)	(916)
	<hr/> 4,033	<hr/> 2,080
Unallocated financial income	655	575
	<hr/> 4,688	<hr/> 2,655

## Review of Operations

### Shipowning

The Shipowning activities comprise shipowning interests and shipping related investments.

The **shipowning interests**, which at the start of the year comprised Broompark and a quarter share in Nordfarer, were expanded by the acquisition in late December of "Andorinha", a 1998 built 47,000 DWT open hatch bulk carrier. Since the year end, Broompark has been sold for just over \$3 million gross.

As anticipated, both product carrier and bulk carrier markets remained depressed throughout 1998. While Nordfarer traded at a profit, it was not sufficient to cover her finance costs and overall our attributable loss from Nordfarer was marginally higher than in 1997. Broompark would have produced a trading loss had it not been for the adjustments that were made in anticipation of her sale. "Andorinha" joined the fleet in late December and was immediately delivered on a 28 month time charter at a rate that produced a modest profit.

The outlook for the shipowning interests is not good, with a large number of product carrier newbuildings in the pipeline there is little prospect of any recovery in Nordfarer's results in the short term. However, "Andorinha" should produce a useful contribution over the next few years.

The **shipping related investments** comprise broking interests, an interest in a liner service carrying forest products, and investments in The Hadley Shipping Company Ltd and Gallic Management Co. Ltd. In the course of the year our interest in the short sea container service was sold at a price that realised a modest gain.

The broking interests did well to maintain their contribution against the background of a downturn in shipping markets. However, the forest products service benefited as exporters in Indonesia took advantage of their competitive currency. The contribution from Hadley and Gallic was much in line with last year.

The outlook for the shipping related investments in 1999 is poor. In the current depressed shipping markets it seems inevitable that the broking businesses will produce a loss and there must be a risk that Hadley and Gallic will cut their dividends. While the forest products service has started the year well, competition is increasing and it is likely that as it does margins and profits will fall.

### Ship Management

The Ship Management activities comprise the Group's interests in ship management, manning, commercial management and the investment in Serco-Denholm.

The **ship management** business based in Glasgow, Hong Kong and Jakarta gained a significant amount of new business. In spite of continuing pressure on management fees due to the downturn in the shipping market, the business should move forward in 1999 due to the growth achieved in 1998.

The **manning** business which is carried out from Bombay, Manila and Isle of Man, also gained new business and this led to an increased contribution. As shipowners have come under pressure from freight rates there has been a reduction in demand for Indian crews in favour of less expensive Filipino crews. This led to a downturn in the results for Bombay but was fully compensated for by an increase in Manila. The trend is likely to continue into 1999.

The **commercial management** business also took on a number of additional vessels and produced an improved performance. However, with no new business in prospect and its clients being adversely affected by the depressed freight market the commercial management business will do well to maintain its result in 1999.

**Serco-Denholm** had another good year and produced a result much in line with 1997. During the year the company secured the contract to operate the Islay-Jura ferry and to build 7 new harbour vessels for the Ministry of Defence. These new contracts are unlikely to make a significant contribution until 2000. With the profitability of the main contract turning down, the results of Serco-Denholm are likely to fall back in 1999 before recovering in 2000.

## Shipping Services

Shipping Services comprises the group's interest in ship agency, freight forwarding, warehousing and distribution. In the course of the year the business was expanded by the acquisition of the trade and assets of Matthew Taylor - a ship agency business with offices on the Forth.

The **ship agency** activities saw revenue increase with the first contribution from Matthew Taylor and a strong performance in the South East. A number of acquisitions are currently under consideration and if these come to fruition they will boost the agency contribution in 1999, in spite of the prospects for the underlying business being flat.

The **freight forwarding** activities had a disappointing year. Income from international freight movements fell as the impact of the problems in the Far East affected world trade. At the same time the European business, which is dominated by export trades, continued to suffer from the strength of Sterling. However, the downturn in these areas was offset to a certain extent by a strong performance by the Aberdeen operation which had an excellent year. With no signs of Sterling weakening and given the likelihood that oil related work will fall off as the oil companies cut back expenditure in response to the low oil price, it is likely that the forwarding business will turn down in 1999.

The **warehousing and distribution** activities produced an improved result in spite of a downturn in the steel business which had made a significant contribution in 1997. In the course of the year the Garston office was closed and all the steel business moved to Birkenhead. In order to meet customer demand additional warehouses are being built at Aberdeen and Liverpool. In the light of these developments it is anticipated that the warehousing and forwarding business will increase its contribution in 1999.

Overall the contribution from the various activities fell. The downturn in contribution was exacerbated by a significant increase in overheads, due largely to the cost of merging the businesses of Shaw Lovell and Matthew Taylor and to the significant costs incurred on a new computer system. Since the year end a number of steps have been taken to contain costs. In view of this and in spite of the gloomy outlook for the freight forwarding side and the further significant costs that will be incurred on the computer system, we are confident that 1999 will show a significant improvement over 1998.

## Seafoods

The Seafoods activities comprise the Group's fishing related and fish processing interests.

The **fishing related activities** are operated through Denholm Fishselling and comprise port operations in nine fishing ports in Scotland and Northern Ireland and an ownership interest in around 60 of the fishing vessels agented by the Company.

The year started poorly for the port operations with the fishing disrupted by the weather and a period of depressed quayside fish prices. As the year progressed there was an improvement on the East Coast but the West Coast and Irish ports remained under pressure. In spite of this the overall result from the port operations was very much in line with last year.

The portfolio of interests in fishing boats had a disappointing year and produced a small trading loss. However, as part of the normal pattern of events, significant gains arose on the sale of our interest in a number of vessels most of which were being replaced. In addition to these normal gains, an exceptional gain of £1,998,000 arose on the loss of "Silvery Sea", the only purse-seiner in which the group had an interest, which tragically sank with all hands on what was to have been her last fishing trip before being sold.

The outlook for the fishing interests in 1999 is reasonable. While fish is in short supply, the quayside price of fish has increased and should largely compensate for this. Furthermore, recently our fleet

has been strengthened by the addition of a number of new vessels which will generate additional income during 1999.

The **fish processing** activities now comprise Cawoods, who are salt fish producers with factories in Hull and Grimsby, Alexander Buchan, who are primary processors of herring and mackerel in Peterhead, and a 25% interest in A. & D. Macrae Holdings, who acquired the business of R Croan and Sons in the course of the year.

Cawoods had a difficult year. Having absorbed their major competitor in January the margins on domestic sales improved but shortages in the supply of raw material and increased buying prices held margins back. While Cawoods made a modest trading profit the overall result, after taking account of the cost of acquiring the competitor, was a loss. 1999 has not started well for Cawoods as fish continues to be expensive and in short supply.

Alexander Buchan had a difficult start to the year due to the combination of intermittent supplies and a fire at the adjacent cold store which disrupted production. Fortunately, they were able to recover from insurers the cost of that disruption. The collapse of the former Soviet Union which for some years has been a major consumer of mackerel caused the world price of mackerel to plummet. Alexander Buchan did well to avoid significant losses in the final quarter and to show a result of £590,000 for the year as a whole. The new year has started with plentiful supplies of mackerel but world-wide demand remains depressed and production is being curtailed by a lack of sales. It is therefore likely that results will turn down in 1999.

After lengthy negotiations A. & D. Macrae Holdings bought the business of R. Croan & Sons in August on terms that gave the Group a 25% stake in Macrae, who produce a wide range of fish products for multiple retailers. While Macrae traded profitably in the last four months the attributable result was insufficient to offset the loss that arose in Croans in the first 8 months. The interest in Macrae should make a contribution in 1999.

## **Industrial Services**

The Industrial Services business comprises the group's painting, scaffolding and industrial cleaning activities.

The **painting** business had a poor start to the year with a shortage of business. In the course of the year it won a number of significant contracts including a major one for the painting and related scaffolding of four ships that are being built at Barrow-in-Furness. Work on this large contract did not start until late in the final quarter and consequently it only made a modest contribution to the substantially improved results from painting in 1998. The outlook for 1999 is encouraging and we anticipate considerable growth in both turnover and contribution.

The **scaffolding** activities as a whole performed well below expectations, but marginally better than in 1997. The local business around Yeovil enjoyed buoyant demand throughout the year. The marine side benefited from the success of the painting business and also improved its performance over 1997. However, special works had a poor year as it failed to secure enough contracts. The outlook is good; demand in Yeovil continues to be strong, the marine side will benefit from spin off work on the new contracts secured by the painting business and special works has also secured a number of good contracts.

The **cleaning** business had mixed fortunes. The offshore side suffered a shortage of business and performed well below both budget and 1997. Onshore, the cleaning business picked up but poor margins led to a disappointing result. However, once again a significant overseas contract ensured that, overall, the cleaning activity produced an improved result. Looking forward it seems inevitable that the offshore activity will be affected by the downturn of activity in the North Sea and the onshore business by the slowdown in the domestic economy. While there are prospects of further work overseas no significant contracts have as yet been secured.

Overall the underlying contribution from the Industrial Services business showed a healthy improvement on 1997, but this was largely negated by increased costs which were incurred as the management was expanded, in order to allow the business to grow.

## **Overview**

The overall result was boosted by exceptional gains and it is likely that our profits in 1999 will turn down. However, further growth in the underlying result is anticipated, driven by improved performances from Shipping Services and Industrial Services.

# Directors' report

The Directors submit their report and accounts for the year ended 31 December 1998.

## Results and dividends

The Group profit for the year after taxation and minority interests was £3,928,000 (1997—£1,757,000) 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 1999. The Directors recommend a final dividend of 30p per share, making a total for the year of 78p. If approved, the final dividend will be paid on 1 October 1999 to shareholders recorded on the share register 21 days 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 Review of Operations.

## Donations

Group donations to charitable organisations amounted to £20,000 (1997—£18,000).

## Future developments

Future developments are dealt with in the Review of Operations.

## 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 1998 and the date of this report are shown on page 2.

In accordance with the Company's Articles J. F. S. Parker and D. J. Harris retire from the Board and, being eligible, offer themselves for re-election.

As noted in the Chairman's Statement Sir Ian Denholm retired at the last Annual General Meeting and was appointed President in recognition of his contribution to the Group. J. S. Denholm was appointed Chairman on 16 April 1998.

## 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.

## Year 2000 compliance

The Directors are fully aware of the Year 2000 issue and all companies are taking steps to minimise the impact of Year 2000 on their business. In addition to covering an analysis of internal systems, the potential business risks associated with a Year 2000 failure of any key supplier or customer are being investigated. The Group is aiming to have all key computer systems Year 2000 compliant by 30 September 1999.

The costs associated with implementing Year 2000 compliance have to date totalled £315,000 and have been written off within the Profit and Loss Account with the exception of £137,000 of costs associated with enhanced software and upgraded hardware which have been capitalised. This treatment is in accordance with UITF 20. The Board anticipate that further expenditure of £484,000 will be required during 1999.

### **Impact of the Euro**

The Directors have fully considered the likely impact of the introduction of the Euro and have concluded that it will not have a significant impact on the Group in the short term.

### **Directors' interests in share capital**

The interests of Directors in the share capital of the Company at 31 December 1998 and 31 December 1997 were as follows:

	Ordinary Shares	
	1998 No.	1997 No.
<b>Beneficial</b>		
Sir Ian Denholm	731	731
J. D. D. Brown	48,475	63,475
J. M. Brown	56,634	56,634
J. S. Denholm	40,578	25,123
<b>Joint interests as Directors</b>		
Sir Ian Denholm, J. D. D. Brown, J. M. Brown and J. S. Denholm	370,428	361,428
<b>Interests as Trustees</b>		
Sir Ian Denholm and J. S. Denholm	7,726	35,767

At the date of the report the joint interests as Directors have increased by 1,000 to 371,428.

No other Director held any interests in the share capital of the Company at 31 December 1998 (1997—Nil).

### **Re-appointment of auditors**

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

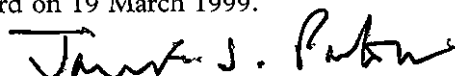
### **Directors' responsibilities**

The Directors of J. & J. Denholm Limited are required by UK 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 19 March 1999.

J. F. S. Parker

Company Secretary





# **Report of the Auditors**

to the Shareholders of J. & J. Denholm Limited

We have audited the accounts on pages 10 to 27 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 1998 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

191 West George Street  
GLASGOW  
G2 2LB

19 March 1999

## Group profit and loss account

for the year ended 31 December 1998

Notes	1998 £'000	Restated 1997 £'000
<b>Turnover:</b> Group and share of joint ventures	104,336	108,222
1 Less: share of joint ventures' turnover	(7,938)	(7,056)
<b>1 Group turnover</b>	<b>96,398</b>	<b>101,166</b>
Cost of sales	(95,321)	(99,405)
<b>Gross profit</b>	<b>1,077</b>	<b>1,761</b>
3 Other operating expenses (net)	(562)	(689)
<b>Group operating profit</b>	<b>515</b>	<b>1,072</b>
Share of joint ventures' operating profit	724	425
4 Share of associates' operating profit	1,181	775
<b>Total operating profit before net financial income and taxation</b>	<b>2,420</b>	<b>2,272</b>
5 Profit on sale of interest in fishing vessel	1,998	—
6 Financial income (net)		
Group	763	650
Joint ventures	(98)	(99)
Associates	(395)	(168)
<b>1 Profit on ordinary activities before taxation</b>	<b>4,688</b>	<b>2,655</b>
7 Tax on profit on ordinary activities	(767)	(891)
<b>Profit on ordinary activities after taxation</b>	<b>3,921</b>	<b>1,764</b>
24 Minority interests	7	(7)
<b>8, 23 Profit for the financial year</b>	<b>3,928</b>	<b>1,757</b>
9, 23 Dividends on equity shares	(797)	(756)
<b>Retained profit for the year</b>	<b>3,131</b>	<b>1,001</b>

## Group statement of total recognised gains and losses

for the year ended 31 December 1998

Notes	1998 £'000	Restated 1997 £'000
8 Profit for the financial year	3,928	1,757
Exchange difference arising on translation of foreign equity investments	(43)	106
Unrealised surplus on revaluation of listed fixed asset investments	161	122
<b>Total recognised gains and losses relating to the year</b>	<b>4,046</b>	<b>1,985</b>
Prior year adjustment (note 23)	32	—
<b>Total gains and losses recognised since last annual report and accounts</b>	<b>4,078</b>	<b>1,985</b>

The accounting policies and notes on pages 13 to 27 form part of these accounts.

# Group and Company balance sheets

at 31 December 1998

Notes	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
<b>Fixed assets</b>				
10 Goodwill	2,362	2,043	—	—
11 Tangible assets	41,304	18,260	221	209
12 Investments in joint ventures				
Share of gross assets	4,125	4,586	—	—
Share of gross liabilities	(2,567)	(2,847)	—	—
	<u>1,558</u>	<u>1,739</u>	<u>—</u>	<u>—</u>
13 Investments in associates	5,727	4,653	—	—
14 Listed investments	2,483	2,322	2,483	2,322
15 Unlisted investments	463	454	19,668	19,115
	<u>53,897</u>	<u>29,471</u>	<u>22,372</u>	<u>21,646</u>
<b>Current assets</b>				
16 Stocks	2,546	3,392	3	3
17 Debtors due within one year	23,998	23,215	3,338	4,180
18 Cash at bank and in hand	10,933	12,348	1,845	1,237
	<u>37,477</u>	<u>38,955</u>	<u>5,186</u>	<u>5,420</u>
19 <b>Creditors:</b> amounts falling due within one year	(22,287)	(21,889)	(1,415)	(1,464)
<b>Net current assets</b>	<u>15,190</u>	<u>17,066</u>	<u>3,771</u>	<u>3,956</u>
<b>Total assets less current liabilities</b>	<u>69,087</u>	<u>46,537</u>	<u>26,143</u>	<u>25,602</u>
19 <b>Creditors:</b> amounts falling due after more than one year	(22,195)	(3,265)	(4,404)	(5,731)
<b>Provisions for liabilities and charges</b>				
21 Deferred taxation	(2,543)	(2,208)	—	—
<b>Net assets</b>	<u>44,349</u>	<u>41,064</u>	<u>21,739</u>	<u>19,871</u>
<b>Capital and reserves</b>				
22 Called up share capital	1,022	1,022	1,022	1,022
23 Profit and loss account	42,756	39,668	20,295	18,588
23 Revaluation reserve	422	261	422	261
23 <b>Shareholders' funds</b>	<u>44,200</u>	<u>40,951</u>	<u>21,739</u>	<u>19,871</u>
24 <b>Minority interests</b>	<u>149</u>	<u>113</u>	<u>—</u>	<u>—</u>
<b>Total capital employed</b>	<u>44,349</u>	<u>41,064</u>	<u>21,739</u>	<u>19,871</u>

Approved by the Board on 19 March 1999

J. S. Denholm, Director

J. D. D. Brown, Director

The accounting policies and notes on pages 13 to 27 form part of these accounts.

# Group statement of cash flows

for the year ended 31 December 1998

Notes	1998		1997 Restated	
	£'000	£'000	£'000	£'000
28 <b>Net cash inflow from operating activities</b>		3,877		4,303
<b>Dividends received from joint ventures</b>		449		52
<b>Dividends received from associates</b>		16		292
<b>Returns on investments and servicing of finance</b>				
Interest received	734		633	
Interest paid	(31)		(43)	
Interest element of finance lease payments	(7)		(15)	
Dividends received from investments	67		75	
		763		650
<b>Taxation</b>		(702)		(925)
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets	(26,822)		(3,179)	
Sale of tangible fixed assets	1,312		318	
Grants received	—		344	
		(25,510)		(2,517)
<b>Acquisitions and disposals</b>				
29 Purchase of businesses	(912)		(720)	
Purchase of associates	(1,329)		(617)	
Purchase of fixed asset investments	(33)		—	
Loan to associates	—		(200)	
Loan to associates repaid	339		—	
Loan from associates	—		1,823	
Loan to joint venture repaid	150		—	
5 Sale of associates	2,673		769	
		888		1,055
<b>Equity dividends paid</b>		(756)		(736)
<b>Net cash (outflow)/inflow before financing</b>		(20,975)		2,174
<b>Financing</b>				
Cash inflow from increase in loans		19,678		—
Capital element of finance lease payments		(67)		(98)
31 <b>(Decrease)/Increase in cash</b>		(1,364)		2,076

The accounting policies and notes on pages 13 to 27 form part of these accounts.

# Accounting policies

## Accounting convention

The principal accounting policies are summarised below. They have all been adopted consistently throughout the year and the preceding year, with the exception noted in the Associates policy below which gives rise to the prior year adjustment, explained in Note 23.

## Basis of Accounting

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

The Group accounts consolidate the accounts of J. & J. Denholm Ltd and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold during the year are included as from or up to the date on which control passed. Associates and joint ventures are accounted for as noted below.

## Goodwill

Goodwill arising on the purchase of subsidiaries, joint ventures, associates and businesses is capitalised and written off on a straight line basis over its useful economic life, which is between five and a maximum of ten years. Provision is made for any impairment.

## Tangible fixed assets

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	—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. Other grants are credited to the profit and loss account as the related expenditure is incurred.

## Investments

Unlisted fixed asset investments are shown at cost less provision for impairment. Listed fixed asset investments are revalued annually.

## Joint Ventures

In the Group accounts investments in joint ventures are accounted for using the gross equity method. The consolidated profit and loss account includes the Group's share of joint venture profits less losses while the Group's share of gross assets and gross liabilities are shown in the consolidated balance sheet.

## Associates

In the Group accounts investments in associates are accounted for using the net equity method. The consolidated profit and loss account includes the Group's share of associates' profits less losses while the Group's share of net assets is shown in the consolidated balance sheet.

Associates include the Group's interest 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. In accordance with FRS9—Associates and Joint Ventures—the accounts of associates are prepared either to 31 December or to a date not more than three months prior to 31 December. In accordance with FRS10—Goodwill and Intangible Assets—intangible assets in the form of fishing licences are amortised on consolidation to write-down their historic cost on a straight line basis over 15 years. This amortisation is included within the associate results. The adoption of these Financial Reporting Standards is a change in accounting policy which has necessitated the adjustment of comparative numbers and a prior year adjustment which is shown in note 23. The adjustment of comparative numbers primarily reflects the reclassification of the Group's share of the profit before tax of associates from the Group operating result to separately disclose associate and joint venture operating results and interest payable.

Goodwill arising on the acquisition of associates is accounted for in accordance with the policy set out above. Any unamortised balance of goodwill is included in the carrying value of the investment in associates.

## 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.

## Long Term Contracts

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the net sales value of the work done less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included as long term contract balances in stock.

## Taxation

Provision is made for deferred taxation, using the liability method, on 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. Corporation tax payable is provided on taxable profits at the current rate.

## 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 the profit and loss account as incurred.

## Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities are translated at the exchange rate ruling on the balance sheet date or, if appropriate, at the forward contract rate.

The results of foreign operations are translated at average rates of exchange and their balance sheets at the rates ruling at the balance sheet date. Exchange differences resulting from the retranslation of net investments in foreign branches and companies, net of any exchange gain or loss arising as a consequence of hedging operations, are dealt with in reserves. All other exchange differences are included in the profit and loss account.

## Leases

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 the shorter of the lease period and 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) The value of work carried out in respect of long term contracts during the year including amounts not invoiced
- (e) Invoiced sales of all other activities

(ii) Analysis of turnover

	1998 £'000	1997 £'000
<b>Group turnover</b>		
Area of activity:		
Shipowning	1,545	1,469
Ship management	15,941	15,983
Shipping services	41,476	41,949
Seafoods	27,785	33,317
Industrial services	9,651	8,448
	<u>96,398</u>	<u>101,166</u>
Geographical area:		
United Kingdom	74,517	79,627
Other areas	21,881	21,539
	<u>96,398</u>	<u>101,166</u>
<b>Joint venture turnover</b>		
Area of activity:		
Shipowning	4,026	3,092
Ship management	3,659	3,730
Shipping services	253	234
	<u>7,938</u>	<u>7,056</u>
Geographical area:		
United Kingdom	3,688	3,926
Other areas	4,250	3,130
	<u>7,938</u>	<u>7,056</u>
(iii) Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation	2,923	2,748
Amortisation of goodwill (including associates)	562	489
Drydocking costs	(120)	142
Impairment write down of fixed assets	103	—
Payments under operating leases		
—Land and buildings	973	943
—Plant and machinery	61	129
Government grants	(121)	(44)
Hire of plant and machinery	701	609
Auditors' remuneration—audit	148	161
—non audit	71	69
	<u>7,938</u>	<u>7,056</u>

## 2 Employees

### (i) Average monthly number of employees by activity:

	1998 Number	1997 Number
Shipowning	41	37
Ship management	519	436
Shipping services	251	264
Seafoods	280	308
Industrial services	211	185
Administration	22	20
	<u>1,324</u>	<u>1,250</u>

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 principal.

### (ii) Costs of employment:

	1998 £'000	1997 £'000
Wages and salaries	19,181	17,818
Social security costs	1,468	1,390
Pension costs (note 27)	973	1,006
	<u>21,622</u>	<u>20,214</u>

Pension costs have been credited with £403,000 (1997—£403,000) arising from variations in pension costs, in accordance with SSAP24 ("Accounting for Pension Costs"), which were identified by the most recent actuarial valuation. These variations are being amortised over eleven years, the average remaining service life of current employees.

### (iii) Directors' emoluments:

	1998 £'000	1997 £'000
Remuneration		
The remuneration of the Directors was as follows:		
Fees to Non-executive Directors	58	79
Emoluments	304	275
	<u>362</u>	<u>354</u>
Highest paid Director (included above)	<u>127</u>	<u>111</u>

Included in Directors' emoluments is £8,000 (1997—£Nil) 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 (1997—£11,000) which were receivable by them in respect of outside directorships.

### Pensions

The number of Directors who accrued benefits in The Denholm Pension Scheme (Defined Benefits) during 1998 was 3 (1997—3). The accrued pension benefit of the highest paid Director at 31 December 1998 was £40,000.

## 3 Other operating expenses (net)

	1998 £'000	1997 £'000
Administrative expenses	790	916
Other operating items	(228)	(227)
	<u>562</u>	<u>689</u>

**4 Share of associates' operating profit**

	1998	1997
	£'000	£'000
Share of operating profits	1,219	785
Amortisation of goodwill	(38)	(10)
	<u>1,181</u>	<u>775</u>

**5 Exceptional profit on sale of interest in fishing vessel**

The exceptional gain of £1,998,000 (1997—nil) arises from the insurance proceeds received following the loss at sea of a fishing vessel owned in partnership with others by the Group together with proceeds from the sale of fishing licence, track records and quota relating to the boat. No tax is required to be provided in respect of this item. This income is included within sale of associates in the cash flow statement.

**6 Financial income (net)**

	1998	1997
	£'000	£'000
Dividends and interest:		
Fixed asset investments—unlisted	67	75
Fixed asset investments—listed	61	59
Short-term deposits	705	574
	<u>833</u>	<u>708</u>
Interest payable	(563)	(325)
	<u>270</u>	<u>383</u>
Analysed as follows:		
Group	763	650
Joint ventures	(98)	(99)
Associates	(395)	(168)
	<u>270</u>	<u>383</u>

**7 Tax on profit on ordinary activities**

	1998	1997
	£'000	£'000
UK Corporation tax at 31% (1997—31½%)—current	123	560
—deferred	503	(5)
Release of deferred tax provision arising from reduction in corporation tax rate	—	(60)
	<u>626</u>	<u>495</u>
Tax credits attributable to dividends received	12	15
Foreign taxes	8	89
Joint ventures	164	101
Associates	166	247
	<u>976</u>	<u>947</u>
Adjustments in respect of prior years—corporation tax	(1)	(32)
—deferred tax	(168)	10
—foreign taxes	(40)	(34)
	<u>767</u>	<u>891</u>

The charge to UK Corporation tax includes taxation arising on the revaluation of gilts.



## 8 Profit for the financial year

	1998	1997
	£'000	£'000
Group	2,846	1,172
Joint ventures	462	225
Associates	620	360
	<u>3,928</u>	<u>1,757</u>

## 9 Dividends on equity shares

	1998	1997
	£'000	£'000
Interim dividend 48p per share (1997—48p)	491	491
Final dividend 30p per share (1997—26p)	306	265
	<u>797</u>	<u>756</u>

## 10 Goodwill

	Cost	Amortisation	Net Book
	£'000	£'000	Amount
Group			£'000
At 1 January 1998	3,249	(1,206)	2,043
Additions	843	—	843
Disposals	(62)	62	—
Charge for year	—	(524)	(524)
	<u>4,030</u>	<u>(1,668)</u>	<u>2,362</u>

Goodwill additions in the year arise from the purchase of the business and assets of a fuel supplier in Mallaig and the business and assets of Matthew Taylor Ltd, a ships' agency business based on the Forth.

	£'000	£'000
Consideration: cash paid, including acquisition costs		916
Tangible fixed assets	56	
Debtors and prepayments	28	
Cash	4	
	<u>88</u>	
Creditors and accruals	(15)	
	<u>73</u>	
Fair value of net assets acquired		73
Goodwill		<u>843</u>

The fair value of net assets acquired is equal to book value. The goodwill arising in the year is being amortised over a period of 5 to 10 years.

# 11 Tangible fixed assets

Group	Land and buildings £'000	Vessels £'000	Other assets £'000	Total £'000
Cost				
At 1 January 1998	9,368	9,557	15,709	34,634
Additions	1,389	21,433	4,056	26,878
Disposals	—	—	(2,819)	(2,819)
At 31 December 1998	10,757	30,990	16,946	58,693
Depreciation				
At 1 January 1998	1,173	7,488	7,713	16,374
Charge for year	230	252	2,441	2,923
Impairment write down	—	103	—	103
On disposals	—	—	(2,011)	(2,011)
At 31 December 1998	1,403	7,843	8,143	17,389
Net book amounts				
At 31 December 1998	9,354	23,147	8,803	41,304
At 31 December 1997	8,195	2,069	7,996	18,260

Included in land and buildings is an amount of £462,000 in respect of assets currently under construction. Included in other assets are items of plant and equipment held under finance leases with a net book value of £49,000 (1997—£153,000). Depreciation on these assets in the year amounted to £19,000 (1997—£54,000).

Company	Land and buildings £'000	Other assets £'000	Total £'000
Cost			
At 1 January 1998	101	319	420
Additions	—	98	98
Disposals	—	(43)	(43)
At 31 December 1998	101	374	475
Depreciation			
At 1 January 1998	31	180	211
Charge for year	2	67	69
On disposals	—	(26)	(26)
At 31 December 1998	33	221	254
Net book amounts			
At 31 December 1998	68	153	221
At 31 December 1997	70	139	209

## Group and Company

The net book amount of land and buildings comprises:

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Freehold property	6,122	6,071	—	—
Lease with more than 50 years unexpired	1,369	353	—	—
Lease with less than 50 years unexpired	1,863	1,771	68	70
	9,354	8,195	68	70

## 12 Investments in joint ventures

	Share of net tangible assets £'000	Loans to joint ventures £'000	Loans from joint ventures £'000	Total £'000
<b>Group</b>				
At 1 January 1998 as previously stated	—	—	—	—
Prior year adjustment (Note 23)	3,412	150	(1,823)	1,739
	<u>3,412</u>	<u>150</u>	<u>(1,823)</u>	<u>1,739</u>
Exchange differences	(63)	—	20	(43)
Repaid in year	—	(150)	—	(150)
Share of retained profits	12	—	—	12
	<u>3,361</u>	<u>—</u>	<u>(1,803)</u>	<u>1,558</u>
At 31 December 1998				

The loan from joint ventures represents a loan of \$3,000,000 from Nortide Shipping Ltd. The loan is interest free and repayable on demand.

The Group holds a 10% interest in Serco-Denholm Ltd which has been accounted for as a joint venture, in accordance with the underlying commercial management of the company.

The Group's share of the net assets of joint ventures are summarised below:

	1998 £'000	1997 £'000
Fixed assets	2,115	2,349
Current assets	<u>2,010</u>	<u>2,237</u>
Share of gross assets	<u>4,125</u>	<u>4,586</u>
Liabilities due within one year	1,314	1,439
Liabilities due after one year or more	<u>1,253</u>	<u>1,408</u>
Share of gross liabilities	<u>2,567</u>	<u>2,847</u>
Share of net assets	<u>1,558</u>	<u>1,739</u>

Details of principal joint ventures are shown in Note 34.

### 13 Investments in associates

Group	Share of net tangible assets £'000	Loans to associates £'000	Loan from associates £'000	Goodwill £'000	Total £'000
At 1 January 1998 as previously stated	7,684	489	(1,823)	10	6,360
Prior year adjustment (Note 23)	(3,380)	(150)	1,823	—	(1,707)
	<u>4,304</u>	<u>339</u>	<u>—</u>	<u>10</u>	<u>4,653</u>
Exchange differences	(7)	—	—	—	(7)
Acquired in year	905	—	—	424	1,329
Repaid in year	—	(339)	—	—	(339)
Share of retained profits	643	—	—	—	643
Amortisation of goodwill	—	—	—	(38)	(38)
Disposals in year	(514)	—	—	—	(514)
	<u>5,331</u>	<u>—</u>	<u>—</u>	<u>396</u>	<u>5,727</u>

On 31 August 1998 the Group acquired a 25% interest in the ordinary share capital of Macrae Holdings Ltd for a consideration of £689,000. Analysis of this acquisition is as follows:

	Book value £'000	Adjustments Revaluation £'000	Other £'000	Fair value to Group £'000
Intangible fixed assets	34	(34)	—	—
Tangible fixed assets	1,108	—	—	1,108
Stocks	1,907	—	—	1,907
Debtors and prepayments	3,599	—	16	3,615
	<u>6,648</u>	<u>(34)</u>	<u>16</u>	<u>6,630</u>
Creditors and accruals	(5,091)	—	(21)	(5,112)
Preference shares	(460)	—	—	(460)
	<u>1,097</u>	<u>(34)</u>	<u>(5)</u>	<u>1,058</u>
Fair value of net assets acquired				
Group share 25%				265
Goodwill arising on acquisition				424
				<u>689</u>

Other consideration paid to acquire associates in the year amounted to £640,000 and was in respect of the purchase of interests in fishing vessels, all of which were acquired at fair value.

Disposals in the year primarily comprise disposals of interests in fishing vessels.

The Group's share of the net assets of associates are summarised below:

	1998 £'000	1997 £'000
Fixed assets	9,692	7,551
Current assets	5,374	3,499
Liabilities due within one year	(7,680)	(5,100)
Liabilities due after one year or more	(2,055)	(1,307)
	<u>5,331</u>	<u>4,643</u>
Share of net assets		

The Group's share of associates' turnover in the year amounted to £13,707,000 (1997—£11,768,000). Details of principal associates are shown in Note 34.

**14 Listed investments**  
**Group and Company**

	1998	1997
Valuation	£'000	£'000
At 1 January	2,322	2,200
Revaluation	161	122
	<hr/>	<hr/>
At 31 December	2,483	2,322
	<hr/>	<hr/>

The historical cost of listed investments at 31 December 1998 and 1997 all of which were listed on the UK Stock Exchange, was £2,061,000.

**15 Unlisted fixed asset investments**

	1998	1997
<b>Group</b>	£'000	£'000
Cost	454	454
At 1 January	33	—
Additions	(24)	—
Provided in year	<hr/>	<hr/>
At 31 December	463	454
	<hr/>	<hr/>

Included in unlisted fixed asset investments is the Group's participating interest in 25% of each of the ordinary and preference share capital of Gallic Management Co. Ltd.

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 and accordingly it has not been accounted for as an associate.

The aggregate of share capital and reserves of Gallic Management Co. Ltd at 31 March 1998 was £4,761,000 (1997—£4,555,000) and the profit after tax for the year ended 31 March 1998 was £94,000 (1997—£415,000). Dividends of £20,000 were received during the year (1997—£20,000).

<b>Company</b>	Subsidiary undertakings £'000	Unlisted investments £'000	Total £'000
Cost			
At 1 January 1998	2,042	106	2,148
Additions	1,000	—	1,000
	<hr/>	<hr/>	<hr/>
At 31 December 1998	3,042	106	3,148
	<hr/>	<hr/>	<hr/>
Amounts written off			
At 1 January and 31 December 1998	(31)	—	(31)
	<hr/>	<hr/>	<hr/>
Loans to Group undertakings			
At 1 January 1998	16,998	—	16,998
Repaid in year	(447)	—	(447)
	<hr/>	<hr/>	<hr/>
At 31 December 1998	16,551	—	16,551
	<hr/>	<hr/>	<hr/>
Net book amounts			
At 31 December 1998	19,562	106	19,668
	<hr/>	<hr/>	<hr/>
At 31 December 1997	19,009	106	19,115
	<hr/>	<hr/>	<hr/>

During the year the company subscribed for an additional one million ordinary shares of £1 each in Denholm Industrial Services (Holdings) Ltd.

Details of principal subsidiary undertakings are shown in Note 34.

**16 Stocks**

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Finished goods and goods for resale	2,222	2,850	—	—
Other	324	542	3	3
	<u>2,546</u>	<u>3,392</u>	<u>3</u>	<u>3</u>

**17 Debtors**

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade debtors	18,212	18,890	—	—
Other debtors	3,604	2,591	27	214
Prepayments and accrued income	2,008	1,734	124	268
Corporation tax recoverable	174	—	—	—
Dividends receivable	—	—	1,000	—
Amounts due from Group undertakings	—	—	2,187	3,698
	<u>23,998</u>	<u>23,215</u>	<u>3,338</u>	<u>4,180</u>

**18 Cash at bank and in hand**

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Cash and bank balances	7,593	8,907	1,845	1,237
Short-term funds held on behalf of clients	3,340	3,441	—	—
	<u>10,933</u>	<u>12,348</u>	<u>1,845</u>	<u>1,237</u>

**19 Creditors**

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Bank loans	808	—	—	—
Trade creditors	9,757	9,258	57	270
Amounts due to Group undertakings	—	—	—	6
Current corporation tax	10	436	—	—
Other taxes and Social Security costs	901	1,057	497	408
Proposed dividends	797	756	797	756
Other creditors	6,138	6,513	—	—
Accruals and deferred income	3,855	3,818	64	24
Obligations under finance leases	21	51	—	—
	<u>22,287</u>	<u>21,889</u>	<u>1,415</u>	<u>1,464</u>

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Amounts falling due after more than one year:				
Deferred pension credit	2,342	1,770	—	—
Bank loans (note 20)	18,870	—	—	—
Accruals and deferred income	967	1,442	—	—
Amounts due to Group undertakings	—	—	4,404	5,731
Obligations under finance leases	16	53	—	—
	<u>22,195</u>	<u>3,265</u>	<u>4,404</u>	<u>5,731</u>

## 20 Bank loans

	Group	
	1998	1997
	£'000	£'000
Amounts falling due:		
In one year or less on demand	808	—
In more than one year but less than two years	1,001	—
In more than two years but less than five years	3,253	—
In more than five years	14,616	—
	<u>19,678</u>	<u>—</u>
Less: included in creditors:		
Amounts falling due within one year	(808)	—
	<u>18,870</u>	<u>—</u>
Details of loans not wholly repayable within five years are as follows:		
Secured loans of US\$6,000,000	3,608	—
Secured loan of Yen 3,015,776,250	16,070	—
	<u>19,678</u>	<u>—</u>

Both loans are secured by a fixed charge over M.V. Andorinha. They are repayable by instalments and are fully repayable on 30 December 2013. The interest rate covering the period to 30 April 2001 has been fixed for the US dollar loan at 7.2% and for the Yen loan at 2.72%. Thereafter, interest rates on both loans will be 1.2% above LIBOR.

## 21 Deferred taxation

	1998	1997
	£'000	£'000
At 1 January	2,208	2,263
Charge/(release) in year	503	(5)
Release arising from change in corporation tax rate	—	(60)
Adjustments in respect of prior years	(168)	10
At 31 December	<u>2,543</u>	<u>2,208</u>

The deferred tax provision comprises:

	Group	
	1998	1997
	£'000	£'000
Excess of capital allowances over depreciation	3,290	1,642
Roll-over of balancing charge on ship	—	1,218
Other timing differences	(145)	(103)
Pension credit	(602)	(549)
	<u>2,543</u>	<u>2,208</u>

There is no unprovided deferred tax at 31 December 1998 or 31 December 1997.

No provision for deferred taxation is required in the Company (1997—£Nil).

## 22 Equity share capital

	Ordinary £1 shares £'000
Authorised share capital	
At 1 January 1998 and 31 December 1998	<u>1,172</u>
Issued, called up and fully paid	
At 1 January 1998 and 31 December 1998	<u>1,022</u>

## 23 Reconciliation of shareholders' funds and movement on reserves

	Share Capital £'000	Profit & Loss Reserve £'000	Revalu- ation Reserve £'000	1998 Total £'000	Restated 1997 Total £'000
<b>Group</b>					
At 1 January as previously stated	1,022	39,636	261	40,919	39,602
Prior year adjustment	—	32	—	32	120
	1,022	39,668	261	40,951	39,722
Profit for the financial year	—	3,928	—	3,928	1,757
Dividend	—	(797)	—	(797)	(756)
Exchange (loss)/gain on foreign equity investments	—	(43)	—	(43)	106
Revaluation of listed investments	—	—	161	161	122
At 31 December	1,022	42,756	422	44,200	40,951

The prior year adjustment arises from a change in the accounting policy for associates as a result of the full adoption of FRS9 "Associates and Joint Ventures" and FRS10 "Goodwill and Intangible Assets".

	Share Capital £'000	Profit & Loss Reserve £'000	Revalu- ation Reserve £'000	1998 Total £'000	1997 Total £'000
<b>Company</b>					
At 1 January	1,022	18,588	261	19,871	19,643
Profit for the year	—	2,504	—	2,504	862
Dividend	—	(797)	—	(797)	(756)
Revaluation of listed investments	—	—	161	161	122
At 31 December	1,022	20,295	422	21,739	19,871

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.

## 24 Minority interests

	1998 £'000
<b>Group</b>	
At 1 January	113
Additions in year	54
Loss on ordinary activities after taxation	(7)
Minority interest acquired in year	(11)
At 31 December	149

## 25 Contingent liabilities

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Contingencies in respect of fishing activities	3,943	2,642	2,700	2,700
Guarantees in respect of Seafoods	—	—	880	906
Guarantees in respect of Shipping Services	275	275	2,550	2,450
Guarantees in respect of Ship Management	—	20	—	20
Contingencies in respect of Ship Management	950	950	950	950
Guarantees in respect of Industrial Services	—	—	124	364
	5,168	3,887	7,204	7,390

The above contingent liabilities have arisen in the ordinary course of business. No provision was considered necessary at the year end as the probability of the liabilities crystallising was considered remote.

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



## 26 Financial commitments

	Group	
	1998 £'000	1997 £'000
Authorised and contracted capital expenditure	2,304	10

Annual commitments under non-cancellable operating leases amounted to:

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Land and Buildings				
Lease expiring:				
Within one year	149	445	—	—
Within two to five years	443	191	32	32
More than five years	81	76	—	—
	<u>673</u>	<u>712</u>	<u>32</u>	<u>32</u>
Plant and machinery				
Lease expiring:				
Within one year	19	73	—	—

## 27 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 1 July 1997 and related to service by members up to that date.

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 £17,260,000 and the actuarial value of the assets was sufficient to cover 116% of the benefits based on projected salaries which had accrued to members.

The surplus disclosed by the valuation will be eliminated from the fund by the year 2004 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 eleven years, the average remaining service life of current employees.

The Group makes contributions to industry wide schemes, the assets of which are generally held in separate trust funds.

### (ii) Defined contribution

The Group operates several defined contribution schemes, the assets of which are generally held in separate trust funds. Contributions are determined with due regard to industry norms and local practice.

The pension cost represents contributions payable by the Group and amounted to £129,000

(1997—£119,000)

## 28 Reconciliation of operating profit to net cash inflow from operating activities

	1998 £'000	1997 £'000
Operating profit	515	1,072
Depreciation	2,923	2,748
Impairment write down of fixed assets	103	—
Amortisation of goodwill	524	479
Profit on sale of tangible fixed assets	(504)	(62)
Profit on sale of investments in associates	(161)	(427)
Bad debt provision decrease	(129)	(166)
Decrease/(increase) in stocks	846	(327)
(Increase)/decrease in debtors	(452)	1,182
(Decrease)/increase in creditors	(318)	59
Increase/(decrease) in deferred pension credit	572	(211)
Government grant amortisation	(66)	(44)
Provisions against investments	24	—
<b>Net cash inflow from operating activities</b>	<b>3,877</b>	<b>4,303</b>

**29 Purchase of businesses**

	1998	1997
	£'000	£'000
Cash consideration	916	720
Cash at bank and in hand acquired	(4)	—
	<u>912</u>	<u>720</u>

**30 Analysis of net debt**

	At 1 January 1998	Cash flow	Exchange movements	At 31 December 1998
	£'000	£'000	£'000	£'000
Cash at bank and in hand	8,907	(1,364)	50	7,593
Bank loans	—	(19,678)	—	(19,678)
	<u>8,907</u>	<u>(21,042)</u>	<u>50</u>	<u>(12,085)</u>
Obligations under finance leases	(104)	67	—	(37)
	<u>8,803</u>	<u>(20,975)</u>	<u>50</u>	<u>(12,122)</u>

**31 Reconciliation of net cash flow to movement in net debt**

	1998	1997
	£'000	£'000
(Decrease)/increase in cash in the year	(1,364)	2,076
Cash inflow from increase in loans	(19,678)	—
Cash outflow from decrease in finance lease financing	67	98
Translation difference	50	31
	<u>(20,925)</u>	<u>2,205</u>
Movement in net debt in the year	<u>8,803</u>	<u>6,598</u>
Net funds at 1 January		
	<u>(12,122)</u>	<u>8,803</u>

**32 Related party transactions**

There were no transactions with the Directors of J. & J. Denholm Ltd other than those disclosed in note 2. The Group is involved in a joint venture with Serco plc through Serco-Denholm Ltd, a facilities management company, in which the Group's investment is 10%. During the year Turner & Hickman Limited, a subsidiary of the Group, provided purchasing services to Serco-Denholm Ltd supplying goods to the value of £690,000. In addition Serco-Denholm Ltd paid £46,000 to other Denholm subsidiaries in respect of vessel maintenance services. At 31 December 1998 amounts due by Serco-Denholm Ltd to Turner & Hickman Ltd amounted to £104,000.

The Group holds a number of interests in fishing vessels which are accounted for as associates. Denholm Fishselling Ltd also act as agents to these vessels and £2,347,000 of the Group turnover arises from commission earned on fish sales and from chandlery sales to them. At 31 December 1998 debts due from these related parties totalled £715,000 which is included within trade debtors. Included within trade creditors is £385,000 in respect of amounts due to these fishing vessels. Denholm Fishselling Ltd also provides limited guarantees in respect of vessels' bank overdrafts. This liability is included within contingent liabilities at note 25.

**33 Post Balance Sheet Event**

On 12 March 1999 the sale of M.V. Broompark was completed for a gross value of \$3,075,000, the carrying value included on the balance sheet.

#### 34 Principal subsidiary undertakings, joint ventures and associates.

		Country of Registration/Incorporation
<b>Shipowning</b>	*Denholm Shipping Company Ltd	England
	The Denholm Line Steamers Ltd	Scotland
<b>Ship Management</b>	*Denholm Ship Management (Holdings) Ltd	Scotland
	Denholm Ship Management Ltd	Scotland
	Denholm Management Services (HK) Ltd	Hong Kong
	Oceanair Travel Ltd	Hong Kong
	Serco-Denholm Ltd (10%) [Joint Venture]	England
<b>Shipping Services</b>	*Denholm Agency Holdings Ltd	Scotland
	Denholm Shipping Services Ltd	Scotland
	Denholm International Freight Ltd	England
	Petrasco Services Ltd	Scotland
<b>Seafoods</b>	*Denholm Seafoods Ltd	Scotland
	Denholm Fishselling Ltd	Scotland
	Cawoods (Fishcurers) Ltd	Scotland
	Alexander Buchan Ltd	Scotland
<b>Industrial Services</b>	*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. In all cases the Group's voting rights in subsidiaries equate to the respective percentage interest in ordinary shares.

In addition to the above the Group has an interest in 62 fishing vessels which are held by Denholm Fishselling Ltd and are accounted for as associates.

## Notice of meeting

Notice is hereby given that the 83rd Annual General Meeting of J. & J. Denholm Limited will be held at Inter-City House, 80 Oswald Street, Glasgow on 17 May 1999 at 10.30am for the following purposes:

### *ORDINARY BUSINESS*

1. To approve the Directors' report and accounts for the year ended 31 December 1998.
2. To declare the dividends as recommended by the Directors.
3. To re-elect J. F. S. Parker as a Director.
4. To re-elect D. J. Harris as a Director.
5. To re-appoint Arthur Andersen as auditors and to authorise the Directors to fix their remuneration.

By Order of the Board on 19 March 1999

J. F. S. PARKER  
Company Secretary