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PERFORMANCE SAILCRAFT EUROPE LIMITED

31 December 1985

Price Waterhouse



DIRECTORS' REPORT

The directors submit their report and audited accounts for the fifteen month period ended 31 December 1985.

PRINCIPAL ACTIVITIES

The principal activities of the company is the exploitation of the "Laser" and "Laser II" sailboats and "Laser Shell" rowing boats as well as the sale of related spares and accessories.

TRADING RESULTS

The trading loss for the fifteen months to 31 December 1985 was £98,612 on a turnover of £2,660,233 (1 January 1984 to 30 September 1984 profit £27,268 on turnover of £1,620,785).

No dividend is proposed, and the loss has been deducted from capital and reserves at 31 December 1985.

An extraordinary gain arose of £102,296 following repayment of the debenture in connection with the acquisition of the company's shares by Gavel Securities Limited on 25 July 1985. An amount equal to this has been transferred to a distributable reserve. Details can be found in note 5 to the accounts.

FIXED ASSETS

On 25 July 1985 the company sold and leased back its freehold factory premises previously acquired in March 1984 for a consideration of £71,450. No other significant asset changes took place during the year and details are in note 8 to the accounts.

HOLDING COMPANY

On 25 July 1985 the ordinary share capital was acquired by Gavel Securities Limited.

DIRECTORS

JML Stone	-	Chairman resigned 25 July 1985
TW Coventry	-	
HVL Stone	-	Resigned 25 July 1985
HG Simmerson	-	Resigned 25 July 1985
PACH Phipps		
JDT Greenall	-	Chairman appointed 18 September 1985
CF Nichols	-	Appointed 18 September 1985

DIRECTORS (CONTINUED)

In accordance with the Articles of Association, retirement by rotation does not apply.

The above named directors had no interests in the shares of the company at 1 October 1984 nor at 31 December 1985.

TW Coventry, PACH Phipps and JDT Greenall were directors of Gavel Securities Limited, the holding company, at 31 December 1985 and their shareholdings in that company are disclosed in the accounts of that company at 31 December 1985.

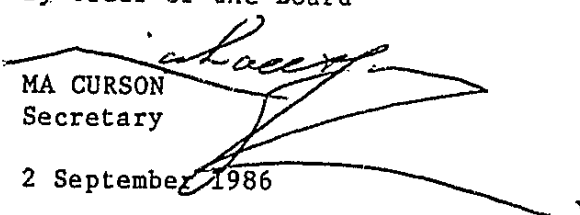
TAXATION STATUS

The company is not a close company under the provisions of the Income and Corporation Taxes Act 1970.

AUDITORS

The auditors, Price Waterhouse have indicated their willingness to be re-appointed and a resolution to that effect will be proposed at the Annual General Meeting.

By Order of the Board


MA CURSON
Secretary

2 September 1986

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF
PERFORMANCE SAILCRAFT EUROPE LIMITED

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

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1985 and of its result and source and application of funds for the period then ended and comply with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE

Chartered Accountants

2 September 1986

PROFIT AND LOSS ACCOUNT
FOR THE FIFTEEN MONTHS ENDED 31 DECEMBER 1985

	Notes	Fifteen months ended 31 December 1985	Nine months ended 30 September 1984
TURNOVER	2	2,660,233	1,620,785
Cost of sales		<u>1,841,143</u>	<u>1,151,766</u>
GROSS PROFIT		819,090	469,019
Administrative expenses		(909,453)	(406,923)
Profit on disposal of freehold property		30,693	-
Interest payable and similar charges		<u>(38,942)</u>	<u>(34,828)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION	3	(98,612)	27,268
EXTRAORDINARY GAIN	5	<u>102,296</u>	<u>-</u>
PROFIT FOR THE FINANCIAL PERIOD		<u>£3,684</u>	<u>£27,268</u>
STATEMENT OF RETAINED RESERVES - PROFIT AND LOSS ACCOUNT			
Deficit on profit and loss at beginning of period:			
As previously reported		(41,199)	(43,802)
Prior year adjustment	7	<u>(123,326)</u>	<u>(147,991)</u>
As restated		(164,525)	(191,793)
Retained profit for the financial period		<u>3,684</u>	<u>27,268</u>
DEFICIT ON PROFIT AND LOSS AT END OF PERIOD		<u>(£160,841)</u>	<u>(£164,525)</u>

BALANCE SHEET - 31 DECEMBER 1985

	Notes	31 December 1985	30 September 1984 as restated (see note 7)
FIXED ASSETS			
Tangible assets	8	119,338	123,580
CURRENT ASSETS			
Stocks	9	448,918	343,950
Debtors	10	322,290	242,419
Cash at bank and in hand		9,819	406
		781,027	586,775
CREDITORS (amounts falling due within one year)			
Bank overdrafts	11	71,629	317,142
Payments received on account		-	591
Trade creditors		325,699	110,945
Amounts owed to group companies		35,746	-
Other creditors including taxation and social security	12	60,600	33,243
Accruals and deferred income		40,100	46,201
		533,774	508,122
NET CURRENT ASSETS		247,253	78,653
TOTAL ASSETS LESS CURRENT LIABILITIES		366,591	£202,233
CREDITORS (amounts falling due after more than one year)			
	13	477,432	316,758
CAPITAL AND RESERVES			
Called up share capital	15	50,000	50,000
Profit and loss account		(160,841)	(164,525)
		£366,591	£202,233

Approved by the Board on 2 September 1986
and signed on its behalf

DIRECTORS

JDT Greenall
TW Coventry

JDT Greenall

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SOURCE AND APPLICATION OF FUNDS
31 DECEMBER 1985

	Fifteen months ended 31 December 1985	Nine months ended 30 September 1984 as re-stated (see note 7)
SOURCE OF FUNDS		
(Loss)/profit on ordinary activities	(98,612)	27,268
Adjustments for items not involving the movement of funds:		
Depreciation and amortisation	55,518	16,992
(Profit)/loss on disposal of fixed assets	(29,518)	7,426
	<u>26,000</u>	<u>24,418</u>
Funds absorbed by operations	(72,612)	51,686
FUNDS FROM OTHER SOURCES		
Loan from ultimate holding company	464,462	-
Proceeds of disposal of fixed assets	100,950	5,200
Proceeds of issue of share capital	<u>-</u>	<u>49,998</u>
	<u>565,412</u>	<u>55,198</u>
	492,800	106,884
APPLICATION OF FUNDS		
Purchase of fixed assets:		
Tangible	122,708	98,634
Part repayment of loan	<u>214,462</u>	<u>33,240</u>
	<u>337,170</u>	<u>131,874</u>
CHANGE IN WORKING CAPITAL	155,630	(24,990)
Increase in stock	104,968	73,279
Increase/(decrease) in debtors	79,871	(29,270)
(Increase)/decrease in creditors	<u>(284,135)</u>	<u>176,767</u>
INCREASE/(DECREASE) IN NET LIQUID FUNDS	<u>(99,296)</u>	<u>220,776</u>
Decrease/(increase) in bank overdrafts net of cash	<u>£254,926</u>	<u>(£245,766)</u>

NOTES TO THE ACCOUNTS
31 DECEMBER 1985

1 ACCOUNTING POLICIES

(1) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. The provision for depreciation is calculated on the net cost of fixed assets in order to write off such cost over the estimated useful lives by annual instalments as follows:

Plant, machinery, fixtures and fittings	15% straight line
Moulds	33 1/3% straight line
Office equipment	20% straight line
Motor vehicles	25% straight line

(2) Stocks

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

(3) Basis of Accounting

The financial statements are prepared under the historical cost accounting convention.

Foreign currency

- (4) Foreign currency transactions have been translated at market rates at the time of transactions. Foreign currency held at the year end has been translated at the rate applicable to the balance sheet date.

(5) Hire Purchase

Assets acquired under a hire purchase agreement have been capitalised under fixed assets. The corresponding liability is shown in creditors under creditors due within one year and creditors due after more than one year.

2 TURNOVER

- (1) Turnover represents the invoiced value of goods supplied by the company excluding value added tax.

(2) Geographical market

	1985	1984
United Kingdom	1,010,140	496,100
Europe	1,208,565	1,023,750
Middle and Far East	171,855	38,850
North America	-	51,200
Others	269,673	10,885
	<u>£2,660,233</u>	<u>£1,620,785</u>

NOTES TO THE ACCOUNTS
31 DECEMBER 1985 (CONTINUED)

- 3 PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION is stated after the following amounts:

	<u>1985</u>	<u>1984</u>
(1) Management charge to Gavel Securities Limited	27,000	-
Depreciation	55,518	16,992
Auditors' remuneration	6,700	6,000
Interest payable on bank borrowings repayable within five years	35,852	19,628
Emoluments of the directors of the company (note 4)	12,655	13,450
Staff costs:		
Wages and salaries	422,241	231,553
Social security costs	44,575	26,600
Interest on trademark loan	-	8,282
Hire of plant, machinery and vehicles	11,745	12,402
Rental payments under operating lease	7,801	-
Finance charges payable under hire purchase contracts	1,545	-
Profit on disposal of freehold property	<u>30,693</u>	<u>-</u>

- (2) The average number of employees employed during the period October 1984 to December 1985 was 40 (January to September 1984 - 40).

4 EMOLUMENTS OF DIRECTORS

	<u>1985</u>	<u>1984</u>
(1) Fees	<u>£Nil</u>	<u>£Nil</u>
(2) The emoluments, excluding pension contributions of the directors were as follows:		
Chairman	Nil	Nil
Highest paid director	6,827	6,325
Other directors in bands:		
£Nil	3	1
£1 - £5,000	1	1
£5,000 - £10,000	<u>1</u>	<u>-</u>

NOTES TO THE ACCOUNTS
31 DECEMBER 1985 (CONTINUED)

5 EXTRAORDINARY GAIN

The extraordinary gain arose from the repayment of the debenture from London & Sheffield Industrial Finance Company Limited on 25 July 1985 in advance of the due date of 27 July 1989 at a discount of £102,296. On repayment of the loan Gavel Securities Limited provided £414,462 by way of unsecured loan, interest free, with no repayment terms (see note 13). The directors propose to transfer an amount equal to the discount received on redemption to profit and loss account.

6 TAXATION

No taxation charge arises during the period (1984 £Nil).

7 PRIOR YEAR ADJUSTMENT

The policy followed in accordance with Trade mark user rights, which in prior years was written off over a period of five years was changed during the period ended 31 December 1985 and such expenditure is now written off in the year in which it is incurred. It is considered that the new policy will give a fairer presentation of the results of the financial position of the company. Trade mark user rights with a cost of £164,434 and a written down value of £123,326 were carried forward at 30 September 1984.

In restating the results for 1984 the depreciation charge for that year has been reduced by £24,665 in respect of depreciation charged on Trade mark user rights.

NOTES TO THE ACCOUNTS
31 DECEMBER 1985 (CONTINUED)

8 TANGIBLE ASSETS

	Freehold	Plant, Fixtures and fittings machinery	Moulds	Office equipment	Motor vehicles	Total
<u>Original cost</u>						
At 30 September 1984	71,450	21,810	38,189	5,703	10,635	147,787
Additions	-	22,870	37,781	7,879	54,178	122,708
Disposals	(71,450)	-	-	(1,000)	(2,000)	(74,450)
At 31 December 1985	-	44,680	75,970	12,582	62,813	196,045
<u>Depreciation</u>						
At 30 September 1984	2,143	3,515	14,617	1,426	2,506	24,207
Charge for year	-	8,009	28,502	2,764	16,243	55,518
Disposals	(2,143)	-	-	(250)	(625)	(3,018)
At 31 December 1985	-	11,524	43,119	3,940	18,124	76,707
<u>Net book value</u>						
At 31 December 1985	£-	£33,156	£32,851	£8,642	£44,689	£119,338
At 30 September 1984	£69,307	£18,295	£23,572	£4,277	£8,129	£123,580

The net book value of fixed assets of £119,338 includes an amount of £40,633 in respect of assets held under hire purchase contracts.

DIRECTORS INTEREST IN CONTRACTS

During the year freehold land and buildings with a net book value of £69,307 were sold to JML Stone, HVL Stone and another for £100,000 and then leased back at £16,500 per annum. At the time JML Stone and HVL Stone were directors of the company.

During the period £9,791 was paid to Phoenix Services in which TW Coventry is a partner.

NOTES TO THE ACCOUNTS
31 DECEMBER 1985 (CONTINUED)

9 STOCKS

	<u>1985</u>	<u>1984</u>
Raw materials and consumables	41,811	53,022
Work in progress	14,167	5,102
Finished goods and goods for resale	<u>392,940</u>	<u>285,826</u>
	<u>£448,918</u>	<u>£343,950</u>

The replacement cost of stock is not materially different from the amounts stated above.

10 DEBTORS

	<u>1985</u>	<u>1984</u>
Trade debtors	255,438	214,375
Amounts owed by group companies	-	(3,362)
Other debtors	38,453	3,000
Prepayments and accrued income	<u>28,399</u>	<u>28,406</u>
	<u>£322,290</u>	<u>£242,419</u>

11 BANK OVERDRAFT

The bank overdraft is secured by a fixed charge over all fixed assets and a floating charge over all the other assets of the Company.

12 OTHER CREDITORS

	<u>1985</u>	<u>1984</u>
Taxation and Social Security payments due	32,376	21,057
Obligations under hire purchase contracts	<u>21,725</u>	<u>-</u>

13 CREDITORS (amounts falling due after more than one year)

	<u>1985</u>	<u>1984</u>
Debenture from Brook Shaw Limited	-	316,758
Loan from Gavel Securities Limited	464,462	-
Obligations under hire purchase contracts	<u>12,970</u>	<u>-</u>
	<u>£477,432</u>	<u>£316,758</u>

The debenture was repaid on 25 July 1985 in advance of the due date, 27 July 1989. It did not bear interest and was secured by a charge on the company's assets ranking after the charges secured by the company's bankers (note 11). On repayment of the loan Gavel Securities Limited provided £414,462 by way of unsecured loan interest free with no repayment terms. It also acquired the whole of the company's share capital on that date. In December 1985 a further £50,000 was advanced by Gavel Securities Limited to the company under the same terms.

NOTES TO THE ACCOUNTS
31 DECEMBER 1985 (CONTINUED)

14 COMMITMENTS UNDER OPERATING LEASES

At 31 December 1985 the company had annual commitments under operating leases as set out below:

	1985 Land and buildings	1984 Land and buildings
Operating lease which expires in the second to fifth years inclusive	£16,500	-

The lease is non-cancellable until 1 July 1988 from which time it can be cancelled in writing with six months notice.

15 SHARE CAPITAL

	1985	1984
Ordinary shares of £1 each:		
Authorised	£50,000	£50,000
Allotted and fully paid	£50,000	£50,000

16 DEFERRED TAXATION

The directors consider no provision for deferred taxation is required. The potential liability to deferred taxation, calculated on the liability method at 30% was:

	1985	1984
Accelerated capital allowances	13,588	13,500
Short term timing differences	(5,224)	(4,000)
Losses carried forward	(8,364)	(9,500)
Excess	£-	£-

In addition tax losses amounting to £110,000 (1984 - £17,000) (subject to agreement by the Inland Revenue) are available for carry forward against future profits.

NOTES TO THE ACCOUNTS
31 DECEMBER 1985 (CONTINUED)

17 CAPITAL COMMITMENTS

As at 31 December 1985 there was a capital commitment of £9,000 (1984 £6,500). Contracts approved by the Board of Directors but not contracted amounted to £52,288.

18 CONTINGENT LIABILITIES

There is a contingent liability of £2,223 (1984 £3,123) in respect of documentary credits.

The company has guaranteed up to £350,000 in respect of its holding company Gavel Securities Limited and its fellow subsidiary Preci's Ninety Nine Limited as security for the group overdraft facility.

19 ULTIMATE HOLDING COMPANY

On 25 July 1985 Gavel Securities Limited, which was incorporated in England, became the ultimate holding company. Gavel Securities Limited has indicated its intention to provide financial support for the foreseeable future.