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A&F APPLIEDORE LIMITED

ACCOUNTS -- 15 MONTHS ENDED 31 DECEMBER 1987

TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS

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ASP APPLIEDORE LIMITED

DIRECTORS' REPORT

FOR THE 15 MONTHS ENDED 31 DECEMBER 1987

The directors present their report on the affairs of the company, together with the accounts and auditors' report for the 15 months ended 31 December 1987.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW:

The principal activities of the company continue to be the provision of specialised services to the shipping, shipbuilding, shiprepair and engineering industries.

During the period the company's ultimate holding company changed when the company was acquired by Highland Participants plc.

The results for the 15 months to 31 December 1987 are considered satisfactory.

CHANGE OF ACCOUNTING REFERENCE DATE:

The company has changed its accounting reference date from 30 September to 31 December to coincide with that of Highland Participants plc.

RESULTS AND DIVIDENDS:

Results and dividends are as follows -

Retained profit, at 30 September 1986	£ 61,252
Profit for the financial period	342,582
Dividends proposed	(275,000)
Transfer from revaluation reserve	17,962
	-----
Retained profit, at 31 December 1987	£ 146,796
	=====

DIRECTORS:

The directors who served during the period are as shown below.

J.D.F. Craggs  
M.R. Hargroves  
A.W. Allan  
G. Huthart  
R.G. Woodhead  
P.E. Rans  
J.R. Neilson  
F.A.C. Slie  
P.B. Sands  
J.D. Caulfield

Mr. M.R. Hargroves served as a director until his death on 20 December 1987. Mr. R.G. Woodhead served as a director until his resignation on 31 July 1987, Mr. J.D. Caulfield was appointed a director on 13 February 1987 and resigned on 30 September 1987.

In addition the following changes took place on 12 February 1988:

Appointments

G.J. Parker (Chairman)  
D.S. McLean (Vice Chairman)  
D. Peters  
F. Ravenscroft  
P.J. Keen

Resignations

P.A.C. Shee

The directors retiring at the Annual General Meeting are G.J. Parker, D.S. McLean, D. Peters, F. Ravenscroft and P.J. Keen who, being eligible, offer themselves for re-election.

**DIRECTORS' INTERESTS:**

The directors held no interests in the ordinary shares of the company either at 31 December 1987 or at 30 September 1986.

The directors' interests in the shares of the ultimate holding company, Highland Participants plc, at 31 December 1987, were as follows:

	<u>Number of ordinary shares of 25p each</u>
J.D.F. Craggs	164,280
A.W. Allan	2,880
G. Huthart	25,006
P.E. Rans	78,036
R.B. Sands	1,421

**FIXED ASSETS:**

Information relating to changes in tangible fixed assets is given in Note 10 to the accounts.

**AUDITORS:**

Kidsons resigned as auditors during the period. Arthur Andersen & Co. were appointed by the directors to fill the casual vacancy arising.

The directors will place a resolution before the annual general meeting to re-appoint Arthur Andersen & Co. as auditors for the ensuing year.

**BY ORDER OF THE BOARD:**

I.E. Bilsland  
Secretary

20 April 1988

# Arthur Andersen & Co.

Earl Grey House, 75-85 Grey Street  
Newcastle-upon-Tyne NE1 6FF

To the members of A&P APPLIEDORE LIMITED.

We have audited the accounts set out on pages 4 to 17 in accordance with approved Auditing Standards.

In our opinion, the accounts, which have been prepared under the historical cost convention as modified by the revaluation of leasehold premises, give a true and fair view of the state of affairs of the company at 31 December 1987 and of the profit and source and application of funds for the 15 month period then ended, and comply with the Companies Act 1985.

*Arthur Andersen & Co.*

20 April 1988

# A&P APPELDRE LIMITED

## PROFIT AND LOSS ACCOUNT

FOR THE 15 MONTHS ENDED 31 DECEMBER 1987

		15 months ended <u>Note</u> <u>31 December 1987</u>	12 months ended <u>30 September 1986</u> (Note 2)
TURNOVER	3	£ 4,690,986	£ 3,730,852
Cost of sales		3,948,274	3,179,489
OPERATING PROFIT		----- 742,712	----- 551,363
Investment income	4	37,457	71,171
Interest payable and similar charges	5	56,210	47,217
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	----- 723,959	----- 575,317
Taxation	8	381,377	220,164
PROFIT FOR THE FINANCIAL PERIOD		----- 342,582	----- 355,153
Dividends	9	275,000	365,000
RETAINED PROFIT (ACCUMULATED DEFICIT) FOR THE FINANCIAL PERIOD	17	----- £   67,582	----- £   (9,847)

The accompanying notes are an integral part of this profit and loss account.

A&P APPLIEDORE LIMITED

BALANCE SHEET -- 31 DECEMBER 1987

	<u>Note</u>	<u>31 December</u> <u>1987</u>	<u>30 September</u> <u>1986</u> (Note 2)
<b>FIXED ASSETS</b>			
Tangible assets	10	£ 447,703	£ 512,090
Investments	11	99	99
		-----	-----
		447,802	512,189
		-----	-----
<b>CURRENT ASSETS</b>			
Debtors	12	3,763,661	2,851,005
Short term deposits		79,457	516,331
Cash at bank and in hand		126,473	27,148
		-----	-----
		3,969,591	3,394,484
CREDITORS: Amounts falling due within one year	13	4,014,705	3,530,943
		-----	-----
NET CURRENT LIABILITIES		(45,114)	(136,459)
		-----	-----
TOTAL ASSETS LESS CURRENT LIABILITIES		402,688	375,730
		-----	-----
CREDITORS: Amounts falling due after more than one year	14	151,813	178,099
		-----	-----
PROVISIONS FOR LIABILITIES AND CHARGES	15	-	14,338
		-----	-----
NET ASSETS		£ 250,875	£ 183,293
		=====	=====
<b>CAPITAL AND RESERVES</b>			
Called-up share capital	16	£ 10,000	£ 10,000
Revaluation reserve	17	94,079	112,041
Profit and loss account	17	146,796	61,252
		-----	-----
TOTAL CAPITAL EMPLOYED		£ 250,875	£ 183,293
		=====	=====

SIGNED ON BEHALF OF THE BOARD:

J.R. Neilson       )  
                          ) Directors  
A.W. Allan         )

20 April 1988



The accompanying notes are an integral part of this balance sheet.

ASP APPLIEDORE LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE 15 MONTHS ENDED 31 DECEMBER 1987

	15 months ended 31 December 1987	12 months ended 30 September 1986 (Note 2)
<b>SOURCE OF FUNDS</b>		
Profit for the financial period	£ 342,582	£ 355,153
Add (deduct) items not involving cash flow during the period		
- depreciation	118,734	109,469
- (profit) loss on disposal of tangible fixed assets	(6,173)	3,344
- decrease in deferred taxation	(14,338)	(9,691)
	-----	-----
Total funds from operations	440,805	458,275
Proceeds from disposal of tangible fixed assets	26,324	27,020
Loans received	-	100,000
Decrease in net current assets, as shown below	37,150	193,325
	-----	-----
	£ 504,279	£ 778,620
	=====	=====
<b>APPLICATION OF FUNDS</b>		
Purchase of tangible fixed assets	£ 74,498	£ 170,043
Repayment of loan	5,000	7,142
Repayment of loans from lessors	59,781	31,435
Ordinary dividend paid	365,000	570,000
	-----	-----
	£ 504,279	£ 778,620
	=====	=====
<b>INCREASE (DECREASE) IN NET CURRENT ASSETS</b>		
Debtors	£ 912,656	£ 119,248
Short term deposits	(436,874)	151,030
Creditors falling due within one year	(612,257)	(453,796)
	-----	-----
	(136,475)	(183,518)
Movement in net liquid funds		
- cash at bank and in hand	99,325	(9,807)
	-----	-----
	£ (37,150)	£ (193,325)
	=====	=====

The accompanying notes are an integral part of this statement.

A&P APPLIEDORE LIMITED

NOTES TO ACCOUNTS -- 31 DECEMBER 1987

1. ACCOUNTING POLICIES:

The principal accounting policies are -

a. Basis of accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of leasehold premises.

b. Foreign currency

In the accounts, transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction are included as an exchange gain or loss in the profit and loss account.

c. Turnover

Turnover comprises the value of sales (excluding VAT and trade discounts) of services provided in the normal course of business.

d. Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation has been calculated on the liability method. Deferred tax is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

e. Pension costs

It is the general policy of the company to fund pension liabilities on a going concern basis, on the advice of external actuaries, by payments to independent trusts and insurance companies.

Independent actuarial valuations on a going concern basis are carried out every 3 years. Contributions are calculated so as to produce a substantially level percentage of the current and future pensionable payroll. Valuation deficits or surpluses are funded or realised on a prudent basis over a period not exceeding employees' average remaining service lives.



f. Tangible fixed assets

Leasehold premises are shown at valuation as set out in note 10. Other fixed assets are shown at cost.

Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of fixed assets on a straight line basis over their estimated useful lives as follows -

Long leaseholds	-	Term of lease
Short leaseholds	-	Period to next rent review
Plant and machinery	-	4 - 5 years

g. Finance leases

Assets held under finance leases are initially reported at the fair value of the asset with an appropriate liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability and allocated to cost of sales.

h. Investments

Fixed asset investments are shown at cost. Consolidated accounts have not been prepared as the company is a wholly owned subsidiary of another company.

Income from investments is included in the accounts of the period in which it is receivable.

i. Revaluation reserve

Surpluses arising on the revaluation of individual fixed assets are credited to a non-distributable reserve known as the revaluation reserve. Where depreciation charges are increased following a revaluation, an amount equal to such increase is transferred annually from this reserve to the profit and loss account as a movement on reserves. On disposal of a revalued fixed asset any revaluation surplus corresponding to the item is transferred to the profit and loss account.

2. COMPARATIVE FIGURES:

The financial statements for the year ended 30 September 1986 were audited and reported on, without qualification, by Kidsons, Chartered Accountants.

3. SEGMENT INFORMATION:

Contributions to group turnover were as follows:

	15 months ended 31 December 1987	12 months ended 30 September 1986
By activity:		
Consultancy	£ 2,683,746	£ 2,268,305
Management	2,007,240	1,462,547
	-----	-----
	£ 4,690,986	£ 3,730,852
	=====	=====

By geographical area:

United Kingdom	£ 1,037,283	£ 1,122,625
Rest of Europe	1,259,104	677,009
North America	322,978	500,610
Central, South America and Caribbean	838,508	408,799
Africa	128,436	44,114
Asia	1,065,975	960,745
Australia	38,702	16,950
	-----	-----
	£ 4,690,986	£ 3,730,852
	=====	=====

4. INVESTMENT INCOME:

	15 months ended 31 December 1987	12 months ended 30 September 1986
Dividend receivable from subsidiary company	£ -	£ 20,000
Interest receivable	37,457	51,171
	-----	-----
	£ 37,457	£ 71,171
	=====	=====

5. INTEREST PAYABLE AND SIMILAR CHARGES:

	15 months ended 31 December 1987	12 months ended 30 September 1986
On bank loans and overdraft and other loans, repayable within five years, not by instalments	£ 10,830	£ 1,703
On all other loans	45,380	45,514
	-----	-----
	£ 56,210	£ 47,217
	=====	=====

Included in the above is the interest element of charges payable under finance leases amounting to £30,284 (1986 - £32,841).

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION:

Profit on ordinary activities before taxation is stated after charging (crediting)-

	15 months ended 31 December 1987	12 months ended 30 September 1986
Exceptional items		
- contract provisions	£ -	£ 250,000
- write off (back) of losses incurred by a fellow subsidiary	(3,661)	2,176
(Profits) losses on disposal of tangible fixed assets	(6,173)	3,344
Depreciation	118,734	109,469
Auditors' remuneration	32,692	20,606
Staff costs (Note 7)	1,349,533	1,148,808
	<u>1,349,533</u>	<u>1,148,808</u>

7. STAFF COSTS:

Particulars of employee costs (including executive directors) are as shown below -

	15 months ended 31 December 1987	12 months ended 30 September 1986
Employee costs during the period amounted to -		
Wages and salaries	£ 1,106,507	£ 964,913
Social security costs	84,142	66,684
Other pension costs	158,884	117,211
	-----	-----
	£ 1,349,533	£ 1,148,808
	<u>1,349,533</u>	<u>1,148,808</u>

The average weekly number of persons employed by the company during the period was as follows -

	15 months ended 31 December 1987	12 months ended 30 September 1986
Management and consultancy	46	52
Directors' remuneration -	<u>46</u>	<u>52</u>

Directors' remuneration was paid in respect of directors of the company as follows -

Emoluments (including pension contributions)	£ 301,422	£ 243,031
	<u>301,422</u>	<u>243,031</u>

The directors' remuneration shown above (excluding pensions and pension contributions) included -

Chairman	£	-	£	-
	=====		=====	
Highest paid director	£	39,758	£	34,860
	=====		=====	

Number of other directors receiving emoluments between -

Up to £5,000	1	1
£15,001 - £20,000	1	-
£20,001 - £25,000	-	3
£25,001 - £30,000	-	4
£30,001 - £35,000	2	-
£35,001 - £40,000	5	-
	=====	=====

8. TAX ON PROFIT ON ORDINARY ACTIVITIES:

The tax charge is based on the profit for the period and comprises -

	15 months ended 31 December 1987	12 months ended 30 September 1986
Corporation Tax at 35% (1986 - 37.5%)	£ 295,715	£ 231,250
Deferred taxation (Note 15)	(14,338)	(9,691)
Overseas taxation	165,026	87,000
	-----	-----
	446,403	308,559
Less: relief for overseas taxation	(65,026)	(87,000)
	-----	-----
	381,377	221,559
Adjustment in respect of prior year	-	(1,395)
	-----	-----
	£ 381,377	£ 220,164
	=====	=====

9. DIVIDENDS:

	15 months ended 31 December 1987	12 months ended 30 September 1986
Final dividend proposed	£ 275,000	£ 365,000
	=====	=====

10. TANGIBLE FIXED ASSETS:

a. The movement in the period was as follows -

	<u>Land and buildings</u>			<u>Plant and machinery</u>	<u>Total</u>
	<u>Freehold</u>	<u>Long leasehold</u>	<u>Short leasehold</u>		
COST OR VALUATION					
Beginning of period	£ 103,201	£ 200,000	£ 10,000	£ 564,366	£ 877,567
Additions	480	-	-	74,018	74,498
Disposals	-	-	-	(56,208)	(56,208)
	-----	-----	-----	-----	-----
End of period	103,681	200,000	10,000	582,176	895,857
	-----	-----	-----	-----	-----
DEPRECIATION					
Beginning of period	-	7,246	6,250	351,981	365,477
Charge	-	3,623	3,125	111,986	118,734
Disposals	-	-	-	(36,057)	(36,057)
	-----	-----	-----	-----	-----
End of period	-	10,869	9,375	427,910	448,154
	-----	-----	-----	-----	-----
Net book value, beginning of period	£ 103,201	£ 192,754	£ 3,750	£ 212,385	£ 512,090
	-----	-----	-----	-----	-----
Net book value, end of period	£ 103,681	£ 189,131	£ 625	£ 154,266	£ 447,703
	-----	-----	-----	-----	-----

At 31 December 1987, the net book value of tangible fixed assets includes £95,407 (1986 - £145,853) of leased plant and machinery. The depreciation charge on this leased plant and machinery in the period ended 31 December 1987 was £96,843 (1986 - £53,007).

b. Basis of valuation

Freehold land and buildings and plant and machinery are shown at cost. Long and short leasehold land and buildings were valued in 1984 on an open market basis.

c. Original cost and accumulated depreciation based on cost, of land and buildings included at valuation:

	<u>1987</u>		<u>1986</u>	
	<u>Long leasehold</u>	<u>Short leasehold</u>	<u>Long leasehold</u>	<u>Short leasehold</u>
Original cost	£ 114,060	£ -	£ 114,060	£ -
Depreciation based on cost	18,383	-	16,550	-
	-----	-----	-----	-----
	£ 95,677	£ -	£ 97,510	£ -
	-----	-----	-----	-----

11. FIXED ASSET INVESTMENT:

The fixed asset investment comprises an investment in a subsidiary company.

The company owns 99% of the ordinary shares of A&P Appledore Operations Limited, a company incorporated in England, whose principal activity is the provision of specialised services to the shipping, shipbuilding, shiprepair and engineering industries.

12. DEBTORS:

	<u>1987</u>	<u>1986</u>
Amounts falling due within one year -		
Trade debtors	£ 599,471	£ 921,644
Amounts owed by holding company and fellow subsidiaries	2,021,829	1,146,440
Amounts owed by subsidiary	7,890	-
Amounts owed by related companies	2,075	250
Tax recoverable	238,865	173,838
Other debtors	62,185	27,854
Prepayments and accrued income	784,146	363,378
Dividends receivable	-	20,000
	-----	-----
	3,716,461	2,653,404
Amounts falling due after more than one year -		
Trade debtors	47,200	197,601
	-----	-----
	£ 3,763,661	£ 2,851,005
	-----	-----

13. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	1987	1986
Obligations under finance leases (See Note 14)	£ 49,443	£ 87,938
Bank loans (see Note 14)	10,000	10,000
Trade creditors	750,389	727,788
Amounts owed to holding company and fellow subsidiaries	2,668,298	1,975,253
Other creditors		
- UK corporation tax payable	70,954	142,546
- social security and PAYE	67,497	68,049
- other creditors	29,573	23,874
Dividends payable	275,000	365,000
Accruals and deferred income	93,551	130,495
	£ 4,014,705	£ 3,530,943

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

	1987	1986
Obligations under finance leases	£ 66,813	£ 88,099
Bank loans at 2% over LIBOR repayable by instalments over 10 years from 30 September 1986	85,000	90,000
	£ 151,813	£ 178,099

Analysis of borrowings

Borrowings are repayable as follows -

	1987	1986
Between one and two years	£ 10,000	£ 10,000
Between two and five years	30,000	30,000
Over five years	45,000	50,000
Amounts falling due after more than one year	85,000	90,000
Amounts falling due within one year (Note 13)	10,000	10,000
	£ 95,000	£ 100,000

### *Obligations under Finance leases*

The company has the following rental obligations under finance leases:-

	<u>1987</u>	<u>1986</u>
Within one year	£ 62,624	£ 110,735
Between one and two years	41,190	59,232
Between two and five years	33,698	42,682
	-----	-----
	137,512	212,649
Less: future finance charges	(21,256)	(36,612)
	-----	-----
	£ 116,256	£ 176,037
	=====	=====

These are included in the accounts as follows -

	<u>1987</u>	<u>1986</u>
Amounts falling due within one year	£ 49,443	£ 87,938
Amounts falling due after more than one year	66,813	88,099
	-----	-----
	£ 116,256	£ 176,037
	=====	=====

### 15. PROVISIONS FOR LIABILITIES AND CHARGES:

This comprises deferred taxation attributable to -

	<u>1987</u>	<u>1986</u>
Excess of tax allowances over book depreciation of fixed assets	£ -	£ 14,338
	=====	=====

The movement on deferred taxation comprises -

	<u>1987</u>	<u>1986</u>
Beginning of period	£ 14,338	£ 24,029
Credited to profit and loss in respect of operations	(14,338)	(9,691)
	-----	-----
End of period	£ -	£ 14,338
	=====	=====



Unprovided deferred taxation is as follows:

Taxes that would arise if property  
were to be disposed of at its  
revalued amount

£	13,000	£	13,000
---	--------	---	--------

16. CALLED-UP SHARE CAPITAL:

	<u>1987</u>	<u>1986</u>
Authorised, issued and fully paid -		
10,000 ordinary shares of £1 each	£ 10,000	£ 10,000

17. RESERVES:

Of total reserves shown in the balance sheet, the following amounts  
are regarded as distributable or otherwise.

	<u>1987</u>	<u>1986</u>
Distributable		
- profit and loss account	£ 146,796	£ 61,252
Non-distributable		
- revaluation reserve	94,079	112,041
	£ 240,875	£ 173,293

The movement on reserves during the period was as follows -

	<u>Profit and loss account</u>	<u>Revaluation reserve</u>
Beginning of period	£ 61,252	£ 112,041
Retained profit for the financial period	67,582	-
Amortisation of revaluation surplus	4,915	(4,915)
Adjustment in respect of prior year	13,047	(13,047)
End of period	£ 146,796	£ 94,079

18. GUARANTEES AND OTHER FINANCIAL COMMITMENTS:

a. Capital commitments

At the end of the period there were no capital commitments (1986 - £Nil) .

b. Lease commitments

The company had annual commitments in respect of lease agreements for land and buildings expiring as follows -

	<u>1987</u>	<u>1986</u>
Within one year	£ 19,500	£ -
Between two - five years	-	19,500
Over five years	1,600	1,600
	-----	-----
	£ 21,100	£ 21,100
	=====	=====

c. Pension arrangements

The group maintains a pension scheme covering substantially all its employees over 25 years old. Actuarial valuations of the scheme on both a discontinuance and a going concern basis at 6 April 1987 confirmed that the Scheme was fully funded on both bases at that date.

19. ULTIMATE HOLDING COMPANY:

The company's ultimate parent company is Highland Participants plc., incorporated in Scotland.