

A&P Southampton Limited
Annual report and accounts
for the year ended 31 December 2002

Registered Number 1883082



A&P Southampton Limited

Annual report and accounts for the year ended 31 December 2002

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A&P Southampton Limited

Directors and advisors

Directors

D P Parry

K P Thompson

Secretary

K P Thompson

Auditors

PricewaterhouseCoopers LLP

89 Sandyford Road

Newcastle upon Tyne

NE99 1PL

Solicitors

DLA

Fountain Precinct

Balm Green

Sheffield

S1 1RZ

Registered Office

Western Avenue

Western Docks

Southampton

SO15 0HH

Registered Number

1883082

Bankers

National Westminster Bank plc

Corporate Banking London

8th Floor

280 Bishopsgate

London

EC2M 4KB

A&P Southampton Limited

Directors' report for the year ended 31 December 2002

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

Principal activity and business review

The principal activity of the company is the provision of ship repair and marine engineering services. The results for the year are shown on page 5.

It is the intention of the directors to continue to develop the business taking into account the prevailing market conditions.

Dividends

The directors do not recommend the payment of a dividend (2001: £Nil)

Directors and their interests

The names of the directors who held office during the year and at the date of this report, were as follows:

M J Smith (resigned 21 June 2002)
D P Parry
K P Thompson

None of the directors had any interests in the company. The interests of the directors in the shares of the ultimate holding company A&P Group Limited, are disclosed in the financial statements of that company, except as shown below.

The following directors had beneficial interests in the shares of the ultimate parent company, A&P Group Limited, as at 31 December:

	2002 Ordinary shares of 10p each Number	2001 Ordinary shares of 10p each Number
D P Parry	40	10

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP will be proposed at the Annual General Meeting.

By order of the board



K P Thompson
Director

30 April 2003

A&P Southampton Limited

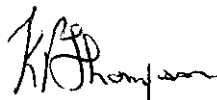
Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adoption of new accounting standards in the year as explained on page 7 under "Accounting policies". They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2002 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board

A handwritten signature in black ink, appearing to read 'K P Thompson', is written over a horizontal line.

K P Thompson
Director

30 April 2003

A&P Southampton Limited

Independent auditors' report to the members of A&P Southampton Limited

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the accounting policies and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1895 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of audit 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, 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 financial statements 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Newcastle upon Tyne

30 April 2003

A&P Southampton Limited

Profit and loss account for the year ended 31 December 2002

	Note	2002 £	2001 £
Turnover	1	10,658,744	10,992,559
Cost of sales		(9,481,497)	(10,389,123)
Gross profit		1,177,247	603,436
Administrative expenses (including exceptional items)		(1,172,638)	(8,249,972)
Operating profit/(loss) before exceptional items		4,609	(709,473)
Exceptional items	2	-	(6,937,063)
Operating profit/(loss)		4,609	(7,646,536)
Interest payable and similar charges	3	(10,000)	-
Loss on ordinary activities before taxation	4	(5,391)	(7,646,536)
Tax on loss on ordinary activities	6	-	745,816
Loss for the year	15	(5,391)	(6,900,720)

All of the activities of the company are continuing.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents.

Statement of total recognised gains and losses for the year ended 31 December 2002

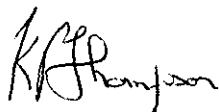
	2002 £	2001 £
Loss for the year	(5,391)	(6,900,720)
Write off of intercompany debt	-	1,602,836
	(5,391)	(5,297,884)

A&P Southampton Limited

Balance sheet as at 31 December 2002

	Note	2002 £	2001 £
Fixed assets			
Tangible assets	7	569,852	538,113
Current assets			
Stocks	8	64,637	103,173
Debtors	9	1,713,411	1,996,586
Cash at bank and in hand	10	48,841	693,997
		1,826,889	2,793,756
Creditors: amounts falling due within one year	11	(2,047,367)	(2,566,054)
Net current (liabilities)/assets		(220,478)	227,702
Total assets less current liabilities		349,374	765,815
Creditors: amounts falling due after more than one year	12	(49,045)	(46,945)
Provisions for liabilities and charges	13	(4,175,444)	(4,588,594)
Net liabilities		(3,875,115)	(3,869,724)
Capital and reserves			
Called up equity share capital	14	1,100	1,100
Share premium account	15	2,870,127	2,870,127
Profit and loss account	15	(6,746,342)	(6,740,951)
Equity shareholders' deficit	16	(3,875,115)	(3,869,724)

The financial statements on pages 5 to 18 were approved by the board of directors on 30 April 2003 and were signed on its behalf by:



K P Thompson
Director

A&P Southampton Limited

Accounting policies

These financial statements are prepared on the going concern basis and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared under the historical cost convention and on a going concern basis.

The validity of the going concern basis depends upon the continuing support of the parent company and the ability of the company to trade profitably through its principal activity.

On this basis the directors consider it appropriate to prepare the financial statements on a going concern basis.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost or valuation of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Short leasehold land and buildings	2%
Plant and machinery	2½ - 33⅓%

Operating and finance lease agreements

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

Stocks

Stocks are stated at the lower of cost and net realisable value. Provision is made for obsolete, slow moving or defective items where appropriate.

Contract balances

Amounts recoverable on contracts are shown at valuation, less amounts invoiced or received. Valuation includes the cost of materials and direct labour, together with attributable profit, estimated to be earned to date. Direct labour hours are used to determine the level of completion for routine and normal ship repair contracts. In circumstances where application of the above policy would unduly accelerate or delay the recognition of profits materially, other direct costs are taken into account. Full provision is made for any known or anticipated losses. The excess of payments received over amounts recorded as turnover is classified under creditors within one year as payments on account.

A&P Southampton Limited

Turnover

Turnover comprises the sales value of goods and services supplied in the normal course of business. Also included in turnover are the values of contracts in progress based on the level of completion. All sales are shown exclusive of Value Added Tax.

Deferred taxation

With effect from 1 January 2002, the company changed its accounting policy on deferred taxation upon the implementation of Financial Reporting Standard No 19. Deferred taxation is now recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. This is with the exception of deferred taxation assets, which are only recognised if it is considered more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted. Previously, provision for deferred taxation was made using the liability method on all material timing differences to the extent that it was considered probable that a liability or asset would crystallise. The impact on the profit and loss account and the balance sheet is £nil.

Pension scheme arrangements

The company operates two defined benefit pension schemes. The funds are valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the schemes.

The company provides no other post-retirement benefits to its employees.

Cash flow statement

The company is a wholly owned subsidiary and is exempt under the terms of Financial Reporting Standard No 1 revised from publishing a cash flow statement.

A&P Southampton Limited

Notes to the financial statements for the year ended 31 December 2002

1 Geographical analysis of turnover by destination

	2002	2001
	£	£
United Kingdom	8,657,377	8,503,627
Rest of Europe	1,131,539	1,709,662
Rest of World	869,828	779,270
	10,658,744	10,992,559

2 Exceptional items

	2002	2001
	£	£
Provision against future lease obligations	-	4,616,484
Fixed asset impairment write-off	-	2,320,579
	-	6,937,063

As a consequence of the group restructuring exercise and fair value review undertaken on 16 August 2001, a provision was recognised against the future lease obligations of the company's principal site which is operated from leasehold premises under a 30 year lease expiring in 2021.

As part of the same review, full provision was made for all of the Company's short leasehold land and buildings.

3 Interest payable and similar charges

	2002	2001
	£	£
Other interest payable	10,000	-

A&P Southampton Limited

4 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	2002	2001
	£	£
Depreciation of tangible fixed assets:		
Owned assets	104,554	174,795
Assets held under finance leases	597	-
Auditors' remuneration for:		
Audit services	12,360	12,001
Other services to the company	3,720	3,597
Hire of plant and machinery – operating leases	73,398	67,881
Hire of other assets – operating leases	488,150	490,240

5 Staff costs

The average weekly number of persons (including executive directors) employed by the company during the year was:

	2002	2001
	Number	Number
Marine	186	204

	2002	2001
	£	£
Staff costs for the above persons:		
Wages and salaries	4,554,312	4,920,693
Social security costs	367,448	404,876
Other pension costs (note 19)	73,825	97,232
	4,995,585	5,422,801

A&P Southampton Limited

Directors' remuneration (including payments made by other group companies) was paid in respect of directors of the company as follows:

	2002	2001
	£	£
Aggregate emoluments	77,232	73,825

Retirement benefits were accruing to two (2001: one) directors under the company's defined benefit scheme.

The emoluments of certain directors, who are also directors of a number of group companies, are borne in full by the principal employing company. No recharge is made as these directors provide services primarily to the principal employer. These directors' emoluments are included in the aggregate of directors' emoluments disclosed in the financial statements of the principal employer.

6 Tax on loss on ordinary activities

(a) Analysis of charge in the year

	2002	2001
	£	£
Current tax:		
UK corporation tax on profits of the period	-	-
Adjustment in respect of previous periods	-	-
Tax losses surrendered to group companies	-	(745,816)
Total current tax	-	(745,816)
Deferred tax:		
Origination and reversal of timing differences	-	-
	-	(745,816)

In 2001, the company surrendered the benefit of tax losses of £2,486,055 to another group company for consideration of £745,816 which was receivable in 2002.

A&P Southampton Limited

(b) Factors affecting tax charge for the year

The tax assessed for the period differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £	2001 £
Loss on ordinary activities before tax	(5,391)	(7,646,536)
Loss on ordinary activities multiplied by standard rate in the UK 30% (2001: 30%)	(1,617)	(2,293,961)
Effects of:		
Permanent differences	6,300	5,509
Excess of capital allowances over depreciation	(2,317)	714,782
Short term timing differences	-	(26,077)
Losses	(2,366)	853,931
Current tax charge for the period	-	(745,816)

Deferred tax

The amounts of deferred tax asset unprovided for in the accounts at the year end were as follows:

	2002 £	2001 £
Excess of tax allowances over depreciation	819,754	822,071
Other timing differences	38,400	38,400
Losses	2,197,802	2,200,168
	3,055,956	3,060,639

These assets have not been provided since, in the opinion of the directors, it is more likely than not that they will be irrecoverable in the short term.

A&P Southampton Limited

7 Tangible fixed assets

	Short leasehold land and buildings	Plant and machinery	Total
	£	£	£
Cost			
At 1 January 2002	2,920,818	1,368,161	4,288,979
Additions	29,512	107,378	136,890
At 31 December 2002	2,950,330	1,475,539	4,425,869
Depreciation			
At 1 January 2002	2,915,227	835,639	3,750,866
Charge for the year	1,372	103,779	105,151
At 31 December 2002	2,916,599	939,418	3,856,017
Net book amount			
At 31 December 2002	33,731	536,121	569,852
At 31 December 2001	5,591	532,522	538,113

The net book value of tangible fixed assets includes an amount of £47,137 (2001: £Nil) in respect of assets held under finance leases.

8 Stocks

Stocks comprise raw materials and consumables.

A&P Southampton Limited

9 Debtors

	2002	2001
	£	£
Trade debtors	326,364	415,799
Amounts recoverable on contracts	406,890	415,305
Amounts owed by group undertakings	175,152	173,072
Amounts owed by ultimate parent company	577,784	745,816
Other debtors	94,184	117,639
Prepayments and accrued income	133,037	128,955
	1,713,411	1,996,586

10 Cash

Cash includes balances held in respect of performance bonds totalling £21,437.

11 Creditors: amounts falling due within one year

	2002	2001
	£	£
Trade creditors	1,041,490	1,253,867
Payments on account	45,928	233,953
Amounts owed to group undertakings	246,701	441,562
Other taxation and social security	205,944	232,567
Other creditors	49,485	45,407
Obligations under finance leases	8,556	-
Accruals and deferred income	449,263	358,698
	2,047,367	2,566,054

A&P Southampton Limited

12 Creditors: amounts falling due after more than one year

	2002 £	2001 £
Other creditors	29,960	46,945
Obligations under finance leases	19,085	-
	49,045	46,945

13 Provision for liabilities and charges

	Provision for onerous contract £	Pension provision £	Total £
At 1 January 2002	4,476,507	112,087	4,588,594
Charged/(credited) to profit and loss account	(413,150)	43,794	(369,356)
Utilised in year	-	(43,794)	(43,794)
At 31 December 2002	4,063,357	112,087	4,175,444

In 2001 a provision made to the extent that the future earnings in respect of the ship yard was insufficient to cover future obligations relating to non-cancellable leases. The provision is expected to be utilised over the next 22 years.

Expected future cash flows have been discounted using a discount rate of 4.25% to reflect a risk free pre-tax rate. The difference between the actual rental paid and the discounted amount released is charged to the profit and loss account as a finance charge. This amounts to £10,000 (see note 8).

The pension provision results from the difference between amounts recognised as a cost and the amounts paid into the pension scheme. The provision is expected to be utilised over 12 years, being the average service life of the pension scheme members.

A&P Southampton Limited

14 Called up share capital

	2002 £	2001 £
Authorised		
1,100 ordinary shares of £1 each	1,100	1,100
Allotted, called up and fully paid		
1,100 ordinary shares of £1 each	1,100	1,100

15 Share premium account and reserves

	Share premium account £	Profit and loss account £
At 1 January 2002	2,870,127	(6,740,951)
Loss for the year	-	(5,391)
At 31 December 2002	2,870,127	(6,746,342)

16 Reconciliation of movements in equity shareholders' deficit

	2002 £	2001 £
Equity shareholders' (deficit)/funds at 1 January	(3,869,724)	1,428,160
Loss for the year	(5,391)	(6,900,720)
Write off of intercompany debt	-	1,602,836
Equity shareholders' deficit at 31 December	(3,875,115)	(3,869,724)

The write off of intercompany debt related to amounts forgiven as a result of the group restructuring on 16 August 2001. These were identified as funding rather than trading balances.

17 Contingent liabilities

The company has entered into cross guarantees in favour of National Westminster Bank plc regarding bank overdrafts held by other A&P Group Limited group companies which at 31 December 2002 amounted to £Nil.

A&P Southampton Limited

18 Financial commitments

At 31 December 2002 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Plant and machinery	
	2002	2001	2002	2001
	£	£	£	£
Expiring within one year	-	-	14,044	5,236
Expiring between two and five years inclusive	-	-	38,133	51,955
Expiring in over 5 years	502,500	488,150	-	-
	502,500	488,150	52,177	57,191

19 Pension arrangements

(a) Pension costs under SSAP 24

The company participates in the A&P Ship Repairers defined benefit pension scheme providing benefits based on final pensionable pay. The Scheme is funded with the assets being held by the Trustees separately from the assets of the Employer. The pension costs are assessed by a qualified actuary, and are charged to the profit and loss account so as to spread those costs over employees' working lives with the Employer. The pension cost for the year was £43,337 (2001: £65,207). Details of the scheme are disclosed in the consolidated financial statements of A&P Group Limited.

Outstanding contributions of £Nil (2001: £9,423) at the year end are included in the balance sheet under creditors falling due within one year.

Certain of the company's employees are members of the A&P Group defined benefit pension scheme whose principal participating employer is A&P Group Limited. The company's contributions to this scheme are included in the pension profit and loss charge. The pensionable payroll of these employees comprises approximately 20% of the total consolidated pensionable payroll of the scheme. Further details of the scheme are disclosed in the consolidated financial statements of A&P Group Limited. The pension cost for the year was £30,488 (2001: £30,448).

There is a provision for pension costs of £112,087 (2001: £112,087) in the balance sheet for this scheme, arising from the accumulated difference between the contributions paid to the Scheme and corresponding pension costs.

A&P Southampton Limited

(b) Pension disclosures under FRS 17 transitional arrangements

The company participates in the A&P Group Pension Scheme and the A&P Ship Repairers scheme which are both defined benefit group pension schemes. It is not possible to identify the share of the underlying assets and liabilities in the schemes relating to individual participating employers. Consequently, in accordance with FRS17 the company will account for its liability to the fund as if it were a defined contribution scheme and the charge to profit and loss account in future years will represent the actual contribution paid by the company.

No disclosure of the balance sheet position is required. Details of the scheme are included within the disclosure in the financial statements of the parent company A&P Group Limited.

20 Related party transactions

The company has taken advantage of the exemptions available under Financial Reporting Standard No 8 and has not disclosed transactions with companies that are part of the A&P Group Limited group of companies. There are no other transactions requiring disclosure under this standard.

21 Parent companies and controlling parties

The immediate parent undertaking is A&P Ship Repairers Limited. The directors regard A&P Group Limited, which is incorporated in England and Wales as the ultimate parent company and immediate controlling party. Copies of its consolidated financial statements may be obtained from:

Registrar of Companies
Crown Way
Maindy
Cardiff
CF4 3UZ

For the purpose of Financial Reporting Standard No 8, Royal Bank of Scotland Group plc is regarded as the ultimate controlling party by reason of its share holding in A&P Group Limited through its subsidiary Royal Bank Investments Limited.

