

**CLARENCE MARINE
ENGINEERING LIMITED**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 1999



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Company no 2139067

CLARENCE MARINE ENGINEERING LIMITED

FINANCIAL STATEMENTS

For the year ended 31 December 1999

Company registration number: 2139067

Registered office: South Street
Gosport
Hampshire
PO12 1EP

Directors: Non executive M R Wright, ARICS
J E Macmillan

Executive G D Phillips
C R P Withinshaw

Secretary: J E Macmillan

Bankers: Barclays Bank Plc
43/44 High Street
Gosport
Hampshire
PO12 1DN

National Westminster Bank Plc
PO Box 25
130 Commercial Road
Portsmouth
PO1 1ES

Lloyds Bank Plc
23/29 Albion Place
Maidstone
Kent
ME14 5DY

Solicitors: Churchers
28 High Street
Gosport
Hampshire
PO12 1DQ

Auditors: Grant Thornton
Registered auditors
Chartered accountants
Enterprise House
Isambard Brunel Road
Portsmouth
PO1 2RZ

CLARENCE MARINE ENGINEERING LIMITED

FINANCIAL STATEMENTS

For the year ended 31 December 1999

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REPORT OF THE DIRECTORS

The directors present their report together with financial statements for the year ended 31 December 1999.

Principal activities

The company is principally engaged in marine engineering and maintenance, operating from Clarence Wharf, Gosport, where it continues to maintain the group's launches and ferry vessels, private craft and fishing boats.

Business review

There was a profit for the year after taxation amounting to £53,958 (1998: loss £21,246). The directors do not recommend payment of a dividend.

The company will continue to maintain the group's ferries, pontoons and equipment while offering comprehensive boatyard services to yachtsmen and commercial fishermen.

Directors

The present membership of the Board is set out below. All directors served throughout the year apart from as noted. In accordance with the Articles of Association M R Wright retires by rotation and being eligible offers himself for re-election.

The interests of the directors and their families in the shares of the company as at 31 December 1999 and 1 January 1999, or the date of their resignation from the Board if earlier, were as follows:

	Ordinary shares	
	31 December 1999	1 January 1999
C J Solen (resigned 31 October 1999)	-	-
M R Wright, ARICS	-	-
M L Bell, LLB, Notary Public (resigned 31 October 1999)	-	-
J E Macmillan	-	-
G D Phillips	-	-
C R P Withinshaw	-	-
M G Harper, OBE (resigned 31 December 1999)	-	-

The interests of the directors in the shares of the holding company, The Portsmouth Harbour Ferry Company plc, and of other subsidiaries of the holding company, namely Portsea Harbour Company Limited, Gosport Ferry Limited, and Cobham Travel Services Limited are shown in those companies' accounts.

REPORT OF THE DIRECTORS

Directors' responsibilities for the financial statements

Company law requires the directors to prepare financial statements for each financial year which 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. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Year 2000 Compliance

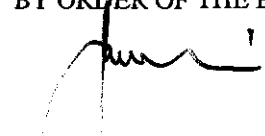
The company reviewed its computer systems for the impact of the Year 2000 date change, prepared an action plan to address the issue and carried out all necessary measures. All systems have continued to operate properly over the Year 2000 date change and through any roll-over procedures that occurred at a latter date.

The issue is complex, and no business can guarantee that there will be no Year 2000 problems. As all businesses are dependant on the compliance of their major customers, suppliers and other trading partners, any impact that has occurred on their systems will affect the company's business to a greater or lesser extent.

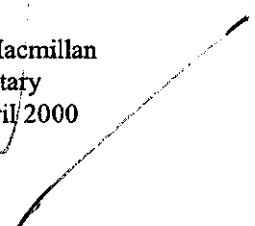
Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD



J E Macmillan
Secretary
7 April 2000



**REPORT OF THE AUDITORS TO THE MEMBERS OF
CLARENCE MARINE ENGINEERING LIMITED**

We have audited the financial statements on pages 4 to 11 which have been prepared under the accounting policies set out on page 4.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

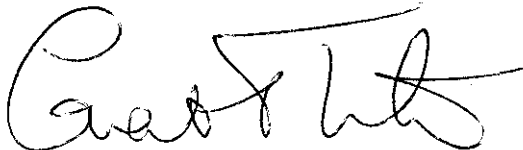
Basis of opinion

We conducted our audit in accordance with United Kingdom 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 as at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

PORTSMOUTH
7 April 2000

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

The principal accounting policies of the company have remained unchanged from the previous year and are set out below.

TURNOVER

Turnover is the total amount receivable by the company for services provided, excluding VAT.

DEPRECIATION

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful lives. The periods generally applicable are:

Plant and machinery	Periods between 5 and 50 years
Motor vehicles	4 years
Fixtures and fittings	Periods between 5 and 10 years

STOCKS

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

DEFERRED TAXATION

Deferred tax is provided for under the liability method using the tax rates estimated to arise when the timing differences reverse and is accounted for to the extent that it is probable that a liability or asset will crystallise.

CONTRIBUTIONS TO PENSION FUNDS

Defined benefit scheme

The pension costs charged against profits are based on actuarial methods and assumptions designed to spread the anticipated pension costs over the service lives of the employees in the scheme, so as to ensure that the regular pension cost represents a substantially level percentage of the current and expected future pensionable payroll. Variations from regular cost are spread over the average remaining service lives of current employees in the scheme.

LEASED ASSETS

All leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight-line basis over the lease term.

CLARENCE MARINE ENGINEERING LIMITED**PROFIT AND LOSS ACCOUNT**

For the year ended 31 December 1999

	Note	1999 £	1998 £
Turnover	1	498,979	514,291
Cost of sales		(261,734)	(329,160)
Gross profit		237,245	185,131
Administrative expenses		(177,514)	(193,429)
Operating profit		59,731	(8,298)
Interest payable and similar charges	2	(106)	(171)
Profit on ordinary activities before taxation	1	59,625	(8,469)
Tax on profit on ordinary activities	4	(5,667)	(12,777)
Profit transferred to reserves	12	53,958	(21,246)

There were no recognised gains or losses other than the profit for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

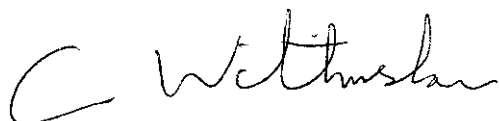
CLARENCE MARINE ENGINEERING LIMITED**BALANCE SHEET AT 31 DECEMBER 1999**

	Note	1999 £	1998 £
Fixed assets			
Tangible assets	5	186,161	202,386
Current assets			
Stocks	6	45,636	56,395
Debtors	7	451,637	68,660
Cash at bank and in hand		425	275
		<u>497,698</u>	<u>125,330</u>
Creditors: amounts falling due within one year	8	<u>(623,983)</u>	<u>(322,684)</u>
Net current liabilities		<u>(126,285)</u>	<u>(197,354)</u>
Total assets less current liabilities		<u>59,876</u>	<u>5,032</u>
Provisions for liabilities and charges	9	<u>(23,170)</u>	<u>(22,284)</u>
		<u>36,706</u>	<u>(17,252)</u>
Capital and reserves			
Called up share capital	11	2,000	2,000
Profit and loss account	12	34,706	(19,252)
Shareholders' funds	13	<u>36,706</u>	<u>(17,252)</u>

The financial statements were approved by the Board of Directors on 7 April 2000

C R P Withinshaw

Director



The accompanying accounting policies and notes form an integral part of these financial statements.

CLARENCE MARINE ENGINEERING LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 1999

1 TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities is stated after:

	1999 £	1998 £
Depreciation:		
Tangible fixed assets, owned	17,342	19,974
Hire of plant and machinery	938	1,948
Other operating lease rentals	30,105	30,910

Auditors' remuneration of £1,500 (1998:£1,500) has been charged in The Portsmouth Harbour Ferry Company plc which relates to this company.

2 INTEREST PAYABLE AND SIMILAR CHARGES

	1999 £	1998 £
Other interest payable	106	171

3 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

	1999 £	1998 £
Wages and salaries	183,541	197,186
Social security costs	18,368	19,465
Other pension costs	3,171	1,853
	205,080	218,504

The average number of employees of the company during the year were as follows:

	1999 Number	1998 Number
Maintenance	9	9
Management	1	2
	10	11

The directors did not receive any remuneration.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

4 TAX ON PROFIT ON ORDINARY ACTIVITIES

	1999 £	1998 £
UK Corporation tax at 20 %	4,781	-
Deferred taxation	886	12,777
	<u>5,667</u>	<u>12,777</u>

Unrelieved tax losses of approximately £25,000 remain available to offset against future taxable trading profits.

5 TANGIBLE FIXED ASSETS

	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Total £
Cost				
At 1 January 1999	295,042	23,369	2,691	321,102
Additions	1,117	-	-	1,117
	<u>296,159</u>	<u>23,369</u>	<u>2,691</u>	<u>322,219</u>
Depreciation				
At 1 January 1999	93,139	23,368	2,209	118,716
Provided in the year	17,017	-	325	17,342
	<u>110,156</u>	<u>23,368</u>	<u>2,534</u>	<u>136,058</u>
Net book amount at 31 December 1999	<u>186,003</u>	<u>1</u>	<u>157</u>	<u>186,161</u>
Net book amount at 31 December 1998	<u>201,903</u>	<u>1</u>	<u>482</u>	<u>202,386</u>

6 STOCKS

	1999 £	1998 £
Engineering spares and materials	45,636	55,535
Short-term work in progress	-	860
	<u>45,636</u>	<u>56,395</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1999

7 DEBTORS

	1999 £	1998 £
Trade debtors	4,406	13,809
Amounts owed by group undertakings	440,477	51,701
Other debtors	123	967
Prepayments and accrued income	6,631	2,183
	<u>451,637</u>	<u>68,660</u>

8 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999 £	1998 £
Bank loans and overdrafts	6,344	8,241
Trade creditors	16,214	24,266
Amounts owed to parent undertaking	577,653	283,320
Corporation tax	4,781	-
Social security and other taxes	5,585	4,082
Accruals and deferred income	13,406	2,775
	<u>623,983</u>	<u>322,684</u>

9 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £
At 1 January 1999	22,284
Provided during the year	886
At 31 December 1999	<u>23,170</u>

10 DEFERRED TAXATION

Deferred taxation provided for in the financial statements is set out below.

	Amount provided 1999 £	1998 £
Accelerated capital allowances	<u>23,170</u>	<u>22,284</u>

CLARENCE MARINE ENGINEERING LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 1999

11 SHARE CAPITAL

	1999 £	1998 £
Authorised 2,000 ordinary shares of £1 each	<u>2,000</u>	<u>2,000</u>
Allotted, called up and fully paid 2,000 ordinary shares of £1 each	<u>2,000</u>	<u>2,000</u>

12 RESERVES

	Profit and loss account £
At 1 January 1999	(19,252)
Retained profit for the year	53,958
At 31 December 1999	<u>34,706</u>

13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1999 £	1998 £
Profit for the financial year	<u>53,958</u>	(21,246)
Net increase in shareholders' funds	53,958	(21,246)
Shareholders' funds at 1 January 1999	(17,252)	3,994
Shareholders' funds at 31 December 1999	<u>36,706</u>	<u>(17,252)</u>

14 PENSIONS**Defined Benefit Scheme**

The company operates a defined benefit pension scheme through its ultimate parent undertaking. The scheme is funded as stated in the accounting policies and was valued by an independent actuary as at 31 July 1996. The cost charged in the profit and loss account for the year, as based upon pension costs for the group as a whole, amounted to £3,171 (1998: £1,853). No further provision is considered necessary. Full details of the actuarial valuation of the scheme are given in the financial statements of the ultimate parent undertaking.

NOTES TO THE FINANCIAL STATEMENTSFor the year ended 31 December 1999

15 LEASING COMMITMENTS

Operating lease payments amounting to £30,105 (1998: £30,105) are due within one year. The leases to which these amounts relate expire as follows:

	1999 Land and buildings £	1998 Land and buildings £
In one year or less	30,105	30,105
	30,105	30,105

16 CAPITAL COMMITMENTS

The company had no capital commitments at 31 December 1999 or 31 December 1998.

17 CONTINGENT LIABILITIES

There were no contingent liabilities at 31 December 1999 or 31 December 1998.

18 ULTIMATE PARENT UNDERTAKING

The directors consider that the ultimate parent undertaking of this company is The Portsmouth Harbour Ferry Company plc, registered in England and Wales.

The Portsmouth Harbour Ferry Company plc is this company's controlling and ultimate controlling related party by virtue of owning 100% of the issued share capital of the company.

The largest and smallest group of undertakings for which group accounts have been drawn up is that headed by The Portsmouth Harbour Ferry Company plc which is registered in England and Wales. Copies of the group accounts can be obtained from The Portsmouth Harbour Ferry Company plc, South Street, Gosport, Hampshire, PO12 1EP.

19 RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary of The Portsmouth Harbour Ferry Company plc, the company is exempt from the requirements of FRS 8 to disclose transactions with other members of the group.