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Chartered Accountants

Stokes House
College Sq. East
Belfast BT1 6DH
Northern Ireland

Larne Harbour Limited

Financial statements

Year ended 31 December 1997

APPROVED FOR ISSUE BY THE BOARD OF DIRECTORS

Larne Harbour Limited

Directors' report and financial statements

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Larne Harbour Limited

Directors and other information

Directors

GDS Dunlop
DP Galway
DH Templeton CBE FCA
F Ledwidge OBE FCA
JH Kearsley

Secretary

DP Galway

Bankers

Northern Bank Limited
19 Main Street
Larne

Solicitors

JW McNinch & Son
2 Cross Street
Larne

Auditors

KPMG
Stokes House
17/25 College Square East
Belfast

Registered office

9 Olderfleet Road
Larne

Company registration number

R 472

Larne Harbour Limited

Directors' report

The directors have pleasure in submitting their Annual Report to the shareholders together with the audited financial statements of the company for the year ended 31 December 1997.

Results and dividends

	£
Profit on ordinary activities after taxation	1,480,517
Retained profit at beginning of year	8,044,677
Dividends paid	(1,317,000)
	<hr/>
Retained profit at end of year	8,208,194
	<hr/>

The dividend paid during the year of £1,317,000 related to an interim dividend for the current financial year. The directors recommend that no final dividend be paid out of profits for the current financial year.

Principal activity

The principal activity of the company is the ownership and administration of the harbour complex at Larne.

There has been no significant change in this activity during the year. The directors consider that in light of the prevailing economic conditions both the results for the year and trading prospects are satisfactory.

Future development

It is the directors' intention to continue the development of the port's facilities. The company is grateful for the continued assistance for capital projects from the European Regional Development Fund.

Directors

The Members of the Board during the year were:

GDS Dunlop
DP Galwey
DR Templeton CBE FRC
Fleet Edge CBE FRC
DR Heanley, appointed 10 June 1997

The directors are not required to retire by rotation.

During the year no director had an interest in the shares of the company.

Larne Harbour Limited

Directors' report *(continued)*

Charitable and political contributions

The company made charitable donations amounting to £5,661 (1996: £1,388). There were no political donations made during the year.

Fixed assets

Details of changes in fixed assets are given in Note 8 to the financial statements.

Auditors

KPMG have expressed their willingness to continue in office as auditors and a resolution for their re-appointment will be proposed at the Annual General Meeting.

By order of the board

DP Galway
Secretary

A handwritten signature in dark ink, appearing to read 'DP Galway', written over a light blue horizontal line.

26 May 1998

Larne Harbour Limited

Statement of directors' responsibilities

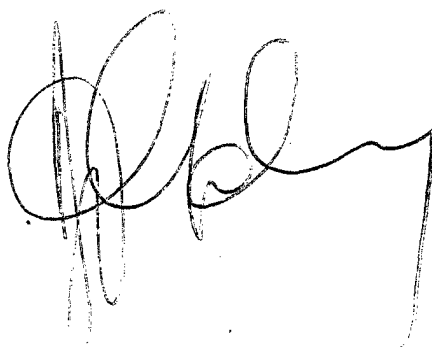
Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies (Northern Ireland) Order 1986. 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

DP Galway
Secretary

A handwritten signature in dark ink, appearing to be 'DP Galway', written over a light blue circular stamp.

26 May 1998

Stokes House
College Sq. East
Belfast BT1 6DH
Northern Ireland

Report of the auditors to the members of Larne Harbour Limited

We have audited the financial statements on pages 6 to 16.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit of those statements 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 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 affairs of the company at 31 December 1997, and of its profit for the year then ended and have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986.

KPMG
Chartered Accountants
Registered Auditors

26 May 1998

Larne Harbour Limited

Profit and loss account year ended 31 December 1997

	Note	1997 £	1996 £
Turnover - continuing operations	2	4,884,948	4,690,464
Cost of sales		(2,436,160)	(2,536,311)
Gross profit		2,448,788	2,154,153
Administrative expenses		(722,219)	(708,078)
Other operating income		392,880	247,495
Operating profit - continuing operations		2,119,449	1,693,570
Interest receivable and similar income	4	132,516	289,165
Interest payable and similar charges		-	(525)
Profit on ordinary activities before taxation	5	2,251,965	1,982,210
Tax on profit on ordinary activities	7	(771,448)	(648,290)
Profit on ordinary activities after taxation		1,480,517	1,333,920
Retained profit brought forward		8,044,677	14,710,757
Dividends paid		(1,317,000)	(8,000,000)
Retained profit carried forward		8,208,194	8,044,677

The notes on pages 5 to 10 form part of these financial statements

Larne Harbour Limited

Balance sheet at 31 December 1997

	Note	1997		1996	
		£	£	£	£
Fixed assets					
Tangible fixed assets	8	15,932,946		16,152,619	
Current assets					
Debtors	9	2,637,565		2,065,606	
Cash at bank and in hand		69,692		58,156	
		<u>2,707,257</u>		<u>2,123,762</u>	
Creditors: Amounts falling due within one year	10	<u>(2,006,657)</u>		<u>(1,923,766)</u>	
Net current assets		<u>700,600</u>		<u>199,996</u>	
Total assets less current liabilities		<u>16,633,546</u>		<u>16,352,615</u>	
Accruals and deferred income	11	(7,589,744)		(7,472,330)	
Provision for liabilities and charges	12	<u>(100,000)</u>		<u>(100,000)</u>	
Net assets		<u><u>8,943,802</u></u>		<u><u>8,780,285</u></u>	
Capital and reserves					
Called up share capital	13	413,595		413,595	
Revaluation reserve		322,013		322,013	
Profit and loss account		8,208,194		8,044,677	
Equity shareholders' funds		<u><u>8,943,802</u></u>		<u><u>8,780,285</u></u>	

These financial statements are approved by the Board of Directors on 11 May 1998 and signed on its behalf by

DP Galway
Director

F Ledwidge OBE FCA
Director

Larne Harbour Limited

Statement of total recognised gains and losses *year ended 31 December 1997*

	1997 £	1996 £
Profit for the financial year	1,480,517	1,333,920
Unrealised surplus on property investment	-	7,500
Total recognised gains and losses relating to the year	<u>1,480,517</u>	<u>1,341,420</u>

Larne Harbour Limited

Notes

forming part of the financial statements

1 Principal accounting policies

Basis of accounting

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

Under Financial Reporting Standard No.1, the company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary of a parent company which has produced a group cash flow statement in accordance with the standard.

Depreciation

Depreciation is calculated to write off the original cost less the estimated residual value of the fixed assets in equal annual instalments over their expected useful lives at the following annual rates:

Civil works and buildings	-	2 - 10%
Plant and machinery	-	6.25 - 33.3%

Land and assets under construction are not depreciated.

Taxation

- a) Corporation tax is calculated on the results of the year.
- b) Provision is made for deferred taxation, using the liability method, to recognise timing differences between profits stated in the accounts and profits computed for taxation purposes only where, in the opinion of the directors, there is reasonable probability that a liability to taxation will arise in the foreseeable future.

Capital grants

Capital and EU grants, received and receivable, are credited to a deferred credit account, and are released to the profit and loss account over the lives of the relevant fixed assets.

Pensions

Contributions to the pension scheme are calculated as a percentage, agreed on actuarial advice, of the pensionable salaries of employees. The cost of providing pensions is charged to the profit and loss account over the periods benefiting from the services of employees.

2 Turnover

Turnover includes all income arising from the operation of the port facilities at Larne, the company, a sole activity.

Larne Harbour Limited

Notes (continued)

3 Staff numbers and costs

The average number of persons employed by the company, including Executive Directors, during the year was as follows:

	1997 No.	1996 No.
Dock workers	69	76
Administrative staff	12	12
	<hr/>	<hr/>
	81	88
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	1997 £	1996 £
Wages and salaries	1,803,433	1,898,014
Social security costs	135,438	151,051
Pensions	69,729	139,444
	<hr/>	<hr/>
	2,008,600	2,188,509
	<hr/>	<hr/>

4 Interest receivable and similar income

	1997 £	1996 £
Deposit account	7,512	6,291
On loans to parent and fellow subsidiary undertakings	125,004	282,874
	<hr/>	<hr/>
	132,516	289,165
	<hr/>	<hr/>

Larne Harbour Limited

Notes (continued)

5 Profit on ordinary activities before taxation

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

	1997 £	1996 £
Auditors' remuneration and expenses	7,750	7,500
Depreciation	687,754	681,329
Government grants released	(315,503)	(362,670)
Group profit share	27,503	28,000
Directors emoluments:		
- for services as Executive Directors	72,541	74,106
- for services as Non-Executive Directors	10,000	10,000
	<hr/>	<hr/>

6 Emoluments of directors

Excluding pension contributions, the emoluments of the highest paid director, were £69,309 (1996: £71,080). The emoluments of the other directors were within the following band:

	1997	1996
£0 - £5,000	4	3
	<hr/>	<hr/>

7 Taxation on profit on ordinary activities

	1997 £	1996 £
On results for the year:		
Corporation tax at 31.5% (1996: 33%)	768,506	672,013
Over provision of corporation tax		
- relating to prior year	2,942	-
- relating to periods before prior year	-	(10,723)
Release from deferred tax provision	-	(13,000)
	<hr/>	<hr/>
	771,448	648,290
	<hr/>	<hr/>

Larne Harbour Limited

Notes (continued)

8 Tangible fixed assets

	<i>Freehold land £</i>	<i>Plant and machinery £</i>	<i>Civil works £</i>	<i>Total £</i>
Cost or valuation				
At valuation**	30,971	22,199	700,607	753,777
At cost	1,082,827	4,698,890	17,635,116	23,416,833
At 1 January 1997	1,113,798	4,721,089	18,335,723	24,170,610
Additions at cost	-	76,995	405,895	482,890
Disposals	-	(38,673)	-	(38,673)
Transfer	-	-	-	-
	-	38,322	405,895	444,217
At valuation**	30,971	22,199	700,607	753,777
At cost	1,082,827	4,737,212	18,041,011	23,861,050
At 31 December 1997	1,113,798	4,759,411	18,741,618	24,614,827
Depreciation				
At 1 January 1997	-	3,412,904	4,605,087	8,017,991
Provided during year	-	194,822	492,932	687,754
Disposals	-	(23,864)	-	(23,864)
At 31 December 1997	-	3,583,862	5,098,019	8,681,881
Net book value				
At 31 December 1997	1,113,798	1,175,549	13,643,599	15,932,946
At 31 December 1996	1,113,798	1,318,185	16,731,636	18,163,619

The land, civil works and plant and machinery, as constituted at 31 March 1964 were re-valued by Amesbury & Company at that date on the basis of open market value in existing use.

Larne Harbour Limited

Notes (continued)

9 Debtors

	1997 £	1996 £
Amounts falling due within one year:		
Trade debtors	65,592	40,181
Amounts due from parent and fellow subsidiary undertakings	2,507,244	1,980,386
Other debtors and prepayments	64,729	45,039
	<u>2,637,565</u>	<u>2,065,606</u>

10 Creditors: Amounts falling due within one year:

	1997 £	1996 £
Trade creditors	162,563	163,955
Amounts due to parent and fellow subsidiary undertakings	50,351	15,000
Accruals and sundry creditors	955,907	992,372
Taxes and social security	69,330	80,426
Corporation tax	768,506	672,013
	<u>2,006,657</u>	<u>1,923,766</u>

11 Accruals and deferred income

	1997 £	1996 £
Capital expenditure grants reserve:		
At 1 January	7,457,330	6,901,982
European Regional Development Fund Grant: - on additions	447,917	918,018
	<u>7,905,247</u>	<u>7,820,000</u>
Released to profit and loss account	(315,503)	(362,670)
	<u>7,589,744</u>	<u>7,457,330</u>
At 31 December	7,589,744	7,457,330
Capitalised rent reserve at 31 December	-	15,000
	<u>7,589,744</u>	<u>7,472,330</u>

Larne Harbour Limited

Notes (continued)

12 Provision for liabilities and charges

Deferred taxation

The amounts provided for deferred taxation and the amounts not provided, calculated on the liability method, are set out below:

	1997		1996	
	<i>Provided</i>	<i>Unprovided</i>	<i>Provided</i>	<i>Unprovided</i>
	£	£	£	£
Difference between accumulated depreciation and capital allowances	100,000	557,000	100,000	724,000
Other timing differences	-	83,000	-	(65,000)
	<u>100,000</u>	<u>650,000</u>	<u>100,000</u>	<u>659,000</u>

13 Called up share capital

	1997	1996
	£	£
Authorised:		
Deferred shares of £1 each	409,500	409,500
Ordinary shares of 1p each	4,095	4,095
	<u>413,595</u>	<u>413,595</u>
Allotted, called up and fully paid:		
Deferred shares of £1 each	409,500	409,500
Ordinary shares of 1p each	4,095	4,095
	<u>413,595</u>	<u>413,595</u>

14 Statement of movement in equity shareholders' funds

	1997	1996
	£	£
Opening equity shareholders' funds	8,780,285	15,438,865
Profit after tax	1,480,517	1,333,920
Dividends paid	(1,317,000)	(8,000,000)
Transfer to revaluation reserve	-	7,500
	<u>8,943,802</u>	<u>8,772,285</u>

Larne Harbour Limited

Notes (continued)

15 Capital commitments

	1997 £	1996 £
Contracted for, but not provided for in accounts	5,059	47,000
Authorised by the directors but not contracted for	567,919	-

16 Group affiliation

At 31 December 1997, the company's ultimate parent company was The Peninsular and Oriental Steam Navigation Company which is incorporated in England by Royal Charter.

The only group in which the results of the company are consolidated is headed by The Peninsular and Oriental Steam Navigation Company and these consolidated accounts may be obtained from the following address:

The Registrar of Companies
Companies House
Crown Way
CARDIFF
CF4 3HZ

17 Related party transactions

Since more than 90% of the company's voting rights are controlled within The Peninsular and Oriental Steam Navigation Company group of companies, of which it is a member, the company has taken advantage of the exemption not to disclose transactions with entities that are part of the group.

18 Grant contingency

There is a contingent liability to repay certain Port Modernisation Grants and European Regional Development Fund Grants, if the conditions attaching to the grants do not continue to be met. These grants amount to £6,579,897 (1996: £7,418,254).

Larne Harbour Limited

Notes (continued)

19 Pensions

The company is a member of a P & O Pension Scheme. This Scheme is a defined benefit type with assets held in separate trustee administered funds.

Formal actuarial valuations of the main scheme are carried out triennially by Watson Wyatt Partners, consulting actuaries, using the projected method, the latest being 1 April 1997. The principal assumptions adopted in the valuation were that, over the long term, the annual rate of return on investments would be 2.75% higher than the annual increase in total pensionable remuneration and 4.75% higher than the annual increase in present and future pension payments. The market value of the Scheme's assets at 1 April 1997 was £1,059m and the actuarial value of those assets represented 98% of the value of the benefits accrued to members allowing for future increases in earnings. The charge for the year has been based on this valuation.

The pension charge for the year was £69,729 (1996: £139,444). Differences between amounts charged and payments made by the company are included in creditors and amounted to £175,867 (1996: £179,770).