

SPIROFLOW GROUP LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2001

SPIROFLOW GROUP LIMITED

FINANCIAL STATEMENTS

For the year ended 31 December 2001

Company registration number: 1210198

Registered office: Lincoln Way
Clitheroe
Lancashire
BB7 1QG

Directors: M Podevyn
C Podevyn
D Heys
M Ranson

Secretary: D Heys

Bankers: Lloyds TSB Bank plc

Solicitors: Taylors
Rawlings House
Exchange Street
Blackburn
Lancashire
BB1 7JN

Auditors: Grant Thornton
Registered auditors
Chartered accountants
Heron House
Albert Square
Manchester
M60 8GT

SPIROFLOW GROUP LIMITED

FINANCIAL STATEMENTS

For the year ended 31 December 2001

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SPIROFLOW GROUP LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with financial statements for the year ended 31 December 2001.

Principal activities

The company is principally engaged in the development, manufacture and sale of automatic metering, blending and conveying systems.

The company's trade was transferred to its subsidiaries on 1 October 2000.

Business review

There was a loss for the year after taxation amounting to £216,900 (2000: loss £267,598). The directors recommend payment of dividends of £34,600 (2000: £-).

Directors

The present membership of the Board is set out below. All directors served throughout the year.

The interests of the directors and their families in the shares of the company as at 31 December 2001 and 1 January 2001 were as follows:

	Ordinary shares	
	31 December 2001	1 January 2001
M Podevyn	36,600	36,600
C Podevyn	13,200	13,200
D Heys	1,000	1,000
M Ranson	-	-

In addition to the interests shown above, M J G F Podevyn and D Heys are directors of Astroscale Limited, the company which administers the Employee Benefit Trust, which holds 25,000 ordinary shares in the company.

Directors' responsibilities for the financial statements

United Kingdom 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
- 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.

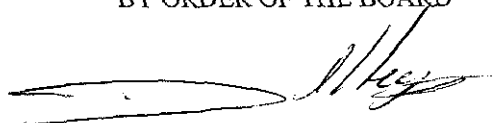
SPIROFLOW GROUP LIMITED

REPORT OF THE DIRECTORS

Auditors

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

BY ORDER OF THE BOARD

A handwritten signature in dark ink, appearing to read 'D Heys', is written over a horizontal line.

D Heys
Secretary
20 August 2002

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
SPIROFLOW GROUP LIMITED**

We have audited the financial statements of Spiroflow Group Limited for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheet, the cash flow statement and notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the directors report and the financial statements in accordance with applicable law and United Kingdom 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.

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 with the company, is not disclosed.

We read other information contained in the directors' report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton

**GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS**

MANCHESTER
Manchester
20 August 2002

SPIROFLOW GROUP LIMITED

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention except that certain freehold land and buildings are shown at their revalued amounts.

The company is exempt from preparing consolidated financial statements on the grounds that, taken together with its subsidiaries, it qualifies as a medium-sized group under section 248 of the Companies Act 1985. These financial statements therefore present information about the company as an individual undertaking and not about its group.

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 goods supplied and services provided, excluding VAT and trade discounts.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is calculated to write down the cost or valuation less estimated residual value of all tangible fixed assets over their expected useful lives. The rates generally applicable are:

Freehold buildings	2% on valuation
Plant and machinery	15% on a reducing balance basis
Plant and machinery	15% on a reducing balance basis
Fixtures and fittings/office equipment	15% on a reducing balance basis / 25% on cost
Motor vehicles	15% on a reducing balance basis

INVESTMENTS

Investments are included at cost less amounts written off.

DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet dates.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All other exchange differences are dealt with through the profit and loss account.

CONTRIBUTIONS TO PENSION FUNDS

Defined contribution scheme

The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

SPIROFLOW GROUP LIMITED**PROFIT AND LOSS ACCOUNT**

For the year ended 31 December 2001

	Note	2001 £	2000 £
Turnover	1	98,216	1,928,602
Cost of sales		(66,330)	(952,942)
Gross profit		31,886	975,660
Other operating income and charges	2	(182,853)	(953,662)
Operating loss		(150,967)	21,998
Amounts written off investments	9	(50,000)	(271,426)
Net interest	4	(16,802)	(12,871)
Loss on ordinary activities before taxation	1	(217,769)	(262,299)
Tax on loss on ordinary activities	6	869	(5,299)
Loss for the financial year	15	(216,900)	(267,598)
Dividends	7	(34,600)	-
Loss transferred from reserves	14	(251,500)	(267,598)

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

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

SPIROFLOW GROUP LIMITED

BALANCE SHEET AT 31 DECEMBER 2001

	Note	2001 £	2000 £
Fixed assets			
Tangible assets	8	470,717	424,212
Investments	9	240,004	290,004
		<u>710,721</u>	<u>714,216</u>
Current assets			
Stocks	10	-	75,000
Debtors	11	475,637	386,181
Cash at bank and in hand		19,867	34,472
		<u>495,504</u>	<u>495,653</u>
Creditors: amounts falling due within one year	12	(758,396)	(510,540)
Net current liabilities		<u>(262,892)</u>	<u>(14,887)</u>
Total assets less current liabilities		<u>447,829</u>	<u>699,329</u>
Capital and reserves			
Called up share capital	13	100,000	100,000
Revaluation reserve	14	110,753	110,753
Profit and loss account	14	237,076	488,576
Shareholders' funds	15	<u>447,829</u>	<u>699,329</u>

The financial statements were approved by the Board of Directors on 20 August 2002.

D Heys

Director

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

SPIROFLOW GROUP LIMITED

CASH FLOW STATEMENT

For the year ended 31 December 2001

	Note	2001 £	2000 £
Net cash inflow from operating activities	16	380,016	(135,136)
Returns on investments and servicing of finance			
Interest received		1,584	736
Interest paid		(18,386)	(13,607)
Net cash outflow from returns on investments and servicing of finance		(16,802)	(12,871)
Taxation		(38,667)	3,586
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(126,421)	(3,029)
Sale of tangible fixed assets		26,526	11,000
Net cash outflow from capital expenditure and financial investment		(99,895)	7,971
Acquisitions and disposals			
Purchase of investments		-	(4)
Net cash outflow from acquisitions and disposals		-	(4)
Equity dividends paid		(34,600)	-
Increase in cash	17	190,052	(136,454)

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

SPIROFLOW GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

1 TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The turnover and loss before taxation are attributable to the company's principal activity.

An analysis of turnover by geographical market is given below:

	2001 £	2000 £
United Kingdom	78,699	1,267,515
Rest of World	19,517	661,087
	<u>98,216</u>	<u>1,928,602</u>

The loss on ordinary activities is stated after:

	2001 £	2000 £
Auditors' remuneration	6,000	6,000
Depreciation and amortisation:		
Tangible fixed assets, owned	45,841	48,019
Write-downs of fixed asset investments	<u>50,000</u>	<u>271,426</u>

2 OTHER OPERATING INCOME AND CHARGES

	2001 £	2000 £
Distribution costs	107,724	367,243
Administrative expenses	285,072	642,886
Other operating income	(209,943)	(56,467)
	<u>182,853</u>	<u>953,662</u>

4 NET INTEREST

	2001 £	2000 £
Other interest payable and similar charges	18,386	13,607
Other interest receivable and similar income	(1,584)	(736)
	<u>16,802</u>	<u>12,871</u>

SPIROFLOW GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

5 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

	2001 £	2000 £
Wages and salaries	233,366	564,819
Social security costs	27,330	52,958
Other pension costs	16,415	26,510
	<u>277,111</u>	<u>644,287</u>

The average number of employees of the company during the year was 4 (2000: 29).

Remuneration in respect of directors was as follows:

	2001 £	2000 £
Emoluments	246,815	186,067
Pension contributions to money purchase pension schemes	15,988	18,103
	<u>262,803</u>	<u>204,170</u>

During the year 3 directors (2000: 4) participated in money purchase pension schemes.

The amounts set out above include remuneration in respect of the highest paid directors as follows:

	2001 £	2000 £
Emoluments and long-term incentive schemes	71,030	53,941
Pension contributions to money purchase pension schemes	4,425	5,702
	<u>75,455</u>	<u>59,643</u>

6 TAX ON LOSS ON ORDINARY ACTIVITIES

The tax credit represents:

	2001 £	2000 £
UK Corporation tax at 20% (2000: 24.35%)	1,135	5,299
Adjustments in respect of prior periods:		
Corporation tax	(2,004)	-
	<u>(869)</u>	<u>5,299</u>

SPIROFLOW GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

7 DIVIDENDS

	2001 £	2000 £
Ordinary shares - interim dividends of 10p per share paid on 31 March 2001 and 50p per share paid on 21 December 2001.	34,600	-

M Podevyn, C Podevyn and D Heys, all shareholders in the company, waived their right to a second interim dividend of 50p per share.

8 TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Office equipment £	Total £
Cost or valuation						
At 1 January 2001	379,235	103,384	189,537	14,797	220,211	907,164
Additions	76,492	-	44,634	-	5,295	126,421
Disposals	-	(14,235)	(88,231)	-	-	(102,466)
At 31 December 2001	455,727	89,149	145,940	14,797	225,506	931,119
Depreciation						
At 1 January 2001	86,014	82,101	113,722	12,499	188,616	482,952
Provided in the year	9,115	2,973	21,957	336	11,460	45,841
Eliminated on disposals	-	(12,771)	(55,620)	-	-	(68,391)
At 31 December 2001	95,129	72,303	80,059	12,835	200,076	460,402
Net book amount at 31 December 2001	360,598	16,846	65,881	1,962	25,430	470,717
Net book amount at 31 December 2000	293,221	21,283	75,815	2,298	31,595	424,212

The figures stated above for cost or valuation include valuations as follows:

	Freehold land and buildings	
	2001 £	2000 £
At cost	130,727	54,235
At 1990 valuation	325,000	325,000
	455,727	379,235

SPIROFLOW GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

If freehold land and buildings had not been revalued, they would have been included on the historical cost basis at the following amount:

	Freehold land and buildings £
Cost	317,292
Accumulated depreciation	57,094
Net book amount at 31 December 2001	<u>260,198</u>
Net book amount at 31 December 2000	<u>190,052</u>

9 FIXED ASSETS INVESTMENTS

	Shares in subsidiary undertakings £	Own shares £	Total £
Cost or valuation			
At 1 January 2001 and 31 December 2001	396,430	165,000	561,430
Amounts written off			
At 1 January 2001 and 31 December 2001	271,426	-	271,426
Provided during the year	50,000	-	50,000
At 31 December 2001	321,426	-	321,426
Net book amount at 31 December 2001	<u>75,004</u>	<u>165,000</u>	<u>240,004</u>
Net book amount at 31 December 2000	<u>125,004</u>	<u>165,000</u>	<u>290,004</u>

SPIROFLOW GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

At 31 December 2001 the company had interests in the following undertakings.

	Country of incorporation	Class of share capital held	Proportion held	Nature of business	Capital and reserves	(Loss)/Profit for the financial year
					£	£
Subsidiaries						
Spiroflow Systems Incorporated	USA	Ordinary	76.19%	Manufacture and sale of automatic metering, blending and conveying systems	102,736	(12,354)
Spiroflow Limited	United Kingdom	Ordinary	100%	Manufacture and sale of automatic metering, blending and conveying systems	225,874	223,239
Spiroflow Powder Handling Limited	United Kingdom	Ordinary	100%	Sale of parts for automatic metering, blending and conveying systems	34,758	33,663

10 STOCKS

	2001 £	2000 £
Raw materials	-	75,000

11 DEBTORS

	2001 £	2000 £
Trade debtors	2,085	103,483
Amounts owed by group undertakings	404,895	263,367
Other debtors	50,738	7,463
Loans to directors	7,685	-
Prepayments and accrued income	10,234	11,868
	<u>475,637</u>	<u>386,181</u>

SPIROFLOW GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £	2000 £
Bank loans and overdrafts	69,099	273,756
Payments received on account	-	14,737
Trade creditors	62,647	17,825
Amounts owed to group undertakings	563,368	91,865
Corporation tax	378	39,914
Social security and other taxes	4,422	10,274
Other creditors	17,302	37,813
Accruals and deferred income	41,180	24,356
	<u>758,396</u>	<u>510,540</u>

The bank overdraft is secured by a fixed and floating charge over the company's assets and first mortgage over land off Taylor Street, Clitheroe.

13 SHARE CAPITAL

	2001 £	2000 £
Authorised 100,000 ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
Allotted, called up and fully paid 100,000 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

14 RESERVES

	Revaluation reserve £	Profit and loss account £
At 1 January 2001	110,753	488,576
Retained loss for the year	-	(251,500)
At 31 December 2001	<u>110,753</u>	<u>237,076</u>

SPIROFLOW GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £	2000 £
Loss for the financial year	(216,900)	(267,598)
Dividends	(34,600)	-
	<u>(251,500)</u>	<u>(267,598)</u>
Shareholders' funds at 1 January 2001	699,329	966,927
Shareholders' funds at 31 December 2001	<u>447,829</u>	<u>699,329</u>

16 NET CASH INFLOW/OUTFLOW FROM OPERATING ACTIVITIES

	2001 £	2000 £
Operating loss	(150,967)	21,998
Depreciation	45,841	48,019
Loss on sale of tangible fixed assets	7,549	20,117
Decrease in stocks	75,000	292,181
Increase in debtors	(89,456)	201,631
Increase / (decrease) in creditors	492,049	(719,082)
Net cash inflow / (outflow) from continuing operating activities	<u>380,016</u>	<u>(135,136)</u>

17 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2001 £	2000 £
Increase / (decrease) in cash in the year	190,052	(136,454)
Net debt at 1 January 2001	(239,284)	(102,830)
Net debt at 31 December 2001	<u>(49,232)</u>	<u>(239,284)</u>

SPIROFLOW GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

18 ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 2001 £	Cash flow £	At 31 December 2001 £
Cash in hand and at bank	34,472	(14,605)	19,867
Overdrafts	(273,756)	204,657	(69,099)
	<u>(239,284)</u>	<u>190,052</u>	<u>(49,232)</u>

19 CAPITAL COMMITMENTS

The company had no capital commitments at 31 December 2001 or 31 December 2000.

20 CONTINGENT ASSETS/LIABILITIES

There were no contingent liabilities at 31 December 2001 or 31 December 2000.

21 RETIREMENT BENEFITS

Defined Contribution Scheme

The company operates a defined contribution pension scheme for the benefit of the employees and directors. The assets of the scheme are administered by trustees in a fund independent from those of the company.

SPIROFLOW GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

22 TRANSACTIONS WITH RELATED PARTIES

Transaction with Spiroflow Systems Incorporated (a subsidiary of Spiroflow Group Limited) include amounts invoiced to Spiroflow Systems Incorporated of £137,020 (2000: £157,963) of which £Nil (2000: £90,090) is included within turnover, recharged expenses of £50,649 (2000: £41,873) credited to operating charges and management charges of £Nil (2000: £26,000). Loan notes of £56,313 were repaid by the company to Spiroflow Systems Incorporated and a loan of £30,058 was made to that company during the year. Amounts totalling £2,443 (2000: £23,311) have been invoiced by Spiroflow Systems Incorporated of which £Nil (2000: £21,885) is included in cost of sales and £2,443 (2000: £1,426) included in operating charges.

At 31 December 2001, there was an amount of £72,630 (2000: £10,204 creditor) due from Spiroflow Systems Incorporated.

At 31 December 2001, there was an amount of £21,719 (2000: £20,531) due from Oxo (a company which has a common director).

Transactions with Spiroflow Powder Handling Limited (a subsidiary of Spiroflow Group Limited) include amounts charged to Spiroflow Powder Handling Limited of £38,971 (2000: £235,454) of which £Nil (2000: £195,628) has been credited to cost of sales and recharged expenses of £38,971 (2000: £39,826) credited to operating charges. Corporation tax of £250 was paid on behalf of Spiroflow Powder Handling Limited and recharged to that company. Spiroflow Powder Handling Limited paid corporation tax of £3,500 on behalf of Spiroflow Group Limited and this has been recharged to that company. Cost of sales include £6,811 (2000: £Nil) in respect of recharges from Spiroflow Powder Handling Limited.

At 31 December 2001, there was an amount of £191,734 (2000: £242,836) due from Spiroflow Powder Handling Limited.

Transactions with Spiroflow Limited (a subsidiary of Spiroflow Group Limited) include amounts charged to Spiroflow Limited of £297,552 (2000: £90,219) of which £62,150 (2000: £49,503) has been credited to cost of sales, £115,402 (2000: £40,716) has been credited to operating charges and £120,000 of management charges is included within operating income. Cost of sales include £15,493 (2000: £55,753) of purchases from Spiroflow Limited.

At 31 December 2001, there was an amount of £443,367 (2000: £81,661) due to Spiroflow Limited.

The company paid £4,538 in respect of personal tax due by M J G F Podevyn (a director). This amount was outstanding at 31 December 2001 and is included within debtors. The company also paid amounts of £25,021 (2000: £25,785) to Acre Hill Farm, a business in which M J G F Podevyn is a partner, for research and development and fuel, oil and derv, secretarial fees and mileage.

A motor vehicle was disposed of during the year to M Ranson, a director of the company, for £2,500. This amount was outstanding at 31 December 2001.

All of the above transactions were at normal commercial rates.

At 31 December 2001, the company owed £Nil (2000: £37,811) to the Spiroflow (1986) Pension Fund, of which M J C F Podevyn and C Podevyn are trustees.