

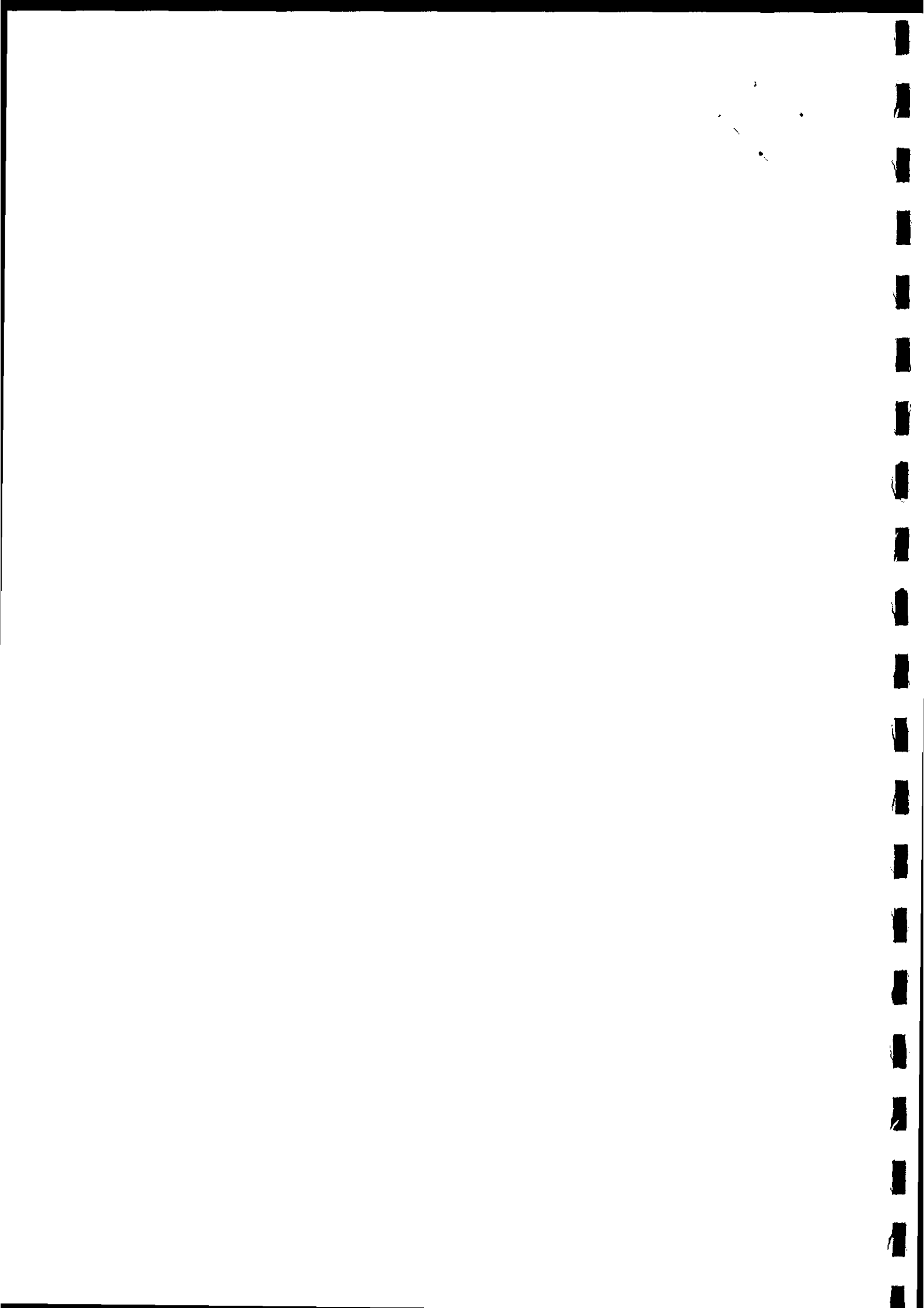
**KCC Process Equipment Limited**

**Directors' report and financial statements**

for the year ended 31 March 2000

Registered Number 1862795





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## **Directors' report**

The directors present their annual report and the audited financial statements for the year ended 31 March 2000.

### **Principal activities**

The company's principal activity is the supply of custom built process plant and services for oil and gas production and treatment to the worldwide energy industry.

### **Business review**

During the year to March 2000 KCC, in common with all engineering companies in the oil industry, faced a declining market due to the oil price collapse in late 1998 and the consequent industry cut-backs on investment. In addition, the strength of Sterling against the Euro ensured that competition for the remaining business was fierce.

Despite this situation, KCC maintained a healthy order book throughout the period, ending the year with some £8 million backlog. Major contracts were executed and delivered on time to customers in India, Abu Dhabi, Brazil and Oman, whilst many new orders were secured from Kazakhstan, China and Europe.

Customer satisfaction levels continue to be very high. Our ranking on the UK's First Point Assessment Limited database is in the upper quartile where we are determined it will remain.

The pre-tax profit of £426,000 on turnover of £6,000,000 remains above the industry norm, and whilst representing a reduced performance on last year, is considered a good result under the current economic climate and indicative of the strong competitive position KCC continues to hold in the market.

### **Dividend**

The directors' have paid a total dividend of £1,100,000 for the year. (1999 : £576,000)

### **Year 2000 issue**

The directors have considered the risks and uncertainties associated with the Year 2000 problem. The company implemented a plan to address these issues and its relationships with customers, suppliers and other relevant parties. The costs incurred to date have been written off to the profit and loss account and future costs are not expected to be significant.

The company has not experienced any problems as a result of Year 2000 issues on computer systems, applications on products and do not believe results and operations have been adversely affected. The directors do not know of any inability of third parties to manage their Year 2000 problems which may adversely affect the company nor of any potential liability to third parties as a result of Year 2000 failures.

## Directors' report (continued)

### Directors and directors' interests

The directors who held office during the year were as follows:

M E Kirk  
S R Cordon

P J Shuttleworth was appointed to the board of KCC Process Equipment Limited on May 25<sup>th</sup> 2000.

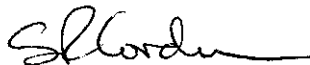
The above directors had the following interests in the ordinary shares of group companies as recorded in the register of directors' share and debenture interests:

	Company	Class of share	Interest at beginning and end of year
M E Kirk	KCC Group Ltd	£1 ordinary	134,090
S R Cordon	KCC Group Ltd	£1 ordinary	51,497
P J Shuttleworth	KCC Group Ltd	£1 ordinary	12,650

### Auditors

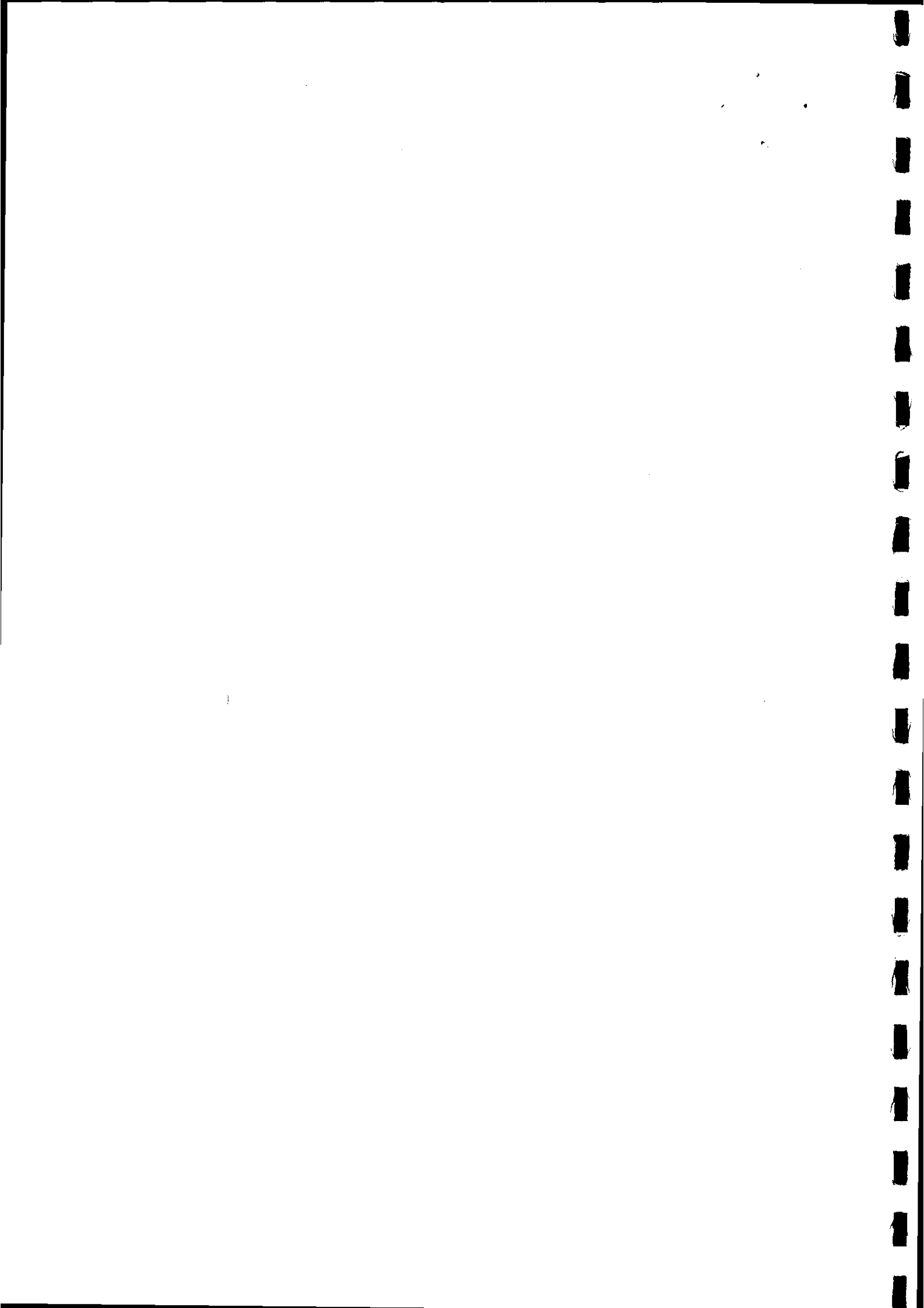
In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



S R Cordon  
Secretary

91-93 Windmill Road  
Sunbury on Thames  
Middlesex  
TW16 7EF



## **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 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 keeping 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 Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.







Arlington Business Park  
Theale  
Reading, RG7 4SD  
United Kingdom

## **Report of the auditors to the members of KCC Process Equipment Limited**

We have audited the financial statements on pages 5 to 20.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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. 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 the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **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 the company's affairs as at 31 March 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG 21/7/00

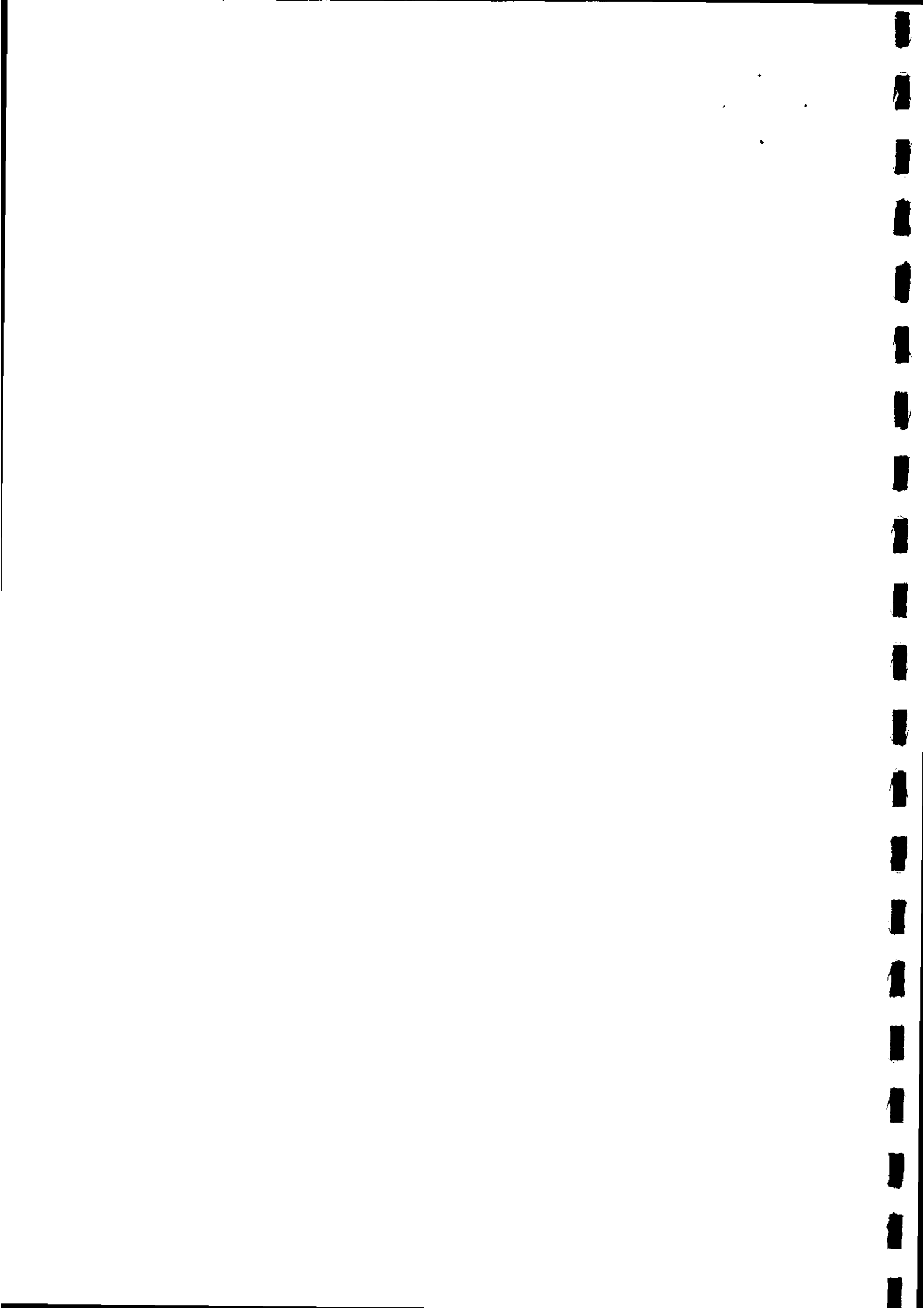
*Chartered Accountants  
Registered Auditors*

**KCC Process Equipment Limited**  
*Directors' report and financial statements*  
for the year ended 31 March 2000

**Profit and loss account**  
for the year ended 31 March 2000

	Note	2000 £	1999 £
<b>Turnover</b>	2	6,025,340	8,103,562
Cost of sales		(4,751,670)	(6,357,546)
<b>Gross Profit</b>		1,273,670	1,746,016
Administrative Expenses		(1,007,538)	(1,090,434)
<b>Operating Profit</b>		266,132	655,582
Interest receivable and similar income		169,968	139,805
Interest payable and similar charges	6	(10,536)	(6,729)
<b>Profit on ordinary activities before taxation</b>	3-5	425,564	788,658
Tax on profit on ordinary activities	7	(139,239)	(251,387)
<b>Profit on ordinary activities after taxation</b>		286,325	537,271
Dividends on equity shares	8	(1,100,000)	(576,500)
<b>Loss for the financial year</b>		(813,675)	(39,229)

There were no recognised gains or losses in the period other than those shown above



**Balance sheet**  
as at 31 March 2000

	Note	2000	1999
		£	£
<b>Fixed assets</b>			
Intangible assets	9	1,400	3,500
Tangible assets	10	81,048	115,906
Investments	11	2	2
		<hr/>	<hr/>
		82,450	119,408
<b>Current Assets</b>			
Work in progress	12	115,354	6,532
Debtors	13	2,375,572	1,846,265
Cash at bank and in hand		10,223	2,680,857
Cash charged against performance bonds		1,564,942	1,273,870
		<hr/>	<hr/>
		4,066,091	5,807,524
<b>Creditors:</b>			
Amounts falling due within one year	14	(2,554,733)	(3,201,898)
		<hr/>	<hr/>
<b>Net current assets</b>		1,511,358	2,605,626
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		1,593,808	2,725,034
		<hr/>	<hr/>
<b>Creditors:</b>			
Amounts falling due after more than one year	15	(8,254)	(25,363)
Provision for liabilities and charges	16	(436,459)	(736,901)
		<hr/>	<hr/>
<b>Net Assets</b>		1,149,095	1,962,770
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up share capital	17	253,000	253,000
Share premium account		4,070	4,070
Profit and loss account	18	892,025	1,705,700
		<hr/>	<hr/>
<b>Shareholders' funds (equity interests)</b>		1,149,095	1,962,770
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 14/7/00 and were signed on its behalf by:

  
**M E Kirk**  
Director

**Cash flow statement**  
for the year ended 31 March 2000

	Note	2000 £	1999 £
<b>Reconciliation of operating profit to net cash flow from operating activities</b>			
Operating profit		266,132	655,582
Depreciation		62,630	74,853
Profit on asset disposal		(11)	(10,420)
(Increase)/decrease in stocks		(108,822)	41,374
(Increase)/decrease in debtors		(529,307)	1,885,852
(Decrease)/increase in creditors		(536,465)	(1,341,716)
Decrease in warranty provision		(300,442)	(115,566)
		<hr/>	<hr/>
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(1,146,285)</b>	<b>1,189,959</b>
		<hr/>	<hr/>
<b>Cash flow statement</b>			
<b>Cash flow from operating activities</b>		<b>(1,146,285)</b>	<b>1,189,959</b>
Returns on investment & servicing of finance	22	159,432	133,076
Taxation		(267,514)	(550,262)
Capital expenditure	22	(25,661)	(22,972)
Acquisitions & disposals	22	-	2
Equity dividends paid		(1,550,000)	(126,500)
		<hr/>	<hr/>
Cash (outflow)/inflow before management of liquid resources and financing		(2,830,028)	623,303
Management of liquid resources	22	(291,072)	(364,505)
Financing	22	(21,276)	(22,666)
		<hr/>	<hr/>
<b>(Decrease)/Increase in cash in the period</b>		<b>(3,142,376)</b>	<b>236,132</b>
		<hr/>	<hr/>
<b>Reconciliation of net cash flow to movement in net debt</b>			
<b>(Decrease)/Increase in cash in the period</b>	23	<b>(3,142,376)</b>	<b>236,132</b>
Cash inflow from increase in debt and lease financing		21,276	22,666
Cash used to increase liquid resources		291,072	364,505
		<hr/>	<hr/>
<b>Movement in net funds in the period</b>		<b>(2,830,028)</b>	<b>623,303</b>
<b>Net funds at the start of the period</b>		<b>3,908,088</b>	<b>3,284,785</b>
		<hr/>	<hr/>
<b>Net funds at the end of the period</b>	23	<b>1,078,060</b>	<b>3,908,088</b>
		<hr/>	<hr/>

## Notes

(forming part of the financial statements)

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

#### *Basis of preparation*

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

#### *Fixed assets and depreciation*

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Office equipment and furniture	-	5 years
Computer equipment	-	3 years

#### *Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction, or at the contracted rate of the transaction if covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

#### *Leases*

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

#### *Goodwill*

Amortisation is provided against purchased goodwill on a straight line basis over 5 years.

#### *Research and development*

Research and development expenditure is written off in the year in which it is incurred.

## Notes (continued)

### Accounting policies (continued)

#### *Long term contracts*

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at cost appropriate to their stage of completion plus attributable profits less amounts recognised in previous years. Provision is made for any losses which are foreseen. Contract work in progress is stated at cost incurred, less that element transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover. Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account. Where payments to account exceed turnover, the difference is taken to creditors.

#### *Stocks*

Stocks and work in progress on short term contracts are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price reduced by all costs of marketing, selling and distribution.

#### *Pension scheme*

The company pays pension contributions into executive and personal pension schemes held by employees. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

#### *Provision for expenditure under warranty*

The company provides for costs which may be incurred on completed contracts whilst under warranty.

#### *Taxation*

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

#### *Turnover*

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers.

**Notes (Continued)**

**2 Analysis of turnover**

By geographical area:	2000 £	1999 £
United Kingdom	915,400	140,661
Middle East	2,723,194	3,416,784
Europe	1,147,615	3,330,221
Other	1,239,131	1,215,896
	<hr/> 6,025,340 <hr/>	<hr/> 8,103,562 <hr/>

**3 Profit on ordinary activities before taxation**

	2000 £	1999 £
--	-----------	-----------

*Profit on ordinary activities before taxation is stated*

*after charging*

Auditors' remuneration:

Audit	12,785	10,536
Other services	3,867	10,406
Depreciation and other amounts written off tangible fixed assets:		
Owned	39,707	45,940
Leased	20,823	26,813
Goodwill amortised	2,100	2,100
Hire of plant and machinery - rentals payable under operating leases	24,596	27,387
Hire of other assets - rentals payable under operating leases	66,338	45,002
Profit on disposal of fixed assets	(11)	(10,420)
	<hr/>	<hr/>

*after crediting*

Exchange (losses)/gains	(2,880)	25,800
	<hr/>	<hr/>



**Notes (Continued)**

**4 Remuneration of directors**

	2000 £	1999 £
Directors' emoluments	-	147,569
Contributions to money purchase pension schemes	-	13,500
	<hr/>	<hr/>
	-	161,069
	<hr/> <hr/>	<hr/> <hr/>

Directors' remuneration paid during the year amounting to £151,423 was charged to the parent company, KCC Group Limited

**5 Staff numbers and costs**

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2000	1999
Management and administration	4	5
Direct work on contracts and sales	23	23
	<hr/>	<hr/>
	27	28
	<hr/> <hr/>	<hr/> <hr/>

The aggregate payroll costs for these persons were as follows:

	2000 £	1999 £
Wages and salaries	1,121,051	1,096,992
Social security costs	126,182	108,813
Other pension costs	53,566	44,243
	<hr/>	<hr/>
	1,300,799	1,250,048
	<hr/> <hr/>	<hr/> <hr/>

**Notes (Continued)**

**6 Interest payable and other charges**

	2000 £	1999 £
On bank loans and overdrafts	3,825	233
Finance charges payable in respect of finance leases and hire purchase contracts	6,135	6,389
Interest on late payment of tax	576	107
	<hr/> 10,536	<hr/> 6,729
	<hr/> <hr/>	<hr/> <hr/>

**7 Taxation**

	2000 £	1999 £
UK corporation tax at 30% (1999:31%)	136,100	248,000
Adjustment relating to previous years	3,139	3,387
	<hr/> 139,239	<hr/> 251,387
	<hr/> <hr/>	<hr/> <hr/>

**8 Dividends**

	2000 £	1999 £
Equity shares:		
Interim dividend paid	1,100,000	126,500
Final dividend proposed	-	450,000
	<hr/> 1,100,000	<hr/> 576,500
	<hr/> <hr/>	<hr/> <hr/>

**Notes (Continued)**

**9 Intangible fixed assets**

	<b>Goodwill</b>
	£
<i>Cost</i>	
At beginning of year	10,500
	<hr/>
At year end	10,500
	<hr/>
<i>Amortisation</i>	
At beginning of year	7,000
Charge for year	2,100
	<hr/>
At year end	9,100
	<hr/>
<i>Net book value</i>	
At 31 March 2000	1,400
	<hr/> <hr/>
At 31 March 1999	3,500
	<hr/> <hr/>

Goodwill arose out of the purchase of the business and assets of RJB Engineering (UK) Limited which has since changed its name to Nisharm Limited.

**Notes (Continued)**

**10 Tangible fixed assets**

	Computer equipment  £	Office equipment and furniture  £	Total   £
<i>Cost</i>			
At beginning of year	183,581	132,625	316,206
Additions	25,080	1,058	26,138
Disposals	(34,225)	-	(34,225)
	<hr/>	<hr/>	<hr/>
At year end	174,436	133,683	308,119
	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>			
At beginning of year	131,580	68,720	200,300
Charge for year	36,277	24,253	60,530
On disposals	(33,758)	(1)	(33,759)
	<hr/>	<hr/>	<hr/>
At year end	134,099	92,972	227,071
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 March 2000	<b>40,337</b>	<b>40,711</b>	<b>81,048</b>
	<hr/>	<hr/>	<hr/>
At 31 March 1999	52,001	63,905	115,906
	<hr/>	<hr/>	<hr/>

Assets held under finance and hire purchase contracts	31 March 2000	31 March 1999
Included in the total net book value is	23,971	45,261
Depreciation for the year in respect of these assets was	20,823	26,813

**Notes (Continued)**

**11 Fixed asset investments**

	Shares in group undertakings £
<i>Cost</i>	
At beginning and end of year	2

**12 Stocks**

	2000 £	1999 £
Work in progress on minor contracts	115,354	6,532

**13 Debtors**

	2000 £	1999 £
Trade Debtors	893,091	1,104,453
Amounts recoverable on contracts	1,345,603	490,486
Amounts due from Group undertakings	-	59,966
Taxation recoverable	103,829	132,022
Other Debtors	8,819	8,755
Prepayments and accrued income	24,230	50,583
	<u>2,375,572</u>	<u>1,846,265</u>

**Notes (Continued)**

**14 Creditors : amounts falling due within one year**

	2000 £	1999 £
Trade Creditors	1,687,864	2,089,949
Obligations under finance leases and hire purchase contracts (see note 15)	17,109	21,276
Bank Overdrafts	471,742	-
Payments received on account	4,248	1,730
Amounts due to Group undertakings	89,868	-
Corporation tax	88,100	216,375
PAYE taxation and social security	5,489	54,590
Other creditors	501	269
Accruals and deferred income	189,812	367,709
Dividends Payable	-	450,000
	<hr/> 2,554,733 <hr/>	<hr/> 3,201,898 <hr/>

**15 Amounts falling due after more than one year**

	2000 £	1999 £
Obligations under finance lease and hire purchase contracts	8,254	25,363
The maturity of obligations under finance leases and hire purchase contracts is as follows:		
	2000 £	1999 £
Within one year	17,109	21,276
In the second to fifth years	8,254	25,363
Over five years	-	-
	<hr/> 25,363 <hr/>	<hr/> 46,639 <hr/>

**16 Provision for liabilities and charges**

	2000 £	1999 £
Warranty Provision		
At beginning of year	736,901	852,467
Transferred from/(to) profit and loss account	(300,442)	(115,566)
	<hr/> 436,459 <hr/>	<hr/> 736,901 <hr/>

**Notes (Continued)**

**17 Called up share capital**

	2000 £	1999 £
<i>Authorised</i>		
Equity : Ordinary shares of £1 each	1,000,000	1,000,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
Equity : Ordinary shares of £1 each	253,000	253,000
	<hr/>	<hr/>

**18 Reconciliation of movements in shareholders' funds**

	Share Capital £	Share premium account £	Profit and loss account £	Total £
At beginning of year	253,000	4,070	1,705,700	1,962,770
Retained profit for the year	-	-	(813,675)	(813,675)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	253,000	4,070	892,025	1,149,095
	<hr/>	<hr/>	<hr/>	<hr/>

**19 Commitments**

Annual commitments under non-cancellable operating leases are as follows:

	2000		1999	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
Within one year	60,000	-	-	-
In the second to fifth years inclusive	-	40,857	-	40,857
Over five years	-	-	50,000	-
	<hr/>	<hr/>	<hr/>	<hr/>
	60,000	40,857	50,000	40,857
	<hr/>	<hr/>	<hr/>	<hr/>

**Notes (Continued)**

**20 Charges**

Bonding and overdraft facilities are secured by way of a charge over all fixed and floating assets of the company and a specific charge over £ 1,564,942 (1999: £ 1,221,632) cash held by the bank as cover against performance bonds in favour of National Westminster Bank plc.

**21 Contingent liabilities**

The company's bankers have provided performance bonds on contracts entered into by the company up to a total value of £2,506,580 (1999: £2,022,133). In the event of the company's failure to meet its obligations under these contracts it would be liable to its bankers up to the value of these bonds.



**Notes (Continued)**

**22 Analysis of cash flows**

	2000 £	2000 £	1999 £	1999 £
<b>Returns on investment and servicing of finance</b>				
Interest received	169,968		139,805	
Interest paid	(4,401)		(340)	
Interest element of hire purchase repayments	(6,135)		(6,389)	
	<hr/>		<hr/>	
		159,432		133,076
		<hr/> <hr/>		<hr/> <hr/>
<b>Capital expenditure and financial investments</b>				
Purchase of tangible fixed assets	(26,138)		(33,604)	
Sale of tangible assets	477		10,632	
Sale of Shares in Group Companies	-		2	
	<hr/>		<hr/>	
		(25,661)		(22,970)
		<hr/> <hr/>		<hr/> <hr/>
Cash placed on deposit and charged against performance bonds		(291,072)		(364,505)
		<hr/> <hr/>		<hr/> <hr/>
<b>Financing</b>				
Capital element of hire purchase repayments	(21,276)		(22,666)	
	<hr/>		<hr/>	
		(21,276)		(22,666)
		<hr/> <hr/>		<hr/> <hr/>

**Notes (Continued)**

**23 Analysis of net debt**

	At beginning of year £	Cash flow £	Other non cash changes £	At end of year £
Cash at bank and in hand	2,680,857	(2,670,634)	-	10,223
Overdrafts	-	(471,742)	-	(471,742)
	<hr/>	<hr/>	<hr/>	<hr/>
	2,680,857	(3,142,376)	-	(461,519)
Debt due within 1 year	(21,276)	21,276	(17,109)	(17,109)
Debt due after 1 year	(25,363)	-	17,109	(8,254)
Current asset investments	1,273,870	291,072	-	1,564,942
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total</b>	<b>3,908,088</b>	<b>(2,830,028)</b>	<b>-</b>	<b>1,078,060</b>
	<hr/>	<hr/>	<hr/>	<hr/>

**24 Ultimate parent company**

The company is a subsidiary undertaking of KCC Group Limited, incorporated in England and Wales. The financial statements of KCC Group Limited can be obtained at 91-93 Windmill Road, Sunbury on Thames, Middlesex, TW16 7EF.

