

KCC Process Equipment Limited

Directors' report
and financial statements

for the 9 months ended 31 December 2002

Registered Number 1862795



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KCC Process Equipment Limited
and financial statements
for the 9 months ended 31 December 2002

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Directors' report

The directors present their annual report and the audited financial statements for the 9 months ended 31 December 2002.

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

The directors consider the results for the 9 months to December 2002 to be satisfactory and will continue to develop the business so as to maintain the strong competitive position KCC currently holds in the market.

Dividend

The directors are recommending a nil dividend for the period, retaining the profit earned for further development in the year ahead. (March 2002 : £150,000)

Directors and directors' interests

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

M E Kirk (*resigned December 27th, 2002*)
S R Cordon (*resigned December 27th, 2002*)
P J Shuttleworth (*resigned December 27th, 2002*)
K B Rowland (*appointed December 27th, 2002*)
M Ulrey (*appointed December 27th, 2002*)
D Zachariah (*appointed December 27th, 2002*)

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 end of period	Interest at beginning of period
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

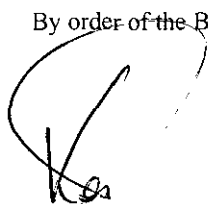
KCC Process Equipment Limited
and financial statements
for the 9 months ended 31 December 2002

Directors' report *(continued)*

Auditors

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

By order of the Board

A handwritten signature in black ink, appearing to be 'K B Rowland', written over a faint circular stamp or watermark.

K B Rowland
Secretary

111 Windmill Road
Sunbury on Thames
Middlesex
TW16 7EF

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period 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.



KPMG LLP

Arlington Business Park
Theale
Reading
RG7 4SD
United Kingdom

Report of the independent auditors to the members of KCC Process Equipment Limited

We have audited the financial statements on pages 5 to 19.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 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.

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 as at 31 December 2002 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

Chartered Accountants
Registered Auditor

1 December 2003

KCC Process Equipment Limited
*Directors' report and financial statements
for the 9 months ended 31 December 2002*

Profit and loss account

for the 9 months ended 31 December 2002

	<i>Note</i>	9 months ended 31 December 2002	year ended 31 March 2002
		£	£
Turnover		7,978,881	11,081,061
Cost of sales		(7,277,322)	(9,712,727)
		<hr/>	<hr/>
Gross profit		701,559	1,368,334
Administrative expenses		(980,206)	(1,116,202)
		<hr/>	<hr/>
Operating (loss)/profit		(278,647)	252,132
Interest receivable and similar income		28,635	52,651
Interest payable and similar charges	5	(8,097)	(2,748)
		<hr/>	<hr/>
(Loss)/profit on ordinary activities before taxation	2-5	(258,109)	302,035
Tax on profit on ordinary activities	6	93,023	(93,025)
		<hr/>	<hr/>
(Loss)/profit on ordinary activities after taxation		(165,086)	209,010
Dividends on equity shares	7	-	(150,000)
		<hr/>	<hr/>
(Loss)/profit for the period		(165,086)	59,010
		<hr/> <hr/>	<hr/> <hr/>

There were no recognised gains or losses in the period other than those shown above. All results were derived from continuing operations.

KCC Process Equipment Limited
*Directors' report and financial statements
for the 9 months ended 31 December 2002*

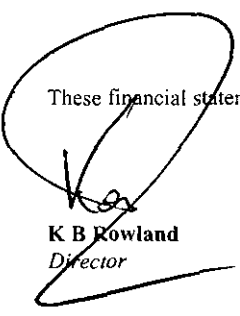
Balance sheet

as at 31 December 2002

	Note	31 December 2002		31 March 2002	
		£	£	£	£
Fixed assets					
Tangible assets	8	42,910		43,973	
Investments	9	2		2	
		<hr/>		<hr/>	
		42,912		43,975	
Current assets					
Work in progress	10	112,461		2,009	
Debtors	11	6,933,333		8,631,334	
Cash at bank and in hand		557,603		9,238	
Cash charged against performance bonds		1,376,844		848,148	
		<hr/>		<hr/>	
		8,980,241		9,490,729	
Creditors:					
Amounts falling due within one year	12	(7,550,312)		(7,830,006)	
		<hr/>		<hr/>	
Net current assets		1,429,929		1,660,723	
		<hr/>		<hr/>	
Total assets less current liabilities		1,472,841		1,704,698	
Creditors:					
Provision for liabilities and charges	13	(331,642)		(398,413)	
		<hr/>		<hr/>	
Net assets		1,141,199		1,306,285	
		<hr/>		<hr/>	
Capital and reserves					
Called up share capital	14	253,000		253,000	
Share premium account		4,070		4,070	
Profit and loss account	15	884,129		1,049,215	
		<hr/>		<hr/>	
Shareholders' funds (equity interests)	16	1,141,199		1,306,285	
		<hr/>		<hr/>	

These financial statements were approved by the board of directors on

and were signed on its behalf by:


K B Rowland
Director

KCC Process Equipment Limited
*Directors' report and financial statements
for the 9 months ended 31 December 2002*

Cash flow statement

for the 9 months ended 31 December 2002

	<i>Note</i>	9 months ended 31 December 2002 £	year ended 31 March 2002 £
Reconciliation of operating profit to net cash flow from operating activities			
Operating (loss)/profit		(278,647)	252,132
Depreciation and amortisation		19,933	32,963
(Profit)/Loss on asset disposal		(1,619)	124
(Increase)/Decrease in stocks		(110,452)	103,585
Decrease/(Increase) in debtors		1,717,773	(5,531,024)
(Decrease)/Increase in creditors		(717,647)	3,500,301
(Decrease)/Increase in warranty provision		(66,771)	134,983
Net cash inflow/(outflow) from operating activities		562,570	(1,506,936)
Cash flow statement			
Cash flow from operating activities		562,570	(1,506,936)
Returns on investment & servicing of finance	20	20,538	49,903
Taxation		74,567	(51,753)
Capital expenditure	20	(17,251)	(22,943)
Equity dividends paid		(150,000)	-
Cash inflow/(outflow) before management of liquid resources and financing		490,424	(1,531,729)
Management of liquid resources	20	(528,696)	76,999
Financing	20	-	(8,254)
Decrease in cash in the period		(38,272)	(1,462,984)
Reconciliation of net cash flow to movement in net debt			
Decrease in cash in the period	21	(38,272)	(1,462,984)
Cash inflow from increase in debt and lease financing		-	8,254
Cash used to increase liquid resources		528,696	(76,999)
Movement in net funds in the period		490,424	(1,531,729)
Net funds at the start of the period		529,554	2,061,283
Net funds at the end of the period	21	1,019,978	529,554

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.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

As the company is a wholly owned subsidiary of KCC Group Limited, the company has taken advantage of the exemption contained in Financial Reporting Standard ("FRS") 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of KCC Group Limited, within which this company is included, can be obtained from the address given in note 22.

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, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or 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.

Notes *(continued)*

Accounting policies *(continued)*

Research and development

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

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 periods. 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 result for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers plus those amounts attributable to long term contracts in accordance with the policy outlined above.

KCC Process Equipment Limited
Directors' report and financial statements
for the 9 months ended 31 December 2002

Notes (continued)

2 Profit on ordinary activities before taxation

	9 months ended 31 December 2002	year ended 31 March 2002
	£	£

Profit on ordinary activities before taxation is stated

after charging/(crediting)

Auditors' remuneration:

Audit	7,232	9,628
Other services	6,905	2,300

Depreciation and other amounts written off tangible fixed assets:

Owned	19,933	28,808
Leased	-	4,155

Goodwill amortised

	-	-
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Hire of plant and machinery - rentals payable under operating leases

	39,540	32,580
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Hire of other assets - rentals payable under operating leases

	93,003	129,584
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Exchange losses

	108,447	-
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(Profit)/Loss on disposal of fixed assets

	(1,619)	124
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3 Remuneration of directors

	9 months ended 31 December 2002	year ended 31 March 2002
	£	£

Directors' emoluments	60,893	78,800
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Contributions to money purchase pension schemes	4,973	6,400
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	65,866	85,200
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Notes (continued)

4 Staff numbers and costs

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

	Number of employees	
	31 December 2002	31 March 2002
Management and administration	3	3
Direct work on contracts and sales	24	19
	<hr/>	<hr/>
	27	22
	<hr/>	<hr/>

The aggregate payroll costs for these persons were as follows:

	9 months ended 31 December 2002 £	year ended 31 March 2002 £
Wages and salaries	684,249	763,135
Social security costs	71,819	79,170
Other pension costs	27,152	31,223
	<hr/>	<hr/>
	783,220	873,528
	<hr/>	<hr/>

5 Interest payable and other charges

	9 months ended 31 December 2002 £	year ended 31 March 2002 £
On bank loans and overdrafts	7,896	613
Finance charges payable in respect of finance leases and hire purchase contracts	-	1,938
Interest on late payment of tax	201	197
	<hr/>	<hr/>
	8,097	2,748
	<hr/>	<hr/>

Notes (continued)

6 Taxation

	9 months ended 31 December 2002 £	year ended 31 March 2002 £
<i>UK corporation tax</i>		
Current tax on income in the period	-	94,195
Group relief	(74,567)	
Over/under provision in previous years	1,316	(1,170)
	<hr/>	<hr/>
Total current tax	(73,251)	93,025
<i>Deferred Tax (see note 11)</i>		
Origination/reversal of timing differences	2,602	-
Adjustment in respect of previous years	17,170	-
	<hr/>	<hr/>
Tax on profit on ordinary activities	(93,023)	93,025
	<hr/> <hr/>	<hr/> <hr/>

	9 months ended 31 December 2002 £	year ended 31 March 2002 £
<i>Factors affecting the tax charge for the current period:</i>		
(Loss)/profit on ordinary activities before tax	(258,109)	302,035
	<hr/>	<hr/>
Current tax at 30%	(77,433)	90,611
Depreciation less capital allowances	(993)	1,151
Loss/(profit) on disposal of fixed assets	-	37
Expenses not deductible for tax purposes	2,031	2,396
Timing differences - pension	1,828	-
Adjustment in respect of prior years	1,316	(1,170)
	<hr/>	<hr/>
Total current tax charge (see above)	(73,251)	93,025
	<hr/> <hr/>	<hr/> <hr/>

7 Dividends

	9 months ended 31 December 2002 £	year ended 31 March 2002 £
Equity shares:		
Final dividend proposed	-	150,000
	<hr/>	<hr/>
	-	150,000
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

8 Tangible fixed assets

	Computer equipment £	Office equipment and furniture £	Total £
<i>Cost</i>			
At beginning of period	125,991	80,543	206,534
Additions	16,854	2,016	18,870
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At end of period	142,845	82,559	225,404
	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>			
At beginning of period	93,298	69,263	162,561
Charge for period	14,531	5,402	19,933
On disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At end of period	107,829	74,665	182,494
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 December 2002	35,016	7,894	42,910
	<hr/>	<hr/>	<hr/>
At 31 March 2002	32,693	11,280	43,973
	<hr/>	<hr/>	<hr/>
Assets held under finance and hire purchase contracts	31 December 2002	31 March 2002	
	£		
Included in the total net book value is	-	-	-
	<hr/>	<hr/>	<hr/>
Depreciation for the year in respect of these assets was	-	4,155	-
	<hr/>	<hr/>	<hr/>

Notes (continued)

9 Fixed asset investments

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

Details of subsidiary undertakings

	Country of incorporation	Class of share	Number held	% held
RJB Engineering (UK) Limited*	England & Wales	£1 ordinary	2	100

* Dormant

10 Stocks

	31 December 2002 £	31 March 2002 £
Work in progress on minor contracts	112,461	2,009

Notes (continued)

11 Debtors

	31 December 2002 £	31 March 2002 £
Trade debtors	2,744,169	4,670,111
Amounts recoverable on contracts	3,753,480	3,691,939
Amounts due from group undertakings	-	51,841
Taxation recoverable	302,105	141,278
Other debtors	17,679	18,686
Deferred taxation	19,772	-
Prepayments and accrued income	96,128	57,479
	<hr/> 6,933,333 <hr/>	<hr/> 8,631,334 <hr/>

Included in debtors is an amount of £19,772 in respect of deferred taxation which falls due in more than one year.

The elements of deferred taxation are as follows:

	31 December 2002 £	31 March 2002 £
Difference between accumulated depreciation and amortisation and capital allowances	19,772	-
	<hr/> 19,772 <hr/>	<hr/> - <hr/>
Deferred tax asset	19,772	-
	<hr/> 19,772 <hr/>	<hr/> - <hr/>

12 Creditors : amounts falling due within one year

	31 December 2002 £	31 March 2002 £
Bank overdrafts	914,469	327,832
Payments received on account	595,346	300,825
Trade creditors	5,246,573	6,549,155
Amounts due to group undertakings	72,822	-
Corporation tax	95,511	94,195
Other taxation and social security	-	36,301
Other creditors	194,586	190,656
Accruals and deferred income	431,005	181,042
Dividends Payable	-	150,000
	<hr/> 7,550,312 <hr/>	<hr/> 7,830,006 <hr/>

Notes *(continued)*

13 Provision for liabilities and charges

	Warranty provision
	£
At beginning of period	398,413
Charged / (credited) to the profit and loss account	(66,771)
	<hr/>
At end of period	331,642
	<hr/> <hr/>

14 Called up share capital

	31 December 2002 £	31 March 2002 £
<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/>

15 Reserves

	Profit and loss account £
At beginning of period	1,049,215
Retained profit for the period	(165,086)
	<hr/>
At end of period	884,129
	<hr/> <hr/>

Notes (continued)

16 Reconciliation of shareholders' funds

	31 December 2002 £	31 March 2002 £
Profit after taxation	(165,086)	209,010
Dividends on equity shares	-	(150,000)
Shareholders' funds at the beginning of the period	1,306,285	1,247,275
	<hr/>	<hr/>
Shareholders' funds at the end of the period	1,141,199	1,306,285
	<hr/> <hr/>	<hr/> <hr/>

17 Commitments

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

	31 December 2002		31 March 2002	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
Within one year	-	780	-	780
In the second to fifth years inclusive	155,000	58,101	155,000	52,836
	<hr/>	<hr/>	<hr/>	<hr/>
	155,000	58,881	155,000	53,616
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

18 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 £1,376,844 (*March 2002: £848,148*) cash held by the bank as cover against performance bonds in favour of National Westminster Bank plc.

19 Contingent liabilities

The company's bankers have provided performance bonds on contracts entered into by the company up to a total value of £2,914,521 (*March 2002: £1,344,711*). 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)

20 Analysis of cash flows

	31 December 2002		31 March 2002	
	£	£	£	£
Returns on investment and servicing of finance				
Interest received	28,635		52,651	
Interest paid	(8,097)		(810)	
Interest element of hire purchase repayments	-		(1,938)	
	<u>20,538</u>		<u>49,903</u>	
Capital expenditure and financial investments				
Purchase of tangible fixed assets	(18,870)		(23,945)	
Sale of tangible assets	1,619		1,002	
	<u>(17,251)</u>		<u>(22,943)</u>	
Cash placed on deposit and charged against performance bonds	<u>(528,696)</u>		<u>76,999</u>	
Financing				
Capital element of hire purchase repayments	<u>-</u>		<u>(8,254)</u>	

21 Analysis of net debt

	At beginning of year	Cash flow	At end of year
	£	£	£
Cash at bank and in hand	9,238	548,365	557,603
Overdrafts	(327,832)	(586,637)	(914,469)
	<u>(318,594)</u>	<u>(38,272)</u>	<u>(356,866)</u>
Current asset investments	848,148	528,696	1,376,844
Total	<u>529,554</u>	<u>490,424</u>	<u>1,019,978</u>

Notes *(continued)*

22 Ultimate parent company

The company is a subsidiary undertaking of KCC Group Limited, a company incorporated in England and Wales. The financial statements of KCC Group Limited can be obtained at 111 Windmill Road, Sunbury on Thames, Middlesex, TW16 7EF. The ultimate controlling party of the group is Sequel Holding, Inc. a corporation registered in Delaware, USA.