

Financial highlights

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	Year ended 30 June 1997 £000	Year ended 30 June 1996 £000	Year ended 30 June 1995 £000	15 months ended 30 June 1994 £000	Year ended March 1993 £000
Turnover	24,622	37,167	14,081	1,707	572
Operating profit	6,514	13,948	5,677	1,195	(1,125)
Loss on disposal of discontinued operations	(43,317)	—	—	—	—
(Loss)/profit on ordinary activities before taxation	(38,321)	12,935	5,650	1,206	(1,522)
(Loss)/profit for the year	(39,072)	11,442	5,340	1,176	(1,522)
(Loss)/earnings per share (p)*	1.50	4.41	2.96	1.62	(3.54)
Dividend per share (p)	0.20	0.87	0.48	0.20	—
Shareholders' funds	38,796	50,375	13,749	7,151	5,683

* Earnings per share for the years ended 30 June 1997, 1996 and 1995 are pro-forma amounts calculated on the basis set out on page 29 and note 8 to the financial statements.



United Kingdom

- 1 Balmoral area
- 2 Maureen area
- 3 East Midlands
- 4 Stockbridge
- 5 Goodworth
- 6 Horndean, Singleton

Italy

- 7 Strangolagalli

Russia

- 8 Palyanovskoye
- 9 Kammenoye
- 10 Priobskoye
- 11 Salym

Chairman's statement

The period ended 30 June 1997 was an eventful and somewhat traumatic year in the Pentex Group's history.

I dealt, in my Interim Statement and in the Circular, both dated 11 April 1997, with the chain of events emanating from the unexpected tax changes in the November 1996 Budget, resulting in the cessation of the Melrose partnership activities and subsequent disposal of the Melrose Petroleum Group. An exceptional loss of £43.3 million arose on the disposal, comprising a loss of £17.1 million on the disposal of the partnership businesses and US oil and gas properties and a further £26.2 million, charged against profits in accordance with accounting standards, relating to goodwill that had previously been eliminated against reserves when the Melrose businesses were originally acquired. Also reflected in the Profit and Loss account is a dividend of £11.1 million that was paid in specie, representing the agreed value of net assets attributable to the Melrose businesses being disposed of, in consideration for cancellation of 60 million ordinary shares at the prevailing market price of 18.5p.

The sheer scale of the figures relating to the disposal masks the otherwise strong trading performance of the Pentex Group's United Kingdom oil and gas operations, which were the cornerstone of the Pentex acquisition in December 1995. Positive developments affecting other key aspects of the Pentex Group's continuing operations offer much encouragement for the future.

Turnover from continuing operations for the 12 months was £22.74 million, a modest increase over that for the year ended 30 June 1996. Pre-tax profit from continuing operations was approximately £5 million and after-tax profit £4.25 million. On the basis of approximately 290 million shares in issue following the recent transactions, this translates into a pro-forma earnings per share of 1.50p. Balance sheet net assets at 30 June 1997 were £38.8 million. Net gearing was approximately 40%.

No interim dividend was paid during the year, as a result of the dramatic consequences attendant upon the Budget. Your Board is, however, pleased to recommend a final dividend for the year of 0.2p per share.

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All the Pentex Group's profit from continuing operations, with the exception of a modest contribution from the management contract referred to below, came from its producing oil and gas assets onshore and offshore the United Kingdom, the recent daily production of which has averaged approximately 5,200 barrels of oil equivalent. It is currently anticipated that the level of production will remain more or less constant in the near term. During the financial year, the Pentex Group pursued a policy of hedging part of its production through forward sales. Your Board reviews the hedging policy at regular intervals and remains of the view that, in the current state of the world market for oil, reducing commodity price risk will continue to be in the Pentex Group's best interests.

Although the United Kingdom producing assets currently account for substantially all of the Pentex Group's earnings and cash flow, they do not represent by any means the totality of the Pentex Group's activities or of its potential value. The most important component of potential value is the Pentex Group's approximately 40% interest in Sibir Energy plc ("Sibir"), which is managed by the Pentex Group

pursuant to a management agreement. Sibir, whose shares are traded on the Alternative Investment Market, has, since its flotation in April this year, continued to acquire additional substantial interests in oil reserves in its "core area" of the Khanty-Mansiysk autonomous region of Western Siberia. The total estimated technical recoverable reserves attributable to Sibir is approximately 245 million barrels of which 98 million barrels are attributable to the Pentex Group representing a greater than five fold increase in Pentex Group reserves. Laws have now been enacted specifying three of the fields in which Sibir is interested now eligible for Production Sharing Agreements (PSA's) with the Russian Federal Government. Progress is being made towards the approval of the PSA's for certain other key fields including the Salym field. Positive developments in this regard are anticipated during the remainder of 1997. Additionally, it is apparent that opportunities exist for Sibir to enhance significantly the scope of its assets and activities in Western Siberia and these opportunities are being pursued actively. At the time of writing, the market value of the Pentex Group's investment in Sibir stands at an 85% premium over

Strong trading performance of the Pentex Group's United Kingdom oil and gas operations.

Chairman's statement continued

the original cost of investment, which translates into an unrealised gain of approximately £9.2 million. The potential of the Russian interests is very substantial and your Board is optimistic that this positive trend will continue. Your Board is concerned that the current Pentex share price does not reflect adequately even the market value of the Pentex Group's investment in Sibir, let alone the substantially higher values already being attributed by City investment analysts.

In Italy, the Pentex Group has improved its position considerably by entering into a binding agreement to acquire the 50% of the Strangolagalli Concession, in the Central Appenine Region, which it does not already own. The acquisition agreement also includes interests in four other exploration permits located in this prospective and exciting area. On completion of the assignment of these interests, the Pentex Group will hold a strategic position in an area where it is already producing oil. Based upon field data and exploration activity to date, there is reason to believe that significant reserves exist in deeper, more extensive reservoirs. As a prerequisite to the commencement of deep exploration drilling, we have embarked on a geological and geophysical work programme. The area is currently attracting a high

level of interest from other, major oil companies and the management consider that the Pentex Group is ideally placed to defray substantially initial drilling expenses through farm-in agreements.

I well understand the disappointment which has resulted from the events subsequent upon the November 1996 Budget tax changes. These changes were wholly-unexpected, not only by your Board but, evidently, by the oil and gas industry as a whole. The changes not only eliminated the largest single element of the Pentex Group's prospective profitability but rendered invalid the basic assumptions upon which the accounting for the limited partnership business had been based since its inception. The removal of the tax benefits enuring to the limited partners and vicariously enjoyed by the Melrose Petroleum Group, eliminated the going concern status of the partnership activities. Substantial write-offs were rendered unavoidable, irrespective of whether the partnership business was retained or disposed of. In the circumstances, your Board concluded that sale of the Melrose Petroleum Group, on the terms achieved, back to its founder and realistically the only viable potential purchaser, was in the best interests of the Pentex Group and its shareholders.

The total estimated technical reserves attributable to Sibir is approximately 245 million barrels of which 98 million are attributable to the Pentex Group representing a five fold increase in the Pentex Group reserves.

While the Pentex Group's involvement with the limited partnership business is now a matter of history, the bruising experience has had an adverse effect on market confidence and driven the share price, in the opinion of your Board, well below its true value. This value lies in the totality of the net present value of the Pentex Group's producing assets, exploration interests and participation in Sibir. What has emerged from the reconstruction is a group which, albeit considerably smaller in terms of reported earnings, combines a sound financial position, strong cash flow and a seasoned management team with exciting prospects for future growth.

Your Board is committed to rebuilding value for shareholders. We will do this through continued development of the Pentex Group's existing portfolio, through seeking opportunities to exploit the Pentex Group's exploration assets on the basis of carried interests and through the continuation of an aggressive approach to the acquisition of new assets and opportunities.

The negotiations for disposal of the Melrose Petroleum Group, notwithstanding the strenuous efforts of your Board and its professional advisers

to expedite matters, were in the event protracted in an unnecessary manner, with consequent and regrettable damage to stockmarket perceptions and credibility. It has only been since the conclusion of the disposal, in May 1997, that senior management has been able once more to concentrate on new initiatives and respond to the numerous and varied opportunities available to the Pentex Group. I am confident that their efforts will win early recognition and hopeful that this will, in turn, result in renewed investor interest and confidence in our shares.

We look forward to the future with confidence and optimism.



Anthony Surtees
Chairman

13 October 1997

1 Balmoral area Total reserves (mboe): 419 % interest: 4.8-8.0% Operator: Agip	4 Stockbridge Total reserves (mboe): 6,714 % interest: 100% Operator: Pentex
2 Maureen area Total reserves (mboe): 964 % interest: 8.5% Operator: Phillips Petroleum	5 Goodworth Total reserves (mboe): 750 % interest: 100% Operator: Pentex
3 East Midlands Total reserves (mboe): 10,804 % interest: 100% Operator: Pentex	6 Horndean, Singleton Total reserves (mboe): 375 % interest: 18.75% Operator: Soco
	7 Strangolagalli Operator: Pentex

Review of operations

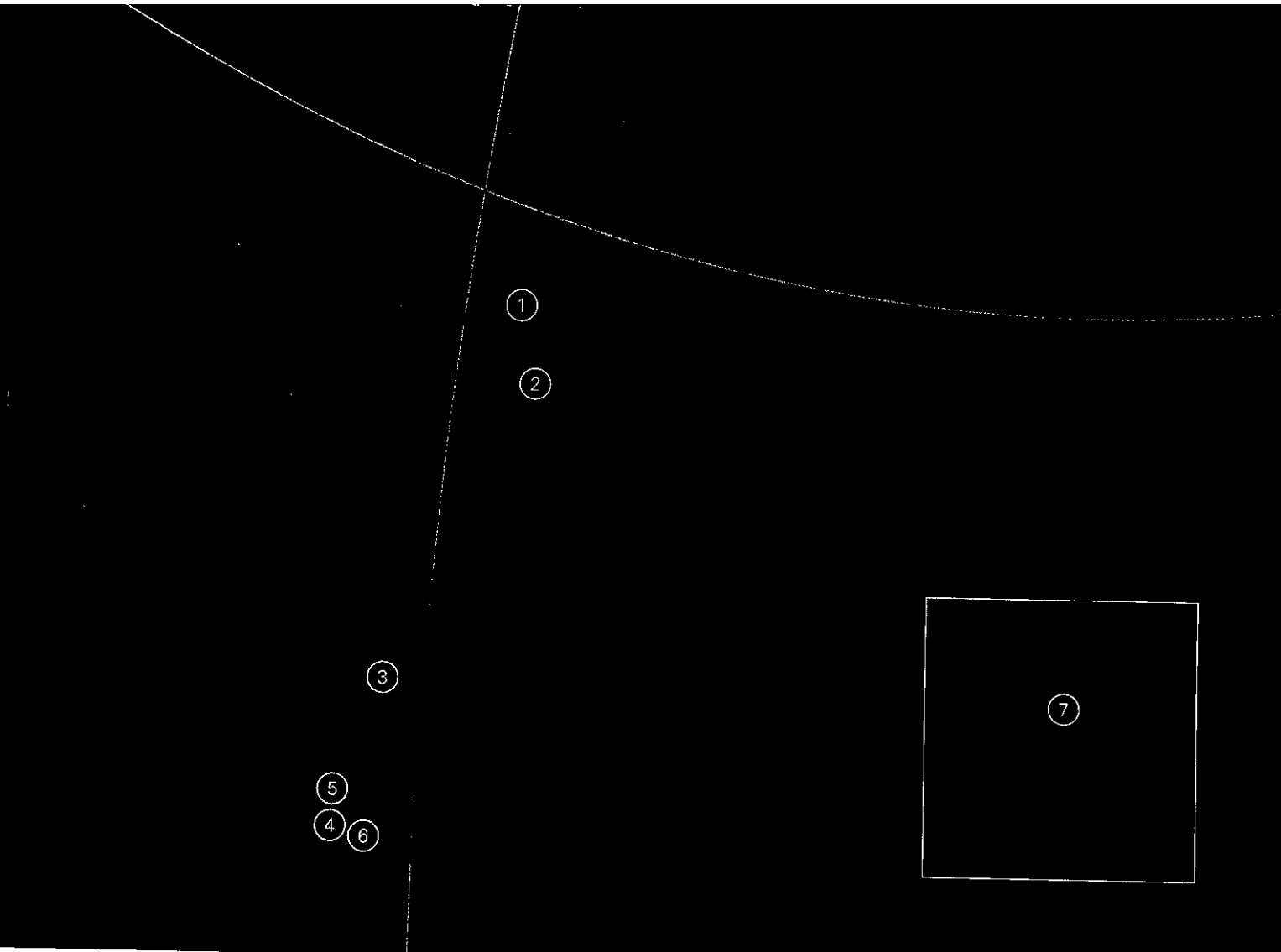
UK operations

Production for the Pentex Group's UK assets for the year averaged 5,184 boepd of which 66% (1996: 64%) was generated by the Pentex Group's 100% owned and operated fields. The remaining 34% (1996: 36%) arose from the Pentex Group's interests within the Maureen and Balmoral areas of the UKCS and in interests held in onshore fields in the Weald Basin in southern England.

Onshore UK

UK onshore operated and non operated production averaged 3,647 boepd (1996: 3,404 boepd). The Pentex Group's wholly owned and operated assets in East Midlands and Hampshire accounted for 95% (1996: 94%) of the UK onshore production.

Production from the Pentex Group's fields in the East Midlands amounted to 1,742 boepd (1996: 1,560 boepd). The third phase of the gas fired power generation facility was commissioned in January 1997, increasing capacity from 6 to 9 megawatts. The majority of the electricity generated is sold to the local regional electricity company, Yorkshire Electricity Group, with some of the power generated utilised for the Pentex Group's internal needs in the area. Operating experience with the gas fuelled power plants has been excellent since the Pentex Group commissioned the first 3 megawatt phase in July 1995. Availability on the equipment has been high and the Pentex Group continues to explore for additional sources of gas to expand this profitable part of its business.



Two wells were successfully completed during the year in the Glentworth field in the East Midlands. Glentworth 10, a horizontal development well, was completed in July 1997 and Glentworth 11 drilled in February. Glentworth 11 encountered sands substantially thicker at a higher elevation than previously found in the field leading to an increase in recoverable reserves booked to the reservoir.

A plunger assisted intermittent lift system was installed on the Gainsborough 34 well to facilitate crude oil production in a high gas oil ratio well. The successful application of this system allows access to oil and gas from the oil rim around the gas cap in the Gainsborough/Beckingham reservoir which has been difficult to produce. The additional gas recovered by this system is supplementing the gas supply for power generation.

Reviews of water injection schemes to enhance the oil recovery in the East Midlands were initiated and are ongoing.

Production from the Pentex Group's interests in the Weald Basin amounted to 1,905 boepd (1996: 1,964 boepd). Production from the Stockbridge field decreased from the previous year to an average of 1,688 boepd (1996: 1,757 boepd). Two wells were drilled in the Stockbridge field during the year. Stockbridge 16y was drilled underbalance, as a producer to the central fault block of the field. The well encountered lower reservoir pressure than anticipated and while presently on production is being considered for conversion to a water injection well. Stockbridge 3z was successfully re-drilled in the southern central fault block. The existing deviated well was side-tracked horizontally with coiled tubing to an updip position.

A seismic programme is planned to be carried out over the southern fault block to finalise well targets for further development wells in that section of the field.

**The Group's oil and gas reserves
as at 30 June 1997**

Total reserves analysed
by cost pool (mbeo)

————— UK onshore 18,643

————— UK offshore 1,383

Total reserves analysed
by category (mbeo)

————— Proved producing 10,931

————— Proved undeveloped 4,712

● ————— Probable 4,383

Review of operations continued

The average production in the non operated properties Hordean and Singleton for the year was 217 boepd (1996: 159 boepd). Currently a re-drill of a Hordean well is being evaluated by the partners in the field.

Onshore UK Exploration

The Pentex Group acquired the licence to the Goodworth field in the 12th onshore licensing round. Since the award of the licence, a review of the reservoir and geology work has been carried out. A new well site has been constructed to utilise the existing but previously abandoned well bore which will be re-drilled as a horizontal multi-lateral. The well will be drilled under balance using coiled tubing, drilling commenced in October 1997.

Following the acquisition of the licence PEDL 020 in the 12th onshore licensing round, a prospect has been identified from the existing data. Additional seismic will be acquired to fully map the structure, with the intention to drill the prospect in 1998.

The Pentex Group produced small volumes of coal bed methane gas from an existing well bore in the Gainsborough /Beckingham field in the East Midlands. One coal seam (from five available) was reperforated to demonstrate the presence of methane. A further test programme is being designed to incorporate gas production from all the coal seams overlying the oilfields in this area. The test programme is aimed at deriving some crucial reservoir parameters to determine the gas volumes in place and to demonstrate that commercial production of this resource is viable. The programme is likely to involve a number of existing boreholes and new wells to optimise methane extraction. The Pentex Group is also reviewing the potential for coalbed methane in its Milton of Balgonie licence in the Midland Valley of Scotland. This area of the country has proven producing coal bed methane reserves and the Pentex Group's acreage is located in an area which is believed to have good potential for gas.

Oil and gas reserves

The Group's oil and gas reserves as at 30 June 1997 comprised:

	total mboe	United States Onshore mboe	United States Offshore mboe	United Kingdom Onshore mboe	United Kingdom Offshore mboe
At 1 July 1996	26,294	5,540	438	18,412	1,904
Revisions of previous estimates	767	—	—	855	(88)
Discoveries	878	—	—	750	128
Purchases of reserves in place	—	—	—	—	—
Disposals and farm outs	(5,945)	(5,473)	(429)	(43)	—
Production	(1,968)	(67)	(9)	(1,331)	(561)
At 30 June 1997	20,026	—	—	18,643	1,383
Proved producing	10,931	—	—	10,266	665
Proved undeveloped	4,712	—	—	4,712	—
Probable	4,383	—	—	3,665	718
	20,026	—	—	18,643	1,383

Excluded from the above is the reserves attributable to the Group's interest in Sibir Energy plc which amount to 245 million barrels of technical ultimate recoverable reserves after taking into account Sibir's increased investment in Ugraneft on 17 July 1997.

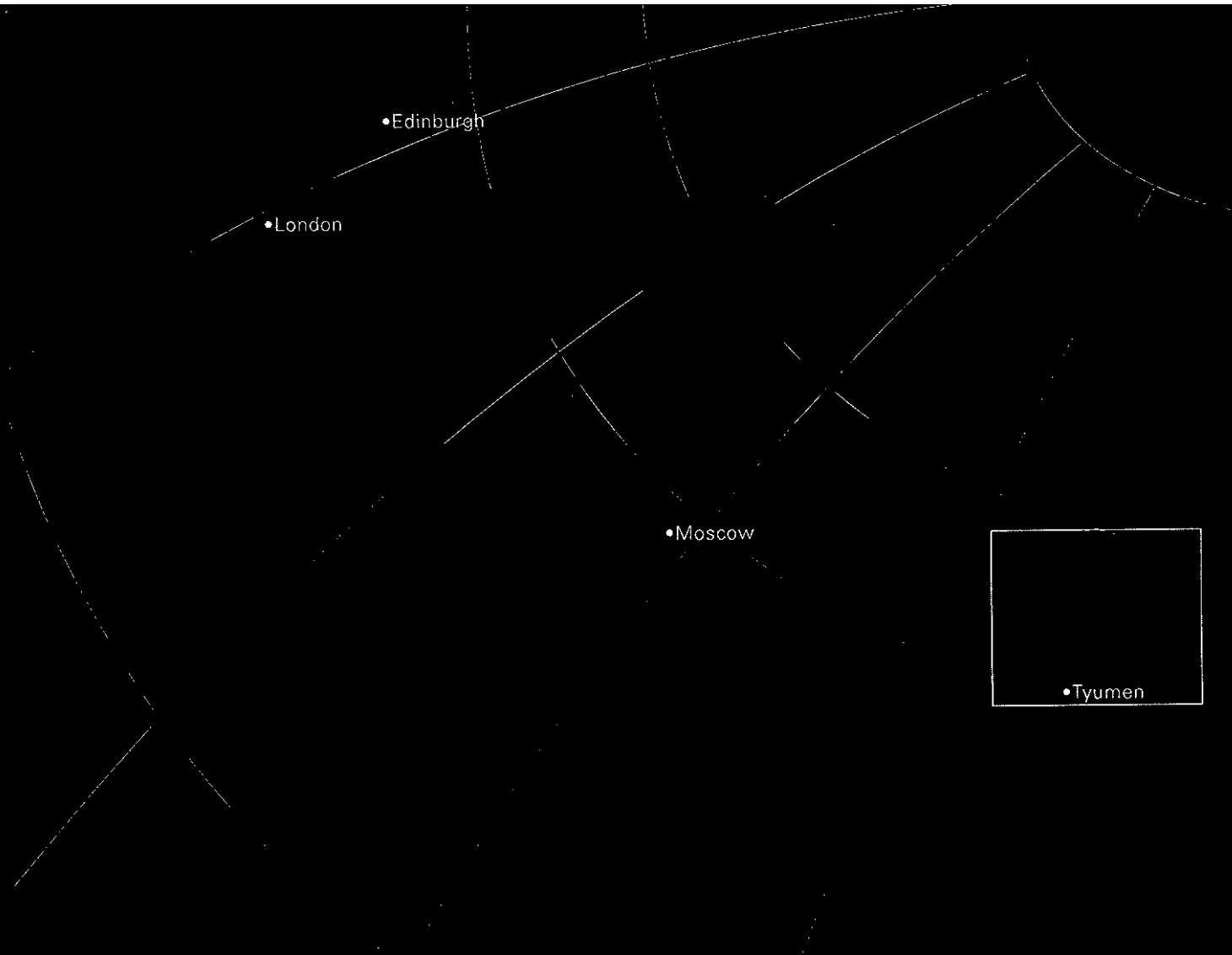
The Pentex Group is preparing to commence a geological and geophysical work programme, including seismic acquisition, to determine the viability of an exploration project over a large structure in the Gainsborough area in the East Midlands. The structure lies at a depth of around 15,000 feet and is believed to contain gas. The geological and geophysical programme would lead to an early exploration borehole to the structure if confirmed. The Pentex Group views the play as high risk high reward and is in discussion with third parties who have expressed an interest in earning equity in the project by providing a financial carry to the Pentex Group through the early exploration phase.

Offshore UKCS

UK offshore production averaged 1,537 boepd (1996: 1,678 boepd) arising from the Pentex Group's interest in two blocks 16/21a ("the Balmoral area") and 16/29a ("the Maureen area"). Average Balmoral

area production for the year was 740 boepd (1996: 831 boepd). A number of operational difficulties were experienced during a period of four months due to the failure of subsea flowlines and the flexible risers to the platform. Production was below forecast for this period but was returned to a level in excess of forecasts following the resolution of these problems. The operatorship of the field changed when Agip acquired Sun Oil's interests in the area. The effective date of the transaction was 1 July 1996 with the handover completed on 30 September 1996. Based on current economics the end of the field life is now expected to be extended until late 1999.

The Maureen area production averaged 797 bopd (1996: 847 bopd). Production during the year was increased by using downhole electrical submersible pumps in some wells allowing the gas lifting of other wells to be maximised. In addition two wells have been drilled, A24 a crestal infill well and a Mary well A25 targeted at the Jurassic formation. Well A21 was



Review of operations continued

also reperforated to establish production from the Palaeocene reservoir in an attempt to increase total output from the well. Subsequently the operator Phillips has extended the end of field life from late 1997 to late 1998 or early 1999. As part of the review and work on field abandonment Phillips are also currently marketing the Maureen platform for possible use on another development after the end of its use in the Maureen area.

Onshore Italy

The Pentex Group continues to operate its interest in the Strangolagalli concession in the Latina Valley. The prime target in the area is the exploration of extensive deep reservoirs which are believed to underly the shallow oil producing Miocene reservoirs. The Pentex Group has embarked on a geological and geophysical programme which is aimed at refining drilling targets in the deeper horizon. The Pentex Group has entered into an agreement with its partner, Lumax, in the concession which will increase its interest in the field from 50% to 100%. In addition the Pentex Group will also acquire interests in four

adjacent exploration permits. This establishes the Pentex Group in a strategic position in the area which is growing in interest with other major companies becoming active.

US operations

The US activities were conducted principally in association with the Melrose partnerships. All the operations in the US were disposed of by the Pentex Group in the demerger of the partnership and US activities which was approved at an Extraordinary Meeting on 7 May 1997.

Western Siberia

The Pentex Group has no direct involvement in operations in Western Siberia. Through its interest in Sibir Energy plc it has an indirect interest in the operations of Evikhon Joint Stock Oil Company and Ugraneft Joint Stock Oil Company. Evikhon has interests in the Salym fields and has entered into a joint venture with Shell Salym Development BV to exploit and develop these fields. The joint venture

**Khanty-Mansiysk Orug in
Western Siberia – Core area**

- 8 Palyanovskoye
- 9 Kammenoye
- 10 Priobskoye
- 11 Salym



is conditional on the granting of and the terms and conditions of a Production Sharing Agreement between Evikhon, the joint venture and the Russian Federation. Presently the joint venture is actively engaged in discussions with the representatives of the Russian Federation and is hopeful that the law specifying the Salym fields as eligible for a Production Sharing Agreement will be enacted before the end of the year.

Pending this legislation Evikhon is actively engaged in designing and building the infrastructure which will be required to enable the development of the field to proceed.

Ugraneft has interests in Palyanovskoye, Kammenoye, Lebeze for which Production Sharing Agreements were enacted on or about July 1997. This legislation had encouraged Ugraneft to proceed with the development plan for the Palyanovskoye fields, the first four wells of a 16 well programme are in the course of being completed. In the cases

of Kammenoye and Lebeze, Ugraneft awaits proposals from the field operators. At Southern Priobskoye, Ugraneft and its partner Amoco are in discussion with the Russian Federation authorities with a view to securing Production Sharing Agreement legislation for the fields. Pending this, Ugraneft has designed a pilot scheme for the initial development of the field.

Financial review

Summary

The Pentex Group's results for the period are dominated by the exceptional charges arising from the disposal of the Melrose partnership and other peripheral US activities. The business remaining post the demerger generated solid profit for the year after tax of approximately £5.0 million. An exceptional charge of £43.3 million arises from the provision for the loss on disposal of the demerged properties of £17.1 million and the need to write back goodwill of £26.2 million through the profit and loss account, which had previously been taken to reserves when Crossroads Oil plc acquired the original Melrose business in March 1995. Additionally as part of the demerger a dividend in specie was paid in the amount of £11.1 million. This dividend was satisfied by the Pentex Group's entire shareholding in the Melrose Petroleum Group which owned all of the demerged entities. Upon the payment of this dividend in specie 60 million shares in the Pentex Group were cancelled.

Operating profit

Operating profit for the year from continuing operations is £6.5 million. This compares favourably with the pro-forma figure for 1996 allowing for exchange rate movement. Expenditures for the continuing operations for the year were in line with expectation. A slight increase in the depletion charge per barrel for the year from £2.33 to £2.39 arises from reserve adjustments. Administration expenditures show an increase from £1.7 million to £2.9 million which is attributable to currency exchange movements. Foreign exchange losses of £1.0 million in respect of the conversion of dollar cash balances into sterling were incurred during the period. Operating profits of the demerged activities for the period up to disposal were break-even.

UK oil sales are based on average dated Brent oil prices. The realised average sterling sales price per barrel over the year was £12.41 (1996: £11.70). The average dollar price was \$20.18 (1996: \$17.95). During the year, various swap transactions were entered into to reduce the exposure to a reduction in the oil price. As a result of these transactions, the Pentex Group did not fully participate in the increases in the oil prices during the second half of 1996, to the extent that production volumes were hedged.

Interest

Net interest payable for the twelve month period was £1.5 million (for the seven month period to 30 June 1996 £1.0 million), primarily in respect of the revolving loan facility.

Taxation

The current year tax charge relates to UK corporation tax following the use of prior years tax losses brought forward of £1.0 million. This is partially offset by a deferred tax release of £0.9 million.

Dividends

The Pentex Group's policy historically has been one of paying dividends and it intends to continue in this manner subject to the overall commercial position and operational demands on cash flow. The Pentex Group proposes that the final dividend for the year will be 0.2p per share.

Financing

At the end of the year net debt was £15.7 million with gearing of approximately 40% (1996: 24%). The reduction in the net assets arising from the demerger of the partnership and related US activities accounts for the increase in the balance sheet gearing from the previous period. Banking facilities at the end of the year comprise a revolving credit facility of \$79.0 million which was drawn down to the extent of \$56.3 million with \$12.7 million of cash currently held on deposit for debt reduction or asset acquisition by the end of 1997. During the year the Pentex Group entered into a finance lease in respect of the gas fired power generation equipment in the East Midlands area.

Financial risk management

The Pentex Group's policy is to seek to limit its exposure to adverse movements in exchange rates and oil and gas prices subject to achieving a reasonable balance between the costs of hedging instruments and the economic risks. The Pentex Group receives income in US\$. Weakness in US\$/£ exchange rate produces a lower sterling denominated cash flow. However some protection is provided by the revolving credit facility being denominated in US\$. The Pentex Group has, and historically on a short term basis, hedged against movements in the dollar oil price through the use of futures markets. During the period, the Pentex Group has taken out oil swaps on a quarterly basis on up to a maximum of 50% of its UK production. The Pentex Group will continue this policy and also review other derivative products which it can participate in to manage its exposure to crude oil risks.

Insurance cover is maintained against operational risks such as physical damage to equipment and property, well blowouts, pollution, storm, fire and business interruption.

Accounts

- 14 Report of the Directors
- 17 Report of the remuneration committee
- 19 Corporate governance
- 20 Directors' responsibilities for the financial statements
- 20 Report of the auditors
- 21 Accounting policies

- 23 Consolidated profit and loss account
- 24 Statement of total recognised gains and losses
- 24 Reconciliation of movements in shareholders' funds
- 25 Consolidated balance sheet
- 26 Group cash flow statement
- 27 Balance sheet
- 28 Notes to the financial statements
- 38 Five year summary
- 39 Notice of the annual general meeting
- 41 Directors and advisers
- 41 Shareholders' information

Report of the Directors

The Directors present their report together with financial statements for the year ended 30 June 1997.

Principal activity

The Company is a holding company. The Group's principal activity is oil and gas exploration, development and production.

Results and dividends

The Group loss for the year after taxation amounted to £39,072,000 as compared to a profit of £11,442,000 for last year. Included in the loss for the year is an exceptional loss in respect of the disposal of subsidiary undertakings which amounted to £43,317,000. No interim dividend was paid during the year (1996: 0.29p per ordinary share). The Directors recommend the payment of a final dividend of 0.2p per ordinary share (1996: 0.58p per share), leaving a retained loss transferred to reserves of £50,752,000.

A review of the Group's business and prospects is set out in the Operations and Financial Reviews on pages 6 to 12.

Acquisitions

On 5 September 1996 the Company acquired a 49.1% interest in Sibir Energy plc a company specifically set up for the purposes of acquiring a 20% interest in Evikhon Oil Joint Stock Company.

Share capital

At an Extraordinary General Meeting of the Company on 11 December 1995 a resolution was passed to increase the authorised share capital of the Company to £22,000,000 by the creation of an additional 195,000,000 ordinary shares.

On 23 July 1996, 1,256,064 ordinary shares were allotted at 40.25p per share in part consideration for the acquisition of Melpet 1 Limited.

On 5 September 1996, 24,109,443 and 7,631,257 ordinary shares were allotted at 48p and 48.625p per share respectively in consideration for the acquisition of an interest in Sibir Energy plc and to raise funds for working capital purposes.

On 27 September 1996, 730,385 ordinary shares were issued at an average price of 23p due to the exercise of options under the executive share option scheme.

On 4 December 1996, 85,000 ordinary shares were issued at a price of 20p due to the exercise of options under the executive share option scheme.

On 7 May 1997, in connection with the demerger of all the Company's interests in the Melrose partnership activities and US oil and gas properties to RHK Nominees Limited by a special resolution passed at an Extraordinary General Meeting 60,000,000 ordinary 5p shares in the Company, held by RHK Nominees Limited, were redesignated as "B" ordinary 5p shares. The ordinary 5p shares not redesignated as "B" ordinary 5p shares were designated as "A" ordinary 5p shares. The "A" and "B" ordinary 5p shares ranked *pari passu* in all respects except that the "A" ordinary 5p shares carried the sole right to participate in any distributions made by the Company directly or indirectly representing or attributable to the entire assets of the Company other than the "B Assets". The "B Assets" meant the entire issued share capital of the Melrose Petroleum Group Limited. The "B" ordinary 5p shares carried the sole right to participate in any distribution made by the Company directly or indirectly representing or attributable to Melrose Petroleum Group Limited.

On 7 May 1997 by ordinary resolution passed at an extraordinary general meeting a dividend was declared on the "B" ordinary 5p shares of £11,100,000. This dividend was satisfied in specie by the transfer to the holder of the "B" ordinary 5p shares of all the shares in Melrose Petroleum Group Limited. Forthwith on making the distribution the "B" ordinary 5p shares were redesignated as Special Deferred Shares. On 12 June 1997 the Company under the terms of a special resolution passed on 7 May 1997 purchased from RHK Nominees Limited for 1p the Special Deferred Shares because they no longer had any value following the distribution of the shareholding in Melrose Petroleum Group Limited to which they were entitled. On the purchase of the Special Deferred Shares an amount of £3 million was transferred to the Capital Redemption Reserve Fund

representing the nominal value of the shares purchased and thus removed from the Company's issued share capital. On the redesignation of the "B" ordinary 5p shares as Special Deferred Shares and the subsequent purchase thereof by the Company the ordinary shares of the Company were redesignated as ordinary shares of 5p and the authorised share capital of the Company was £22,000,000 divided into 440,000,000 ordinary 5p shares each ranking in pari passu in all respects.

Directors

The Directors in office at the end of the year are listed below together with their interests at 1 July 1996 and 30 June 1997 in the ordinary shares of the Company:

	Ordinary shares At 30 June 1997	Ordinary shares At 1 July 1996	Share options At 30 June 1997	Share options At 1 July 1996
A C Surtees	270,000	270,000	—	—
H O Cameron	14,468,488	14,148,718	1,304,000	1,304,000
G Lane	388,517	347,976	956,500	956,500
W L S Guinness	1,786,081	705,000	—	—
A T West	108,108	—	—	—

All the above holdings are beneficial.

Mr R F M Adair resigned from the Board on 7 April 1997. All other Directors served throughout the year.

In accordance with the Articles of Association, Mr West retires by rotation at the forthcoming Annual General Meeting of the Company, and being eligible, offers himself for re-election. Details of the Directors' service contracts are included in the Report of the Remuneration Committee on pages 17 and 18.

No Director had any interest in the shares of subsidiary undertakings. There have been no changes in Directors' interests between 30 June and 13 October 1997.

Directors' interests in transactions

No Director had, during or at the end of the year, a material interest in any contract which was significant in relation to the Group's business except in respect of service agreements and share options.

Biographical information on Non-executive Directors

Mr Anthony Surtees (Chairman) served as a commercial partner for over 25 years in the London law firm of Norton Rose before retiring in 1991. He was appointed to the Board of the Company in May 1991. He also sits on the board of the charitable Solicitors Benevolent Association and is the Reviewer of Complaints for the Institute of Chartered Accountants in England and Wales.

Mr William Guinness was appointed a Non-executive Director of Pentex Energy plc in December 1995 having previously been a Non-executive Director of Pentex Oil PLC. He is a Director of Henry Ansbacher plc and was formerly a Director of Guinness Mahon & Co Limited and Banque Lausanne de Portfeuille. He holds a number of directorships in private companies covering a wide range of investments.

Mr Andrew West is Managing Director of Strand Partners Limited, an investment banking firm, which he joined in July 1997. Prior to that he was a Director of Guinness Mahon & Co. Limited, which he joined in 1991. This followed three years as an Executive Director of Lehman Brothers International Incorporated where he had primary responsibility for international merger and acquisition advisory services. Prior to this he worked for Lehman Brothers Inc. in New York. He is also Chairman of Sibir Energy plc, a Non-executive Director of First City Insurance Group Limited, a Lloyd's broker, and of Combined Landfill Projects Limited, a company specialising in the generation of electricity from renewable energy resources.

Fixed assets

Additions to the Group fixed assets during the year amounted to £6,669,000. The principal items of capital expenditure during the year were in respect of drilling expenditures and in respect of the power generation project in the East Midlands.

Payments policy

It is the Company's intention to follow the CBI Code of Best Practice for Buyers in relation to the payment of its suppliers for the forthcoming year. Copies of, and further information on, the CBI Code can be obtained from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DV.

Substantial shareholders

At 13 October 1997, the Company had been notified of the following interests of 3% or more in the nominal value of the Company's ordinary shares:

	No. of shares	%
Popeshead Nominees Limited (a/c S)	15,500,000	5.3
H O Cameron	14,468,488	4.9
Midland Bank Trust Company Limited (a/c 19258801)	12,200,000	4.2
Strand Associates Limited	11,000,000	3.8
Midland Bank Trust Company Limited (a/c 19205309)	8,800,000	3.0
R H K Nominees Limited	8,744,161	3.0

Auditors

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

Post balance sheets events

On 22 August 1997 the Company issued 82,142 new ordinary shares for cash at a price of 14p.

Special business at the Annual General Meeting

Resolution 6 to be put at the forthcoming Annual General Meeting will, if passed, give the Directors authority until the conclusion of the next Annual General Meeting of the Company to be held in 1998 to allot shares up to the specified amount, which represents less than one third of the issued share capital of the Company and the maximum number of shares in respect of which options have been granted pursuant to the Company's Employee Share Option Scheme. Resolution 7 will, if passed, empower the Directors until the conclusion of the next Annual General Meeting to make limited allotments of shares for cash other than according to the statutory pre-emption rights. In the case of Resolution 6 the specified amount represents 5% of the issued share capital.

By order of the Board
M L Manderson
Secretary



13 October 1997

Report of the remuneration committee

The Board established a Remuneration Committee in 1994 to advise the Board on remuneration policy for senior management. The Remuneration Committee is chaired by Mr A T West and comprises all the Non-executive Directors.

Policy

Executive remuneration packages are designed to attract, motivate and retain Directors and senior management of the highest calibre with the appropriate skills and experience. Remuneration packages comprise principally basic salary, share options and pension contributions. The Remuneration Committee consider that Directors should be remunerated for their contribution to enhancing shareholder value and consequently the Company's share option scheme is an important element to the remuneration package.

Remuneration packages are reviewed annually by the Committee having regard to market conditions. The fees of Non-executive Directors are reviewed periodically to ensure that these are in line with current market practice. Changes are recommended by the Chief Executive and approved by the Executive Directors. The Company's Articles of Association restrict Non-executive Directors' remuneration to an aggregate of £100,000 per annum or such other sum as the Company, in general meeting, shall from time to time determine.

Compliance

The Company has complied with the principles set out in the best practice provisions included as Section A annexed to The Listing Rules. The Remuneration Committee has had regard to the recommendations of section B annexed to The Listing Rules in determining its policy for executive remuneration.

Directors' remuneration

The remuneration of the Directors for the year ended 30 June 1997 was as follows:

	Salary £000	Benefits £000	Pension contri- butions* £000	Fees £000	Compensation for loss of office £000	Total 1997 £000	Total 1996 £000
Executives							
H O Cameron	150	5	15	–	–	170	98
G Lane	110	12	11	–	–	133	74
Non-executives							
A C Surtees	–	–	–	15	–	15	15
W L Guinness	–	–	–	12	–	12	7
A T West	–	–	–	12	–	12	12
Former Director							
R F M Adair	–	–	–	69	77	146	232
	260	17	26	108	77	488	438

* The Company makes contributions to personal pensions for Messrs. Cameron and Lane at the rate of 10% of salary.

Mr R F M Adair was remunerated by way of a consultancy agreement between the Company and Westview Services Limited, a Company controlled by him. Other remuneration paid to Mr Adair represents an amount in connection with the termination of the contact between Westview Services Limited and the Company on 19 May 1997.

The emoluments of the highest paid Director was £165,000 (1996: £232,000).

Interests in share options

The Company has an unapproved executive share option scheme under which executive Directors and employees are able to subscribe for ordinary shares. The granting of options is restricted to certain periods immediately following the interim and preliminary announcements of results by the Company. Options are granted at the current market price and are exercisable in the period between the first and seventh anniversaries of their grant. The grant of options is restricted to four times basic salary.

The numbers of options under this scheme held by executive Directors are as follows:

	At 30 June 1997	Exercised	At 1 July 1996 (or date of appointment)
H O Cameron	1,304,000	—	1,304,000
G Lane	956,500	—	956,500

The market price of Pentex Energy plc ordinary shares at 30 June 1997 was 15.00p. During the year ended 30 June 1997 the range of the share price was 56.75p to 13.50p.

The options held by Directors (and former Director) are summarised as follows:

Date exercisable	Expiry date	Option exercise price	H O Cameron	G Lane	S B Pendock
March 1995	December 1998	19p	—	—	321,053
May 1996	December 1998	26p	—	—	571,154
June 1997	June 2003	46p	1,304,000	956,500	—

The options granted to Mr S B Pendock are exercisable up to 31 December 1998.

Service Contracts

No Director has a service contract of more than one year in duration. The Company is liable to pay compensation for any unexpired period of a contract if it is terminated by the Company. The Non-executive Directors service contracts are of one year in duration.

By order of the Remuneration Committee

A T West

Chairman of the Committee

13 October 1997



Corporate governance

Compliance with the Code of Best Practice

The Company supports the recommendations of the Cadbury Committee in its report on the Financial Aspects of Corporate Governance and complied with all the provisions of the Code of Best Practice.

The Board of Directors

Following the resignation of Mr R F M Adair on 7 April 1997, the Board now comprises two Executive Directors and three Non-executive Directors with the roles of the Chairman and Chief Executive divided. The Executive Directors meet regularly and keep the Non-executive Directors fully apprised of developments throughout the Group. The Board meets periodically to consider those matters reserved for their approval in respect of strategic, financial and organisational issues. The appointment of Directors is a formal process involving all members of the Board.

The Board has established an Audit Committee, a Remuneration Committee and an Executive Committee. The Audit Committee, which is chaired by Mr A C Surtees, comprises all the Non-executive Directors. During the year, the Audit Committee met with the auditors to review and consider the interim announcement and the published financial statements and to consider comments made by the auditors on internal control matters that had come to their notice in the course of their work and the systems of internal control. The Remuneration Committee, which is chaired by Mr A T West, meets when necessary to determine the remuneration of Executive Directors and senior management. The Executive Committee has recently been constituted and comprises Messrs Cameron and Lane. The Board will in the future meet at least quarterly.

Internal financial controls

The Directors are responsible for the Group's system of internal financial control which is designed to monitor the Group's financial position and to safeguard the Group's assets. The Directors recognise that any system of internal control can provide only reasonable and not absolute assurance against material mis-statement or loss.

The Directors have established an organisational structure with clearly defined responsibilities and delegation of authority. Management information systems, including annual profit and cash flow budgets, monthly and weekly financial and operational reports for each of the business sectors enable the Executive Directors and senior management of the business sector to monitor financial performance. The Board of Directors receive periodic financial information to enable them to monitor the financial performance of the Group. All commitments and expenditure are subject to approval based on defined authority limits. During the year under review, the Directors have reviewed the systems of internal control.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Pentex Group has adequate resources to continue its operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Auditors review of corporate governance matters

The auditors have confirmed that, in their opinion, with respect to the Directors' statements on internal control (as set out above) and on going concern (as set out above), the Directors have provided the disclosures required by the Listing Rules and the London Stock Exchange and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the Directors' other statements (as set out above) appropriately reflect the Company's compliance with the other aspects of the Cadbury Code specified for their review by Listing Rule 12.43(j). They were not required to perform the additional work necessary to, and did not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company to continue in operational existence.

Directors' responsibilities for the financial statements

The Directors are required by law to prepare financial statements which give a true and fair view of the state of affairs of the Company and the Group at the end of each financial period and of the profit of the Group for the period. The Directors are responsible for keeping proper accounting records, for safeguarding assets and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that suitable accounting policies have been consistently applied, that reasonable and prudent judgements have been used in the preparation of the financial statements, that applicable accounting standards have been followed and the financial statements have been prepared on a going concern basis.

Report of the auditors

to the members of Pentex Energy plc

We have audited the financial statements on pages 21 to 37 which have been prepared under the accounting policies set out on pages 21 and 22. We have also examined the amounts disclosed relating to the emoluments and share options scheme interests of the Directors which form part of the report to the shareholders by the Remuneration Committee on pages 17 and 18.

Respective responsibilities of Directors and auditors

As described above the Directors are responsible for the preparation of financial statements. 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

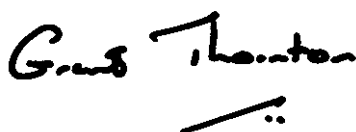
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 mis-statement, 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 and the Group at 30 June 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton
Registered Auditors
Chartered Accountants
London



13 October 1997

Accounting policies

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

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

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all of its subsidiary undertakings using the acquisition method. The financial statements of each company in the Group have been prepared for the period ended 30 June 1997. All intra-group profits are eliminated on consolidation. Goodwill arising on consolidation is written off to reserves immediately on acquisition.

Associated undertakings

Undertakings, other than subsidiary undertakings, in which the Group has a participating interest and over which the Group exerts significant influence are treated as associated undertakings.

The Group's share of the results of the associated undertakings is included in the Group profit and loss account. Where audited financial statements are not coterminous with those of the Group, the share of the results of the associated undertakings is taken from the latest audited financial statements that are available.

The Group balance sheet includes the investment in associated undertakings at the Group's share of net assets. Any goodwill arising is written off directly against reserves on acquisition.

Turnover

Turnover consists of revenues from the sale of oil and gas and income receivable from limited partnerships for management services provided and for the arranging of turnkey drilling contracts on behalf of the limited partnerships. Income arising from the drilling contracts is recognised and profit is taken when the drilling contractor has been procured to fulfil the work specifications submitted by the partnerships.

Turnover in respect of the sale of oil and gas is the total amount receivable by the Group in the ordinary course of business with outside customers after the deduction of statutory severance and ad valorem taxes.

Petroleum revenue tax ("PRT")

PRT is provided for on a unit of production basis over the estimated economic life of each field to the extent that there is estimated that a liability will arise after taking into account available benefits and allowances.

Exploration and development costs

The Group follows the "full cost" method of accounting for costs incurred in the exploration and development of oil and gas properties.

Costs are capitalised in geographical cost pools categorised as "UK onshore" and "UK offshore". The costs of acquisition of property (including rights and concessions) and plant and equipment are included in tangible fixed assets if they relate to proved properties. Exploration expenditure on unproved properties is initially classified as an intangible fixed asset and is excluded from the full cost pools pending determination of the recoverable reserves attributable to the Group's interests.

Investments made for the specific purpose of undertaking oil and gas exploration and development activities jointly with others are included in the full cost pool.

All costs are associated with property acquisition, exploration and development are capitalised whether or not they result directly in commercial discoveries, subject to the limitation that capitalised costs less accumulated depletion do not exceed the estimated value of the proven and probable reserves of the Group. Proceeds from the disposal of oil and gas assets are deducted from the full cost pools.

Depletion

Capitalised costs in respect of oil and gas exploration and developments are depleted on the unit of production method based upon Directors' estimates of the proven and probable reserves of the Group.

Depreciation

Depreciation is calculated by the straight line method to write down the cost less estimated residual value of fixed assets over their estimated useful lives. The rates generally applicable are:

Plant and equipment 10% to 20%

Site restoration costs

Provision is made for site restoration costs calculated on a unit of production basis based on Directors' estimates of proven and probable reserves. Costs are estimated at current prices based upon the extent of decommissioning expected to be required.

Lease and hire purchase obligations

Assets held on finance leases and hire purchase contracts, where the risk and rewards of ownership have passed to the Group, are capitalised and depreciated in accordance with the Group's depreciation policy. Finance charges included in the total lease obligations are charged to the profit and loss account over the period of the lease at a constant proportion of the capital amount outstanding.

Operating lease rentals are charged to the profit and loss account as incurred.

Stocks

Stocks comprise oil in tanks and pipelines and materials and are stated at the lower of cost and net realisable value. Overlifts and underlifts of oil are valued at market value and are included in creditors or debtors respectively.

Foreign currencies

Transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the transaction date. Monetary assets and liabilities are translated into sterling at the rate of exchange ruling at the balance sheet date. Differences on exchange arising from the translation of monetary assets and liabilities are dealt with through the profit and loss account subject to exchange differences arising on the translation of long term loans to subsidiaries being taken to reserves.

Exchange differences arising from the translation, into sterling at year end rates, of assets and liabilities of foreign currency denominated branches are taken directly to reserves.

The balance sheets and profit and loss accounts of overseas subsidiaries are translated at the rate of exchange ruling at the balance sheet date. Exchange differences arising from the retranslation of opening balance sheet amounts are dealt with through reserves.

Deferred taxation

Deferred taxation is the taxation attributable to timing differences between profits or losses computed for taxation purposes and results as stated in the financial statements. Deferred taxation is provided for, to the extent that it is probable that a liability or asset will crystallise, at the rate at which it is estimated that the tax will be paid (or recovered) when the timing differences reverse. Unprovided deferred tax is disclosed as a contingent liability.

Pension costs

The Group contributes to a defined contribution pension scheme and to personal pension schemes. Contributions are charged to the profit and loss account as they become payable.

Consolidated profit and loss account

for the year ended 30 June 1997

	Note	Year ended 30 June 1997 £000	Year ended 30 June 1996 £000
Turnover	1		
Continuing operations		22,740	13,156
Discontinued operations		1,882	24,011
		24,622	37,167
Cost of sales		(10,578)	(18,877)
Depletion		(4,705)	(2,640)
Gross profit		9,339	15,650
Administrative expenses		(2,825)	(1,702)
Operating profit		6,514	4,917
Continuing operations		–	9,031
Discontinued operations		–	9,031
		6,514	13,948
Loss on disposal of discontinued operations	2	(43,317)	–
Net interest payable	4	(1,518)	(1,013)
	5	(1,518)	(1,013)
(Loss)/profit on ordinary activities before taxation		(38,321)	12,935
Taxation on profit on ordinary activities	6	(751)	(1,493)
(Loss)/profit for the year		(39,072)	11,442
Dividends	7	(11,680)	(2,756)
Retained (loss)/profit for the year transferred to reserves	22	(50,752)	8,686
(Loss)/earnings per share (p)	8	(11.66)	4.43
Pro-forma earnings per share (p)	8	1.50	4.41

The accounting policies on pages 21 and 22 and notes on pages 28 to 37 form part of these financial statements.

Statement of total recognised gains and losses

for the year ended 30 June 1997

	Year ended 30 June 1997 £000	Year ended 30 June 1996 £000
(Loss)/profit for the year	(39,072)	11,442
Currency translation differences on foreign currency net investment	(1,762)	41
	(40,834)	11,483

Reconciliation of movements in shareholders' funds

for the year ended 30 June 1997

	Year ended 30 June 1997 £000	Year ended 30 June 1996 £000
(Loss)/profit for the year	(39,072)	11,442
Dividends paid and proposed	(11,680)	(2,756)
	(50,752)	8,686
Other recognised gains and losses relating to the year	(1,762)	41
New share capital subscribed	14,852	50,209
Goodwill reinstated on sale of discounted operations	26,169	—
Goodwill written off	(86)	(22,310)
	(11,579)	36,626
Net (decrease)/increase to shareholders' funds	50,375	13,749
Opening shareholders' funds	38,796	50,375
Closing shareholders' funds		

Consolidated balance sheet

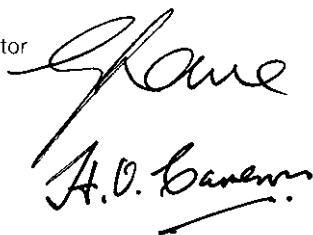
as at 30 June 1997

	Note	As at 30 June 1997 £000	As at 30 June 1996 £000
Assets employed:			
Fixed assets			
Intangible			
Tangible	10	9,190	10,397
Investments	10	43,008	62,369
	11	10,773	13,953
		62,971	86,719
Current assets			
Stock			
Debtors	13	190	272
Cash at bank and in hand	14	5,052	12,213
	15	21,000	30,677
		26,242	43,162
Creditors: amounts falling due within one year	16	(10,385)	(20,750)
Net current assets		15,857	22,412
Total assets less current liabilities		78,828	109,131
Creditors: amounts falling due after more than one year	17	(32,156)	(49,374)
Provision for liabilities and charges	19	(7,876)	(9,382)
		38,796	50,375
Financed by:			
Capital and reserves			
Called up share capital	21	14,499	15,871
Capital redemption reserve fund	22	3,000	-
Share premium account	22	31,073	17,849
Other reserves	22	8,964	2,134
Profit and loss account	22	(18,740)	14,521
Equity shareholders' funds		38,796	50,375

The financial statements were approved by the Board of Directors on 13 October 1997.

H O Cameron
Chief Executive

G Lane
Finance Director



Group cash flow statement

for the year ended 30 June 1997

	Note	Year ended 30 June 1997 £000	Year ended 30 June 1996 £000
Net cash inflow from operating activities	23	6,203	12,145
Returns on investments and servicing of finance			
Interest paid		(2,450)	(3,330)
Finance lease interest paid		(199)	(106)
Interest received		1,316	727
Net cash outflow from returns on investment and servicing of finance		(1,333)	(2,709)
Taxation			
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(5,469)	(4,451)
Proceeds from sale of fixed assets		130	-
Investment in associated undertaking		-	(1,583)
Net cash outflow from capital expenditure and financial investment		(5,339)	(6,034)
Acquisitions and disposals			
Net cash from purchase of subsidiary undertakings		-	13,152
Purchase of interest in associated undertakings		(7,134)	-
Sale of subsidiary undertakings		(4,677)	-
Net cash (outflow)/inflow from acquisitions and disposals		(11,811)	13,152
Equity dividends paid			
Financing			
Issue of shares		11,758	15,873
Expenses paid in connection with share issues		(618)	(1,060)
Capital element of finance lease rentals		(313)	(150)
Repayment of borrowings		(3,911)	(5,098)
Net cash inflow from financing		6,916	9,565
(Decrease)/increase in cash and cash equivalents	24	(7,347)	24,556

Balance sheet

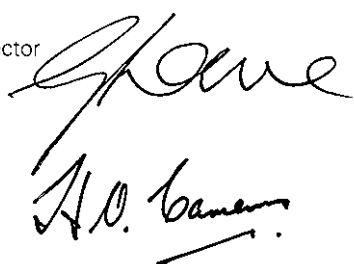
as at 30 June 1997

	Note	As at 30 June 1997 £000	As at 30 June 1996 £000
Assets employed:			
Fixed assets			
Tangible	10	21	17
Investments	12	49,891	70,419
		49,912	70,436
Current assets			
Debtors	14	24,201	21,414
Cash at bank and in hand	15	9,088	7,950
		33,289	29,364
Creditors: amounts falling due within one year	16	(2,395)	(12,168)
Net current assets		30,894	17,196
Total assets less current liabilities		80,806	87,632
Provision for liabilities and charges	19	(855)	(1,732)
		79,951	85,900
Financed by:			
Capital and reserves			
Called up share capital	21	14,499	15,871
Capital redemption reserve fund	22	3,000	—
Share premium account	22	30,578	17,354
Other reserves	22	31,276	50,529
Profit and loss account	22	598	2,146
Equity shareholders' funds		79,951	85,900

The financial statements were approved by the Board of Directors on 13 October 1997.

H O Cameron
Chief Executive

G Lane
Finance Director



Notes to the financial statements

for the year ended 30 June 1997

1 Turnover and profit on ordinary activities before taxation

Turnover and profit on ordinary activities before taxation are attributable to the Group's principal activity of oil and gas exploration, development and production in the United Kingdom and the United States of America.

Segmental information

	1997 Turnover £000	1997 Operating profit £000	1996 Turnover £000	1996 Operating profit £000
Continuing operations:				
UK	22,740	8,615	13,156	4,917
Discontinued operations:				
USA	1,882	–	24,011	9,982
Group overheads	–	(2,101)	–	(951)
	24,622	6,514	37,167	13,948

A segmental analysis of oil and gas assets is provided in note 10. The Directors consider that the segmentation of other net operating assets between geographic areas is not practicable. There is no difference between origin and destination of turnover.

2 Operating profit

The operating profit is after charging the following:

	1997 £000	1996 £000
Auditors' remuneration		
– for audit services	57	50
– for other services	150	33
Depreciation	385	148
Foreign exchange loss/(gain)	1,064	202
Share of profits of associated undertakings	27	10
Operating lease costs	36	123

3 Staff costs

	1997 £000	1996 £000
Staff costs, including executive Directors:		
Wages and salaries	1,999	1,292
Social security costs	186	83
Pension costs	58	140
	2,243	1,515

	Number	Number
Average number of employees of the Group:		
Management and administration	13	11
Technical and operational	60	35
	73	46

4 Exceptional items

	1997 £000	1996 £000
Loss on disposal of discounted operations	17,148	–
Goodwill transfer to profit and loss account previously written off to reserves	26,169	–
	43,317	–

5 Net interest payable

	1997 £000	1996 £000
Interest payable on bank loans, other loans and overdrafts repayable		
– within five years, otherwise than by instalments	74	24
– after more than five years, otherwise than by instalments	2,587	1,837
Finance charges in respect of leases	199	106
	2,860	1,967
Interest receivable	(1,342)	(954)
	1,518	1,013

6 Taxation on profit on ordinary activities

	1997 £000	1996 £000
UK corporation tax at 32.5% (1996: 33%)	1,628	133
Deferred tax	(877)	1,360
	751	1,493

The taxation charge has been reduced by the availability of losses brought forward from previous years. There are unrelieved tax losses of approximately £2,834,000 (1996: £10 million) available for offset against future taxable profits.

7 Dividends

	1997 £000	1996 £000
Ordinary shares:		
Interim dividend nil (1996: 0.29p per share)	–	915
Final dividend of 0.2p per share (1996: 0.58p)	580	1,841
	580	2,756
Demerger dividend		
This comprises shares in the Melrose Petroleum Group Limited. The resolution to give effect to the demerger, which was passed at the Extraordinary General Meeting on 7 May 1997, approved a dividend of £11.1 million to the ordinary "B" shareholders and such dividend was satisfied by the transfer of the shares in Melrose Petroleum Group Limited.	11,100	–
	11,680	2,756

8 Earnings per share

Earnings per share has been calculated by dividing the loss after taxation for the year ended 30 June 1997 of £39,072,000 (1996: profit £11,442,000) by the weighted average number of shares in issue of 334,966,324 (1996: 121,088,000). Fully diluted earnings per share is not materially different to the quoted amount.

Pro-forma earnings per share

Pro-forma earnings per share has been calculated on the basis of the adjustments set out below to take account of the full year effect of the subsidiary undertakings disposed of and acquired during the year and the corresponding period:

	1997 £000	1996 £000
(Loss)/profit for the year	(39,072)	11,442
Adjustments:		
Effect of acquisition of Pentex group of companies with effect from 1 July 1995 (together with accompanying Rights Issue)	–	2,200
Effect of acquisition of Melpet 1 Limited	–	131
Effect of loss on disposal of discontinued operations	43,317	–
Pro-forma profit for the year	4,245	13,773
	Number 1997	Number 1996
Pro-forma weighted average number of ordinary shares	283,843,036	312,635,000
Pro-forma earnings per share (p)	1.50	4.41

9 Profit for the financial year

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The Group profit for the year includes a (loss)/profit after tax (but before dividends) of (£8,958,000) (1996: £3,709,000) which is dealt with in the financial statements of the Company.

10 Fixed assets – tangible and intangible

The Group	Exploration and development costs Intangible £000	Exploration and development costs Tangible £000	Plant and equipment £000	Total Tangible £000
Cost				
At 1 July 1996	10,397	65,865	2,582	68,447
Currency movements	(655)	(3,889)	(5)	(3,894)
Additions	–	5,384	1,285	6,669
Disposal of subsidiary undertakings	(552)	(20,622)	(84)	(20,706)
Disposals	–	(136)	(46)	(182)
At 30 June 1997	9,190	46,602	3,732	50,334
Depletion and depreciation				
At 1 July 1996	–	5,888	190	6,078
Currency movements	–	(459)	(3)	(462)
Provided during the year	–	4,704	385	5,089
Disposal of subsidiary undertakings	–	(3,320)	(59)	(3,379)
At 30 June 1997	–	6,813	513	7,326
Net book value at 30 June 1997	9,190	39,789	3,219	43,008
Net book value at 30 June 1996	10,397	59,977	2,392	62,369

Tangible exploration and development costs comprise four cost pools:

	£000
UK onshore	38,070
UK offshore	1,719
	39,789

Intangible fixed assets are in respect of costs held outside the full cost pools against which no depletion has been charged as at 30 June 1997. These costs are in respect of the Group's interests in exploration licences in Italy and the coal bed methane project in the United Kingdom.

The costs incurred in oil and gas property additions related to development costs for field development.

Assets held under finance leases

Plant and equipment includes assets held under finance leases at cost of £3,203,000 (1996: £2,101,000) and accumulated depreciation of £338,000 (1996: £89,000). Depreciation provided during the period in respect of finance leases amounted to £249,000 (1996: £89,000).

10 Fixed assets – tangible and intangible continued

The Company	Plant and equipment £000
Cost	
At 1 July 1996	21
Additions	54
Disposals	(46)
At 30 June 1997	29
Depreciation	
At 1 July 1996	4
Provided during the year	4
At 30 June 1997	8
Net book value at 30 June 1997	21
Net book value at 30 June 1996	17

11 Investments

The Group	1997 £000	1996 £000
Interests in associated undertakings	10,773	3,431
Amounts owed by associated undertakings	–	10,522
	10,773	13,953

Interests in associated undertakings

The Group, through subsidiary undertakings, was general partner to the Melrose Partnerships and, as such, exercised significant influence over the affairs of those entities. Accordingly, the Melrose Partnerships were included as associated undertakings. The Group is entitled to a 0.1% share of the Partnerships' profits or losses in the first two accounting periods. Thereafter, the Group is entitled to a 20.1% share of the Partnerships' profits or losses. The Group disposed of its interests in the Melrose Partnerships on 7 May 1997.

At 30 June 1997 the Group had a 40.25% interest in Sibir Energy plc.

12 Investments in subsidiary undertakings

The Company	Total £000	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000
Cost or valuation			
At 1 July 1996	71,619	69,532	2,087
Disposal of subsidiary undertakings	(21,728)	(19,641)	(2,087)
At 30 June 1997	49,891	49,891	–
Provisions			
At 1 July 1996	1,200	–	1,200
Disposal of subsidiary undertakings	(1,200)	–	(1,200)
At 30 June 1997	–	–	–
Net book value at 30 June 1997	49,891	49,891	–
Net book value at 30 June 1996	70,419	69,532	887

12 Investments in subsidiary undertakings continued

The Group's subsidiary undertakings at 30 June 1997, all of which are wholly owned, are listed below by country of operation. Unless otherwise stated all companies are directly held by the parent undertaking, incorporated in Great Britain and registered in England and Wales.

	Class of share capital held	Nature of business
Pentex Oil PLC (registered in Scotland)	Ordinary	Intermediate holding company
Pentex Oil UK Limited* (registered in Scotland)	Ordinary	Oil and gas development and production
Pentex Oil & Gas Limited*	Ordinary	Oil and gas development and production
Crossroads International Limited	Ordinary	Intermediate holding company
Gairloch Oil & Gas Investments Company Limited (registered in Scotland)	Ordinary	Intermediate holding company
Guernsey Melrose Overseas Investments Limited*	Common	Intermediate holding company
Italy Pentex Italia Limited*	Ordinary	Oil and gas exploration, development and production

* indirectly held

Disposals during the year

Melrose Petroleum Group Limited

On 7 May 1997 the Company disposed of the entire issued share capital of Melrose Petroleum Group Limited.

The net assets and liabilities disposed of comprised:

	£000
Tangible fixed assets	17,879
Investments in associates	3,431
Debtors	19,039
Cash at bank and in hand	6,604
Creditors	(14,872)
Provision for liabilities and charges	(756)
	<u>31,325</u>
Loss on disposal	(17,148)
Expenses of disposal	(577)
	<u>13,600</u>
Satisfied by:	
Cash	2,500
Dividend in specie	11,100
	<u>13,600</u>

13 Stocks

	1997 £000	1996 £000
Hydrocarbons	90	141
Materials and supplies	100	131
	190	272

14 Debtors

	The Group 1997 £000	The Group 1996 £000	The Company 1997 £000	The Company 1996 £000
Amounts falling due in less than one year:				
Trade debtors	2,476	2,048	170	265
Amounts owed by associated undertakings	228	7,452	199	—
Amounts owed by subsidiary undertakings	—	—	22,548	20,038
Advance corporation tax recoverable	1,099	953	1,099	953
Other debtors	1,052	1,065	141	24
Prepayments and accrued income	197	695	44	134
	5,052	12,213	24,201	21,414

15 Cash at bank and in hand

Cash at bank includes £7,075,000 (1996: £15,980,000) held in restricted accounts reserved exclusively to meet certain of the Group's site restoration obligations, the comparative number included drilling commitments in addition to site restoration costs. A further £7,392,000 (1996: £7,533,000) is held by the Group and the Company as collateral against the Group's bank loans.

16 Creditors: amounts falling due within one year

	The Group 1997 £000	The Group 1996 £000	The Company 1997 £000	The Company 1996 £000
Bank loans and overdrafts	4,176	3,463	—	—
Trade creditors	855	9,889	65	43
Amounts due to subsidiary undertakings	—	—	—	6,377
Current taxation	2,848	1,217	1,392	953
Other creditors	912	3,404	—	2,896
Proposed dividends	580	1,841	580	1,841
Accruals and deferred income	614	682	358	58
Amounts due under finance leases	400	254	—	—
	10,385	20,750	2,395	12,168

17 Creditors: amounts falling due after more than one year

	The Group 1997 £000	The Group 1996 £000	The Company 1997 £000	The Company 1996 £000
Bank loans and overdrafts	29,856	37,443	—	—
Trade creditors	—	10,246	—	—
Amounts due under finance leases	2,300	1,685	—	—
	32,156	49,374	—	—

18 Borrowings

The Group	Bank loans £000	Finance leases £000	1997 Total £000	1996 Total £000
Repayable:				
In less than one year	4,176	400	4,576	3,717
Between one and two years	3,965	434	4,399	13,278
Between two and five years	11,895	1,485	13,380	18,784
After five years	13,996	381	14,377	7,066
	34,032	2,700	36,732	42,845

Bank loans are drawn down under a dollar denominated revolving credit facility of \$US 79,000,000. Pentex Oil PLC has granted a bond and floating charge over all of its property and undertakings. Interest is payable at between 0.5% and 1.5% above LIBOR on the outstanding balance. The facilities are available on a revolving credit basis with all amounts repayable by 31 December 2003. The scheduling of repayments is dependent upon six monthly borrowing base calculations which are determined by reference to production deriving from oil and gas reserves, operating and capital expenditures and economic assumptions including oil prices and exchange rates.

19 Provision for liabilities and charges

The Group	Total £000	Site restoration costs £000	Deferred tax (note 20) £000	Others £000
At 1 July 1996	9,382	6,325	2,117	940
Disposal of subsidiary undertakings	(757)	—	(757)	—
Provided/(released) during the year	(749)	257	(877)	(129)
At 30 June 1997	7,876	6,582	483	811
The Company	£000	£000	£000	£000
At 1 July 1996	1,732	—	1,732	—
Provided/(released) during the year	(877)	—	(877)	—
At 30 June 1997	855	—	855	—

20 Deferred taxation

Deferred taxation provided for and not provided for in the financial statements is set out below:

	The Group 1997 £000	The Group 1996 £000	The Company 1997 £000	The Company 1996 £000
Amounts provided:				
Retained earnings of overseas subsidiaries	—	385	—	—
Short term timing differences	483	1,732	855	1,732
	483	2,117	855	1,732

The Group has unrelieved tax losses of approximately £2,834,000 (1996: £10,000,000) which have not been taken into account in the deferred tax provision and are available to set off against future taxable trading profits. The utilisation of these tax losses is restricted. The Group has unprovided deferred tax of £5,328,000 (1996: £4,964,000) in respect of accelerated capital allowances. The Company has no unprovided deferred tax.

21 Share capital

	1997 £000	1996 £000
Authorised:		
440,000,000 (1996: 440,000,000) ordinary shares of 5p each	22,000	22,000
Allotted, called up and fully paid:		
289,963,216 (1996: 316,151,067) ordinary shares of 5p each	14,499	15,808
To be allotted as called up and fully paid 1,256,064 ordinary shares of 5p each	–	63
	14,499	15,871

On 5 September 1996, 24,109,443 and 7,631,257 ordinary shares were allotted at 48p and 48.625p per share respectively in consideration for the acquisition of an interest in Sibir Energy plc and to raise funds for working capital purposes.

On 27 September 1996, 730,385 ordinary shares were allotted pursuant to the exercise of options under the employee option plan at prices ranging from 19p to 26p per share.

On 4 December 1996, 85,000 ordinary shares were issued at a price of 20p due to the exercise of options under the executive share option scheme.

On 7 May 1997, in connection with the demerger of all the Company's interests in the Melrose partnership activities and US oil and gas properties to RHK Nominees Limited by a special resolution passed at an Extraordinary General Meeting 60,000,000 ordinary 5p shares in the Company held by RHK Nominees Limited were redesignated as "B" ordinary 5p shares. The ordinary 5p shares not redesignated as "B" ordinary 5p shares were designated as "A" ordinary 5p shares. The "A" and "B" ordinary 5p shares ranked pari passu in all respects except that the "A" ordinary 5p shares carried the sole right to participate in any distributions made by the Company directly or indirectly representing or attributable to the entire assets of the Company other than the "B Assets". The "B Assets" meant the entire issued share capital of the Melrose Petroleum Group Limited. The "B" ordinary 5p shares carried the sole right to participate in any distribution made by the Company directly or indirectly representing or attributable to Melrose Petroleum Group Limited.

On 7 May 1997 by ordinary resolution passed at an extraordinary meeting a dividend was declared on the "B" ordinary 5p shares. This dividend was satisfied by Pentex Group's entire shareholding in Melrose Petroleum Group Limited which owned all the demerged entities. Forthwith on making the distribution the "B" ordinary 5p shares were redesignated as Special Deferred Shares. On 12 June 1997 the Company under the terms of a special resolution passed on 7 May 1997 purchased from RHK Nominees Limited for 1p the Special Deferred Shares because they no longer had any value following the distribution of the shareholding in Melrose Petroleum Group Limited to which they were entitled. On the purchase of the Special Deferred Shares an amount of £3 million was transferred to the Capital Redemption Reserve Fund representing the nominal value of the shares purchased and thus removed from the Company's issued share capital. On the redesignation of the "B" ordinary 5p shares as Special Deferred Shares and the subsequent purchase thereof by the Company the ordinary shares of the Company were redesignated as ordinary shares of 5p and the authorised share capital of the Company was £22,000,000 divided into 440,000,000 ordinary 5p shares each ranking pari passu in all respects.

Share options

The Company has granted options to certain Directors and employees in respect of 7,399,592 ordinary shares of 5p each. The options are exercisable as follows:

Exercise period	Number of options	Exercise price
March 1995 to December 1997	321,053	19p
December 1995 to May 1998	345,000	20p
May 1996 to May 1998	415,385	26p
May 1996 to December 1998	571,154	26p
June 1997 to October 1997	106,500	46p
June 1997 to May 1998	325,500	46p
June 1997 to June 1998	521,500	46p
June 1997 to June 2003	4,793,500	46p

22 Reserves

The Group	Share premium account £000	Other reserves £000	Profit and loss account £000
At 1 July 1996	17,849	2,134	14,521
Premium on shares issued (net of expenses)	13,224	—	—
Goodwill	—	(86)	—
Loss for the year	—	—	(50,752)
Goodwill transfer	—	26,169	—
Capital redemption reserve fund	—	3,000	—
Exchange differences	—	—	(1,762)
Realisation of section 131 merger relief reserve	—	(19,253)	19,253
At 30 June 1997	31,073	11,964	(18,740)

The cumulative amount of goodwill arising from acquisitions which has been written off to Other Reserves amounts to £21,320,000 (1996: £47,489,000).

The Company	Share premium account £000	Other reserves £000	Profit and loss account £000
At 1 July 1996	17,354	50,529	2,146
Premium on shares issued (net of expenses)	13,224	—	—
Loss for the year	—	—	(20,801)
Capital redemption reserve fund	—	3,000	—
Realisation of section 131 merger relief reserve	—	(19,253)	19,253
At 30 June 1997	30,578	34,276	598

23 Net cash inflow from operating activities

	1997 £000	1996 £000
Operating profit	6,514	13,948
Depletion and depreciation	5,089	2,788
Decrease/(Increase) in stock	82	(50)
Increase in debtors	(271)	(11,134)
(Decrease)/Increase in creditors	(5,339)	6,508
Site restoration provisions	128	85
Net cash inflow from operating activities	6,203	12,145

24 Reconciliation of net cash flow to movement in net debt

	1997 £000	1996 £000
(Decrease)/Increase in cash in the year	(7,347)	24,556
Cash outflow from repayment of borrowings	3,911	5,098
Cash outflow from finance leases	313	150
Change in net debt resulting from cash flows	(3,123)	29,804
Loans and finance lease acquired with subsidiary	—	(47,294)
Effect of foreign exchange changes	633	596
Other non-cash items	(1,074)	(1,073)
Movement in net debt in the year	(3,564)	(17,967)
Net debt at 1 July	(12,168)	5,799
Net debt at 30 June	(15,732)	(12,168)

25 Analysis of changes in net debt

Cash and cash equivalents comprise:

	As at 1 July 1996 £000	Cash flow £000	Non cash £000	Exchange movements £000	As at 30 June 1997 £000
Cash at bank and in hand	30,677	(7,565)	–	(2,112)	21,000
Bank overdrafts	(428)	218	–	–	(210)
	30,249	(7,347)	–	(2,112)	20,790
Debt	(40,478)	3,911	–	2,745	(33,822)
Finance leases	(1,939)	313	(1,074)	–	(2,700)
	(12,168)	(3,123)	(1,074)	633	(15,732)

26 Capital commitments and contingencies

Capital commitments:

The Group	1997 £000	1996 £000
Contracted for	1,075	1,644
Authorised but not contracted for	–	50
	1,075	1,694

The Company had capital commitments amounting to £nil (1996: £50,000) which had been authorised but were not contracted for at the year end.

Contingent liabilities

With the exception of unprovided deferred tax (note 20 refers), neither the Group nor the Company had any other contingent liabilities at 30 June 1997 or 30 June 1996.

27 Other financial commitments

Operating lease commitments:

	Land and buildings £000	Other £000	1997 £000	1996 £000
On leases expiring:				
Within one year	–	8	8	6
Between one and five years	30	93	123	48
After five years	140	–	140	240
	170	101	271	294

28 Pension commitments

The Group contributes to a defined contribution pension scheme which is administered by Standard Life Assurance Company and to various personal pension schemes.

29 Post balance sheet events

On 22 August 1997 the Company issued 82,142 new ordinary shares for cash at a price of 14p.

Group five year summary

for the year ended 30 June 1997

	Year ended 30 June 1997 £000	Year ended 30 June 1996 £000	Year ended 30 June 1995 £000	Year ended 30 June 1994 £000	15 months ended 30 June 1993 £000
Turnover					
Continuing operations	22,740	13,156	—	—	—
Discontinued operations	1,882	24,011	14,081	1,707	572
	24,622	37,167	14,081	1,707	572
Operating profit					
Continuing operations	6,514	4,917	—	—	—
Discontinued operations	—	9,031	5,677	1,195	(1,125)
	6,514	13,948	5,677	1,195	(1,125)
Exceptional charges	(43,317)	—	—	8	(341)
Net interest payable	(1,518)	(1,013)	(27)	3	(56)
(Loss)/Profit on ordinary activities before taxation	(38,321)	12,935	5,650	1,206	(1,522)
Taxation on profit on ordinary activities	(751)	(1,493)	(310)	(30)	—
(Loss)/Profit for the year	(39,072)	11,442	5,340	1,176	(1,522)
Dividends	(11,680)	(2,756)	(892)	(166)	—
Retained profit for the year transferred to reserves	(50,752)	8,686	4,448	1,010	(1,522)
Earnings per share (p)*	1.50	4.41	2.96	1.62	(3.54)
Dividend per share (p)	0.2	0.87	0.48	0.2	—
Fixed assets	62,971	86,719	17,241	8,366	6,556
Net current assets/(liabilities)	15,857	22,412	656	(544)	(667)
Creditors: amounts falling due after more than one year	(32,156)	(49,374)	(3,396)	(473)	—
Provision for liabilities and charges	(7,876)	(9,382)	(752)	(198)	(206)
Shareholders' funds	38,796	50,375	13,749	7,151	5,683

* Earnings per share for the years ended 30 June 1997, 1996 and 1995 are pro-forma amounts calculated on the basis set out on page 29 and note 8 to the financial statements.

Notice of the annual general meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at The Royal Thames Yacht Club, 60 Knightsbridge, London SW1 7LF on 5 December 1997 at 12 noon for the following purposes:

As ordinary business

- 1 To receive the Report of the Directors and the audited accounts of the Company for the year ended 30 June 1997 (together with the report of the auditors).
- 2 To declare a final dividend.
- 3 To re-elect Mr A T West who retires by rotation in accordance with the Company's Articles of Association and who, being eligible, offers himself for re-election, as a Director.
- 4 To re-appoint Grant Thornton as the auditors.
- 5 To authorise the Directors to agree the remuneration of the auditors.

As special business

- 6 To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:

That the Directors of the Company be and they are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act") (and in substitution for and to the exclusion of any existing authority to allot relevant securities) to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £4,832,720 provided that nothing in this Resolution shall render unauthorised any act done or allotment of relevant securities or any offer or agreement which would or might require relevant securities to be allotted, made prior to the passing of this Resolution pursuant to any prior authority (and any such prior authority shall remain in full force and effect in relation to any allotment pursuant to or arising out of any offer or agreement as aforesaid) and the authority conferred by this Resolution shall (unless previously revoked or varied by the Company in General meeting) expire at the conclusion of the Annual General Meeting to be held in 1998 or 15 months after the passing of this Resolution whichever is the earlier, but so that the authority conferred by this Resolution shall allow the Company to make, before the expiry of this authority, offers or agreements which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot relevant securities in pursuance of such offers or agreements.

- 7 To consider and, if thought fit, to pass the following resolution as a Special Resolution:

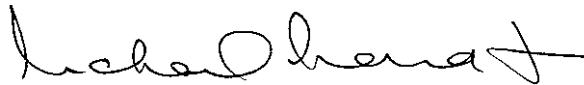
That subject to the passing of Resolution No. 6 set out in the Notice of this Meeting, the Directors be and they are hereby empowered, pursuant to section 95 of the Companies Act 1985 ("the Act"), to allot equity securities (within the meaning of section 94 of the Act) pursuant to the authority conferred by Resolution No. 6 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

- (a) the allotment of equity securities in connection with an offer of securities, open for acceptance for a period fixed by the Directors, by way of rights (including, without limitation, under a rights issue, open offer or similar arrangement) to holders of ordinary shares and such other equity securities of the Company as the Directors may determine on the register on a fixed record date in proportion to their respective holdings of such securities or in accordance with the rights attached thereto (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or as regards shares held by any Approved Depository or otherwise howsoever);

- (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £724,908;

such power to be in substitution for and to the exclusion of any other power previously granted to the Directors of the Company pursuant to section 95 of the Act, provided that nothing in this Resolution shall render unauthorised or otherwise affect any act done or allotment of equity securities or any offer or agreement which would or might require equity securities to be allotted, made prior to the passing of this Resolution pursuant to any prior power (and any such prior power shall remain in full force and effect in relation to any allotment pursuant to or arising out of any offer or agreement as aforesaid) and the power conferred by this Resolution unless previously varied or revoked by a Special Resolution of the Company shall expire at the conclusion of the Annual General Meeting of the Company to be held in 1998 or 15 months after the passing of this Resolution whichever is the earlier but so that the power conferred by this Resolution shall allow the Company to make before the expiry of this power offers or agreements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot equity securities in pursuance of such offers or agreements.

By order of the Board
M L Manderson
Secretary



Registered Office
2 St. Andrew's Hill
London EC4V 5BY

13 October 1997

Notes

Pursuant to regulation 34 of the Uncertificated Securities Regulations 1995, members will be entitled to attend and vote at the meeting if they are registered on the Company's register of members 48 hours before the time appointed for the meeting or any adjournment thereof.

A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. A Form of Proxy is enclosed. Completion of a Form of Proxy will not preclude a member from attending and voting at the Meeting in person.

The Register of Directors' interests in the shares of the Company and copies of the service agreements between the Company and its executive directors will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excluded) until the date of the Meeting and also on the date and at the place of the Meeting from 10.00 a.m. until the conclusion of the Meeting.