This excellent performance stems from the benefits derived from the acquisition of Pentex and the success of the Melrose limited partnerships.

chairman's statement

I am delighted to report that the pre-tax profit for the Company based on a full year ("pro-forma") for the Company and its subsidiaries including Pentex Oil PLC ("Pentex"), which was acquired in December 1995, was in excess of market expectations. Pro-forma pre-tax profits for the year ended 30 June 1996 are stated at £15,266,000. Pro-forma earnings per share at 4.41p compared with 2.96p for the previous year, an increase of 49%.

Your Board is now recommending a final dividend for the year of 0.58p per share. Dividends for the full year will therefore be 0.87p per share, an increase of 81.25% on the last year's payment of 0.48p and comfortably above the level of payment forecast in the rights issue document at the end of 1995.

This excellent performance stems from the benefits derived from the acquisition of Pentex and the success of the Melrose limited partnerships.

As already reported in the Interim Accounts, the Company has in the course of the last 10 months transformed itself from a small and profitable niche company specialising in the management of drilling funds into a fully fledged oil and gas production company. The enlargement of the Company has not however impaired the performance of its niche business where pre-tax profits for the year have increased by 69%. The Board is confident of further growth in this area of its business.

As of now the Group has oil and gas producing interests in Western Europe (East Midlands, Hampshire and the North Sea), Northern Europe (West Siberia), The United States of America (Texas, New Mexico and the Gulf of Mexico) and Italy. The Company has in the course of the last nine months increased the reserves of hydrocarbons attributable to its various interests from 26 million to 115 million barrels of oil equivalent.

These results have been reflected in the performance of the market capitalisation. Immediately before the acquisition of Pentex the combined market capitalisation of the two companies was £102,000,000. As of today's date the comparable figure is £195,000,000. Of this figure £25,500,000 was new subscriptions from investors. In terms of share price this has risen from 38p at the time of the Pentex acquisition to 55.75p at today's date.

The significant events of the year to 30 June 1996 were the acquisition of Pentex and the very successful issue of the Melrose IV series of limited partnerships when drilling funds of £14,100,000 were raised, which I have reported on in the Interim Results. In addition the Company has bought out the interests of the limited partners in the Melrose I Partnerships. This has increased the Group's reserves of hydrocarbons.

The significant event post the year end was the acquisition of an indirect 5% interest in a number of very large groups of producing fields in Western Siberia one of which alone is forecast to produce 120,000 barrels of oil per day by the year 2002. The Company has carefully structured the Russian acquisition so that while it will be responsible for the management of a 10% interest in the fields its exposure to downside is restricted to a 5% interest. This is an example of how your management seek to maximise opportunity while limiting risk to prudent levels. The express intention to seek a listing for the whole of the 10% interest on the Alternative Investment Market may create an early opportunity to realise a small part of our interest, allowing us to recover the major part of the cost of the investment. Your Board believes that the Russian opportunity gives the Group huge potential for the 21st century.

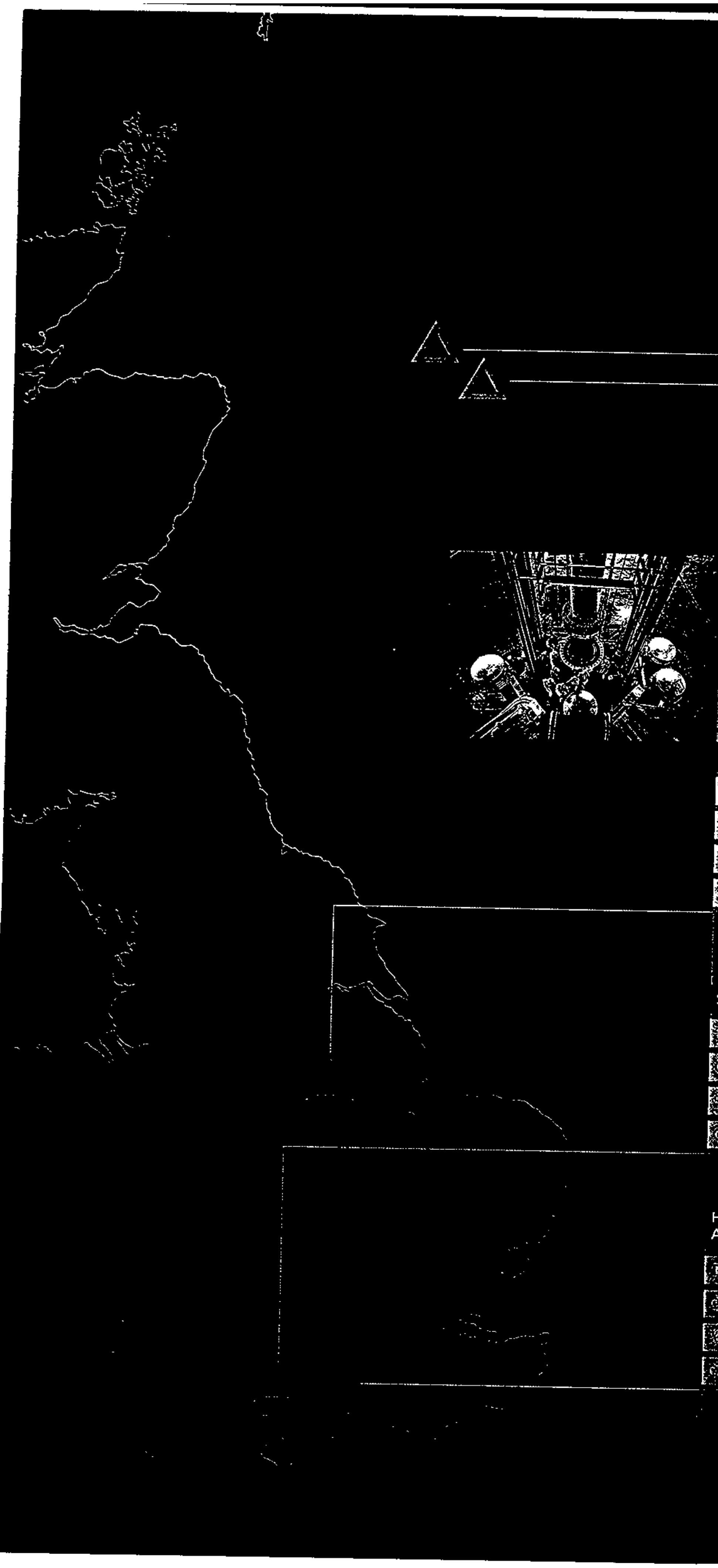
The management team which has achieved these handsome results is a mix of experienced, strong minded and variously disciplined individuals with an age spread which will facilitate succession in due course. The first and foremost focus of the key element of management is the enhancement of shareholder value in the short, medium and long term through growth in profits, cash flow and net assets.

I know that you would wish me to thank everyone who works for the Company for their contribution to these excellent results and I do so most warmly.

This has been an exciting year for the Group and the Board view the future with confidence.

Anthony Surtees

Anthony Surtees
Non Executive Chairman
23 September 1996



Balmoral Area

Total reserves (mboe)	696
Current production (boepd)	790
% interest	4.8-8.0%
Operator	Sun Oil

Maureen Area

Total reserves (mboe)	1,208
Current production (boepd)	750
% interest	8.5%
Operator	Phillips Petroleum

East Midlands

Total reserves (mboe)	11,912
Current production (boepd)	1,660
% interest	100%
Operator	Melrose

Stockbridge

Total reserves (mboe)	6,116
Current production (boepd)	1,790
% interest	100%
Operator	Melrose

Horndean, Singleton & Albury

Total reserves (mboe)	384
Current production (boepd)	205
% interest	17.5-18.75%
Operator	Cairn Energy

operations review continued

Onshore UK Exploration

The Company was successful in the application for two onshore blocks in the 7th onshore round. The blocks are located adjacent to Melrose's existing fields at Stockbridge and Gainsborough. A horizontal well is planned in the "Goodworth" licence near Stockbridge in the second half of 1997. A vertical well was drilled and tested on this prospect in 1987 by a previous operator, and was producing around 75 boepd at the end of a six month extended well test with good reservoir pressure. Melrose plans to develop the field using horizontal wells which it believes make the field commercially attractive. In addition the Company's existing crude oil handling facilities nearby at Stockbridge and crude sales systems are available to handle production from the field.

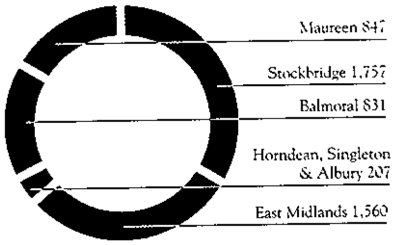
Offshore UKCS

UK offshore production averaged 1,678 boepd (1994: 3,257 boepd) arising from the Group's interests in two blocks, 16/21a ("the Balmoral area") and 16/29a ("the Maureen area").

In 16/21a the Balmoral, Glamis and Stirling fields produced an average of 831 boepd (1994: 1,831 boepd) net to Melrose. The Balmoral and Glamis fields suffered a series of mechanical problems early in 1996 which account for a significant loss in the daily output of the fields and a deferral of production. These problems have been, and are being remedied and production levels are expected to return to forecast levels toward the end of 1996. The Balmoral field is due for abandonment at the end of 1999. Melrose believes that the Floating Production Vessel located on the field has considerable potential for use on other fields and as such is seen as an asset with significant realisable value when field abandonment eventually occurs.

The Maureen and Moira fields in 16/29a accounted for the remaining 847 boepd (1994: 1,426 boepd). Scope for an infill well to the crest of the Maureen reservoir was identified, with a well planned to spud in July 1996 with production expected later in the year. The Maureen field is scheduled to cease production at the end of 1998. The Maureen platform and facilities are designed to be refloated in one piece for reuse at another location as an oil production and storage facility or they could be modified for other uses. The field operator, Phillips, has started marketing these facilities for this purpose which has attracted some early interest from third parties. Melrose has also made a cash provision which fully covers its estimated liabilities on Maureen should the reuse option prove unsuccessful and abandonment of the field facilities prove necessary.

Average UK daily production by field (boepd)



Onshore Italy

The Group continued to operate its interest in the Strangolagalli concession in the Latina valley in Italy producing small volumes of oil from shallow Miocene reservoirs. A programme of seismic reprocessing and updating of geological mapping over the area has confirmed the Company's view that significant potential exists in deeper oil bearing horizons. Further seismic reprocessing and interpretation is planned to firm up drillable targets and to advance discussions with potential farm-in partners.

operations review

UK operations

Production for the Group's UK assets for the 7 month period to June 1996 averaged 5,202 boepd of which 64% (1994: 48%) was generated by the Group's 100% owned and operated fields onshore UK and Italy. The remaining 36% (1994: 52%) arises from the Group's interests in the producing fields within the Balmoral and Maureen areas of the UKCS and in the interests it holds in onshore fields in the Weald Basin in southern England. The production level was in line with Melrose's expectations other than in the case of Balmoral where mechanical difficulties meant production was less than expected.

Onshore UK

UK onshore operated and non operated production averaged 3,524 boepd (1994: 3,404 boepd). The Group's 100% owned and operated assets in the East Midlands and Hampshire accounted for 3,317 boepd (1994: 3,198 boepd).

In the Stockbridge field, the combination of development drilling, well stimulations and improvements to surface facilities, increased production to an average 1,757 bopd (1994 : 1,605 bopd). Facilities improvements comprised the provision of additional production pumping horsepower and water disposal. A horizontal development well (Stockbridge 15) was drilled successfully using the underbalance coil tubing techniques pioneered by the Company and successfully put on line early in the period. Two further horizontal wells are planned in the field during the second half of 1996. Further refurbishment and well stimulation programmes are also budgeted for the year to enhance the field output.

Production from the Group's fields in the East Midlands averaged 1,560 boepd (1994: 1,593 boepd). Expansion of the gas fired power generation capability, initiated in July 1995, continued with the successful commissioning of a second 3mw plant in March 1996. Power is sold to the local regional electricity company, Yorkshire Electricity Group, with some power being utilised for part of the Group's internal needs in the area. The start up of the second plant increases the power generating capability to 6mw. Operating experience on the two 3mw plants commissioned to date has been excellent and a further 3mw plant has been committed to for start up in January 1997. The Company also successfully produced small volumes of coal bed methane gas from a test well (Beckenham 35z) perforated in one of the three main coal seams in the area. This test continues with further plans being formulated to expand the programme to other parts of the field to quantify the volumes of gas in place, recoverability and commercial potential of any gas reserves which can be attributed to the main coal seams present in the area.

The Group's share (18.75%) of production from the Horndean and Singleton fields, in the Weald Basin averaged 207 boepd (1994: 206 boepd). Remedial work was required on one of the main producers in Singleton which has reduced output from the field. This work is expected to be completed before the fourth quarter of this year.

The extended well test on the single well in the Albury gas field (12.5% interest) continued during the period. A three year programme for the test has been agreed between the partners in the field and the Department of Trade and Industry, to prove the extent of the gas in place and the volume of recoverable reserves. Gas produced during the test is used as fuel to generate electricity which is exported and sold to the local electricity company. Revenue from the power sales more than offsets the costs of carrying out the extended well test. Initial results for the test are under evaluation by the operator pending proposals for possible development of the field and surrounding areas.

US operations

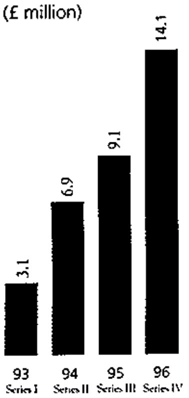
The US activities are conducted principally in association with the Melrose Partnerships, although the year has also seen developments on the Group's direct interests in the Outer Continental Shelf of the Gulf of Mexico and onshore US.

The Melrose Partnerships

It has been a year of significant activity with the Melrose Partnerships, the highlights of which were:

- the launch of the Melrose Partnerships Series IV in April 1996;
- the acquisition of the limited partners' interests in the Melrose Partnerships Series I in June 1996; and
- the drilling of 38 new development wells on behalf of the Melrose Partnerships.

Subscriptions to The Melrose Partnerships (£ million)



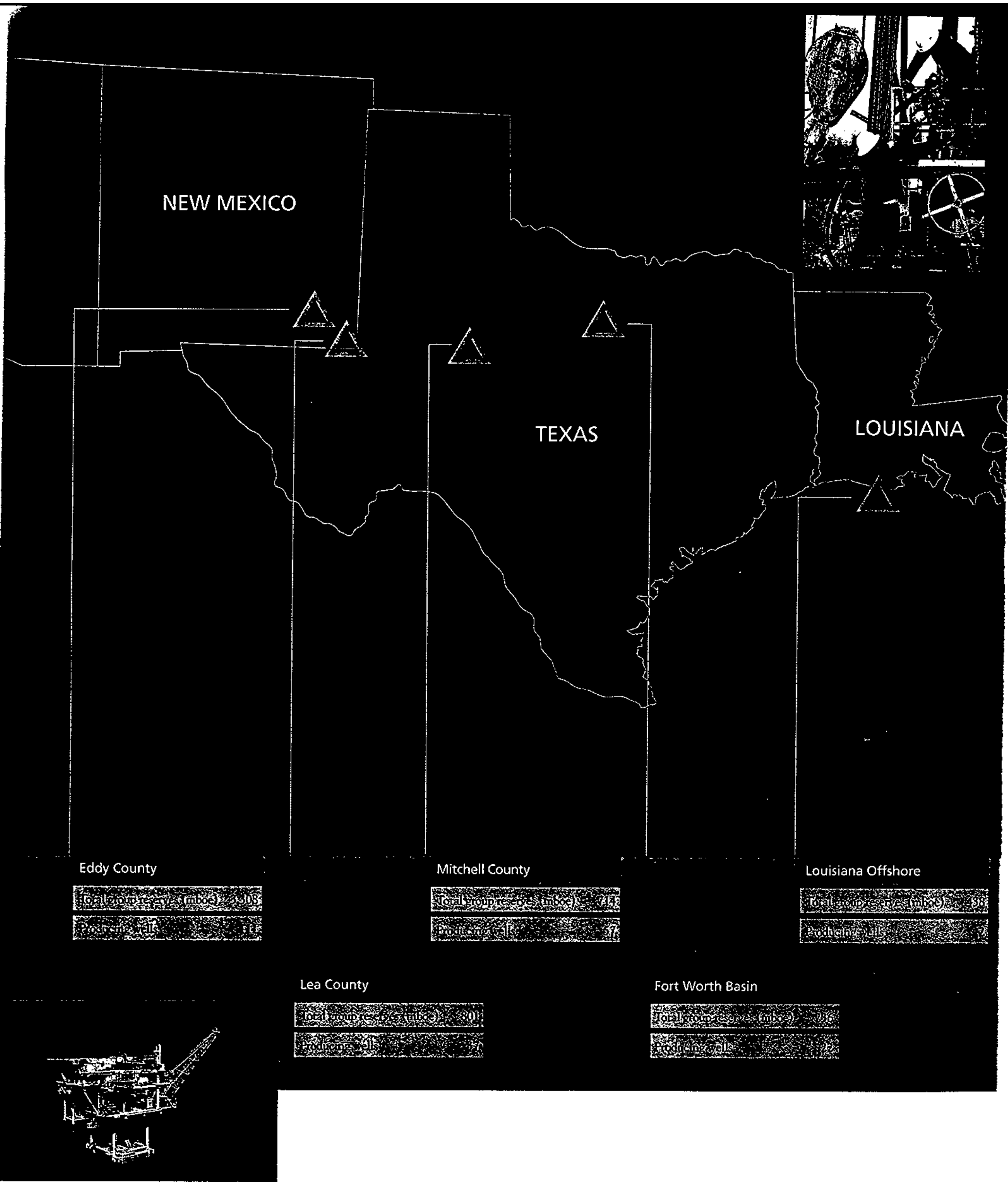
Melrose Partnerships Series IV The Melrose Partnerships Series IV were formed in April 1996 with total subscriptions of £14.1 million compared to £9.1 million raised for the Melrose Partnerships Series III. This continues the trend of increasing subscriptions for each of the partnerships since they were first launched in 1993. The increase in the number of investors and the wider spread of financial advisers actively promoting the offer were additional encouraging trends. The subscribed funds will be used for development drilling in the Permian and Fort Worth Basins in New Mexico and Texas.

Acquisition of Melrose Partnerships Series I In June 1996 the Group completed the acquisition of the limited partners' interests in the Melrose Partnerships Series I for £3.4 million. The partnerships had a 48% working interest in the Millman Unit leases in Eddy County, New Mexico to which independent petroleum engineers have attributed approximately 2.7 million barrels of oil equivalent. The Group intends to continue to develop these interests with a programme of re-completions and the implementation of a waterflood project.

Development Programme The Group is currently involved in the management of development drilling programmes for each of the Melrose Partnerships Series II, Series III and Series IV. All these programmes are concentrated in the Permian Basin in Texas and New Mexico.

During the year the Group drilled 38 new development wells on behalf of the Melrose Partnerships, in the majority of which the Group also has interests. Approximately 150 wells are scheduled to be drilled over the next two years.

The results of the development programme undertaken during the year have enhanced total reserves attributable to the Group's interests by an aggregate of 21%. This increase is due predominantly to the successful drilling of new wells on the Cone Jalmat lease in the Series II partnerships. The results from these wells have exceeded engineering expectations due to what is believed to be the identification of an area of the reservoir with greater permeability and pressure than originally anticipated. In addition to these enhanced reserves, a recent engineering study of certain other Series II properties in which the Group has carried interests has indicated that there may be significant additional recoverable reserves in place. These additional reserves have not been included in the summary of reserves included on page 10.


NEW MEXICO
TEXAS
LOUISIANA
Eddy County
Total group reserves (mboe)
Producing wells
Mitchell County
Total group reserves (mboe)
Producing wells
Louisiana Offshore
Total group reserves (mboe)
Producing wells
Lea County
Total group reserves (mboe)
Producing wells
Fort Worth Basin
Total group reserves (mboe)
Producing wells

operations review continued

Other US interests

US Onshore Melrose strategically does not intend to further expand its activities in US onshore other than in association with the partnerships, but cashflow from existing US onshore activities is sufficient to fund all US operations. We still retain exploration acreage in the Wind River Basin, Wyoming, however we now consider that investment elsewhere is likely to produce better returns, especially as performance to date has not met expectations.

Gulf of Mexico As previously reported, the first two wells drilled on the prospects generated by Louisiana Offshore Ventures ("LOV") in the Gulf of Mexico have been successfully completed and are now in production. A third well, in the Main Pass Block #139, has been drilled by Agip and industry sources have attributed in excess of 180 bcf of gas to this block in which we currently have a 1.65% over-riding royalty interest (which is convertible into a 10% working interest at our option). Independent engineers have attributed 1 bcf of gas to our royalty interest in the one well drilled to date. This well has not yet been brought onto production.

Reserve estimates The reserves attributable to the Group's US interests are summarised on page 10. It should be noted that these estimates do not include the 2,691 mboe attributable to the Group's direct participating interests in the Melrose Partnerships' assets. The principal movements in US reserve estimates during the year are summarised below:

	mboe
Acquisition of the Millman Unit leases	2,699
Re-appraisal of reserves relating to retained interests in Partnership leases	484
Re-appraisal of reserves attributable to the Wind River Basin, Wyoming	(362)
Expiry of exploration leases	(635)
Gulf of Mexico discoveries	210
Farm-outs of lease interests to the Melrose Partnerships	(379)

Western Siberia

On 5 September 1996 the Company announced the acquisition of a 49% interest in Rowebuy plc, a company set up and managed by Melrose, for £10,747,000. Rowebuy's principal asset is an indirect 10% interest in a joint venture to develop approximately 1.25 billion barrels of recoverable reserves in the Salym fields located in the Khanty-Mansiysk Autonomous District in Western Siberia. The managing partner of the joint venture is Shell Salym Development B.V. Total recoverable reserves attributable to Rowebuy's interest in this joint venture, together with other indirect interests acquired, are estimated at approximately 175 million barrels of oil. The reserves attributable to Melrose are estimated at approximately 86 million barrels of oil, giving an effective acquisition price per barrel of US$0.17. The joint venture partners have prepared a draft Production Sharing Agreement and a feasibility study for the development of the Salym fields and these have been submitted to the relevant federal regulatory bodies for approval, following which field development will proceed.

Management

The Pentex acquisition brings to the Melrose Group an established oil and gas management and engineering team which will supplement existing in-house skills. The team has proven expertise and experience, particularly in under balance horizontal drilling techniques using coil tubing or conventional drilling methods. This experience and know how which have been successfully applied to develop the onshore acreage in the UK at low cost can be transferred to other assets which the Group presently holds or acquires in the future.

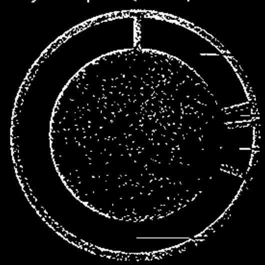
oil and gas reserves

The Group's oil and gas reserves as at 30 June 1996 comprised:

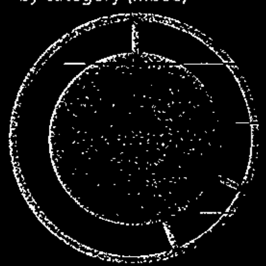
	Total	United States		United Kingdom	
		Onshore	Offshore	Onshore	Offshore
	mboe	mboe	mboe	mboe	mboe
At 1 July 1995	4,133	3,891	242	–	–
Revisions of previous estimates	13	18	(5)	–	–
Discoveries	210	–	210	–	–
Purchases of reserves in place	24,082	2,699	–	19,122	2,261
Disposals and farm-outs	(1,014)	(1,014)	–	–	–
Production	(1,130)	(54)	(9)	(710)	(357)
At 30 June 1996	26,294	5,540	438	18,412	1,904
Proved producing	14,666	1,493	228	11,829	1,116
Proved undeveloped	8,438	3,275	77	4,896	190
Probable	3,190	772	133	1,687	598
	26,294	5,540	438	18,412	1,904

Pro-forma oil and gas reserves	Total
	mboe
Group reserves at 30 June 1996	26,294
Reserves attributable to the Group's direct interests in the [illegible] Partnerships	2,691
Reserves attributable to the Group's equity interests in Western Siberia	16,000
	[illegible]

Total reserves analysed by cost pool (mboe)



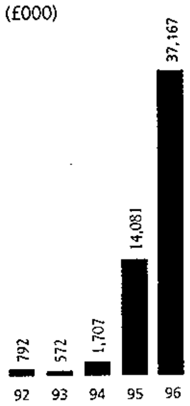
Total reserves analysed by category (mboe)



financial review

Summary

The Group achieved significant growth during the year both in its existing business and through the acquisition in December 1995 of Pentex Oil PLC. The Group profit after tax for the year increased by 114% to £11.4 million with Pentex Oil PLC contributing £3.3 million to these profits in the seven month period following the acquisition. Profits after tax from the Group's continuing activities (excluding acquisitions during the period), which relate principally to the Melrose Partnership activities, increased by 52% to £8.1 million. A pro-forma profit and loss account has been included below to show the full year effects of the acquisition of Pentex Oil PLC and the accompanying rights issue.



Pro-forma profit and loss account

This is prepared on the basis as if the acquisition of Pentex Oil PLC and the accompanying Rights Issue had been completed with effect from 1 July 1995. The comparative information for 1995 is also pro-forma, prepared on the basis as if the acquisition of the Melrose Petroleum group of companies, which was completed in March 1995, had been completed with effect from 1 July 1994.

	Pro-forma 1996 £000	Pro-forma 1995 £000
Turnover	46,607	15,817
Operating profit	17,045	5,864
Net interest payable	(1,779)	(27)
Profit on ordinary activities before taxation	15,266	5,837
Taxation	(1,493)	(310)
Profit on ordinary activities	13,773	5,527
Earnings per share	4.41p	2.96p

Pro-forma earnings per share have increased by 49%.

Turnover

Turnover from the Melrose Partnership activities increased by 71%, a significant element of which was contributed by drilling and management fees from the Melrose Partnerships Series IV which were launched in April 1996. The mainstream UK oil and gas development and production activities which were acquired during the year contributed £13.2 million with production of 1.11 million barrels of oil equivalent at an average price of £11.89 per barrel.

Operating profit

Operating profit from continuing activities (excluding acquisitions during the period) increased by 59% to £9.0 million which was principally due to the increased level of subscriptions to this year's partnerships. Operating profits from the UK onshore and offshore activities acquired during the year were £4.9 million. This represents an operating profit of £4.43 per barrel of oil equivalent. During the period the Group benefited from a stronger oil price, but operating costs per barrel also reduced. This reflects the shift in the balance of production from the Group's higher cost non-operated offshore interests to the onshore operated interests of the East Midlands and Stockbridge licence areas.

financial review continued

Profit after tax

The Group had a net interest charge of £1.0 million which included £1.8 million of interest payable on the bank debt financing the UK onshore and offshore assets acquired during the year and £1.0 million of interest receivable on cash balances. The net interest charge was covered approximately 14 times by operating profits.

The Group taxation charge, the majority of which is deferred tax, has increased to an effective tax rate of 11% compared to 5% in 1995. The taxation charge has been reduced by the availability of tax losses in the United Kingdom and the United States, but restrictions on the utilisation of certain losses have resulted in an increase in the effective rate. It is anticipated that the effective tax rate will remain relatively low for the foreseeable future based upon estimates of, inter alia, future capital expenditure. There was no charge to petroleum revenue tax during the period.

Dividends

It is the Company's intention to pursue a progressive dividend policy. In this regard, a final dividend of 0.58p per share is proposed, representing an aggregate dividend of 0.87p for the full year. This represents an 81% increase compared to the previous year and exceeds the 0.72p estimate given in November 1995. The final dividend will be paid on 12 December 1996 to shareholders on the register at 19 November 1996.

Cash flow and financing

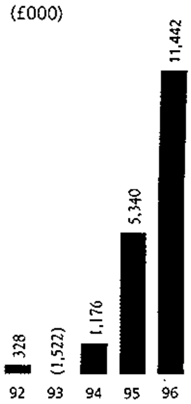
Cash flow from operations increased from £7.7 million in 1995 to £12.1 million in 1996. After taking into account interest payments and taxation, the net cash inflow amounted to £9.4 million, which represents a dividend cover of approximately 3.4 times.

The Group is financed by a combination of equity capital and bank debt. The Group assumed £34.1 million of net indebtedness (including finance lease obligations) when it acquired Pentex Oil PLC in December 1995. At the same time, the Group raised £12.1 million net of expenses from a one for five rights issue of new ordinary shares. As at 30 June 1996 the Group's net borrowings amounted to £12.2 million, which represents balance sheet gearing of 24%, although this does take into account the £16 million cash balances allocated specifically to meet future drilling commitments and abandonment obligations.

The Group has a US$79 million revolving credit facility with interest payable at varying rates between 0.5% and 1.5% above LIBOR. As at 30 June 1996, US$62.9 million had been drawn down against this facility. The facility, which is secured on the properties and undertakings of the UK operations (excluding the Melrose Partnership activities) is repayable in six monthly instalments over the period to December 2003, with repayments determined by, inter alia, the timing and amount of production revenues and certain economic assumptions.

Going concern

The Directors have a reasonable expectation, after taking into account the Group's future plans, that the Group has adequate resources to continue in operational existence for the foreseeable future and for this reason they continue to adopt the going concern basis in the preparation of the financial statements.



Capital expenditure

Capital expenditure in the year to 30 June 1996 amounted to £5.5 million which principally comprised:

	£000
Acquisition of the Farmer-Woody and Murray leases in the Fort Worth Basin, Texas, USA	811
Acquisition of Artesia and State leases in the Permian Basin, New Mexico, USA	1,670
Power generation plant in East Midlands, UK (acquired on finance lease)	1,072

The Group has farmed-out a significant proportion of the acquired working interests in these leases to the Melrose Partnerships Series IV, in exchange for which the partnerships carry the Group's retained working interests. In excess of 150 wells are planned to be drilled on these leases over the next two years with no capital investment required by the Group.

Pro-forma shareholders' funds

Since the year end the Company has issued 22,389,584 new ordinary shares at 48p in consideration for the acquisition of interests in Western Siberia and 9,351,116 new ordinary shares at 48p by way of placing to provide additional working capital. A pro-forma shareholders' funds statement is summarised below to reflect the impact of these transactions:

	£000
Shareholders' funds at 30 June 1996	50,375
Issue of 31,740,700 new ordinary shares at 48p	15,235
Pro-forma shareholders' funds	65,610

On the basis of the pro-forma, balance sheet gearing has reduced from 24% at 30 June 1996 to 12%.

Financial risk management

The 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 costs of hedging instruments and the economic risks. Operating results are sensitive to US denominated prices and to this extent some protection to fluctuations in exchange rates is provided by bank debt being denominated in the same currency. The Group does, in the short term only, hedge against movements in the dollar oil price through the use of futures markets. During the period, the Group has taken out short term hedges on a quarterly basis on 50% of UK production.

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

directors and advisers

Directors

Anthony C Surtees
Non-executive Chairman

Robert F M Adair
Deputy Chairman and Finance Director

Henry O Cameron
Chief Executive

George Lane
Managing Director

William L S Guinness
Non-executive Director

Andrew T West
Non-executive Director

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Auditors

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Melton Street
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Principal bankers

Bank of Scotland
The Mound
Edinburgh EH1 1YZ

and

London Chief Office
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London EC2P 2EH

accounts

report of the directors

The Directors present their report together with financial statements for the year ended 30 June 1996.

Principal activity

The Company is a holding company. The Group's principal activity is oil and gas exploration, development and production, both as principal and in conjunction with UK limited partnerships managed by the Group.

Results and dividends

The Group profit for the year after taxation amounted to £11,442,000 (1995: £5,340,000). An interim dividend of 0.29p per ordinary share was paid on 24 June 1996 and the directors recommend the payment of a final dividend of 0.58p per ordinary share, leaving a retained profit transferred to reserves of £8,686,000.

A review of the Group's business and prospects is set out in the Operations and Financial Reviews on pages 5 to 13.

Acquisitions

On 13 December 1995 the Company acquired the entire issued share capital of Pentex Oil PLC and on 6 June 1996 the Company acquired the 79.9% of the issued share capital of Melpet 1 Limited (the vehicle for the Melrose Partnerships Series I) not already owned by the Group.

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.

During the year 10,374,249 ordinary shares were issued on conversion of the warrants issued in March 1995. On 27 October 1995, 8,088,594 ordinary shares were allotted at 25p per share on the first subscription date and on 6 June 1996 a further 2,285,655 ordinary shares were allotted at 29p per share on conversion of the remaining warrants.

On 13 December 1995, 81,141,102 ordinary shares were allotted at 43p per share in consideration for the acquisition of the entire issued share capital of Pentex Oil PLC.

On 6 January 1996, 38,787,385 ordinary shares were allotted at 34p per share by way of a one for five Rights Issue to provide funds for working capital.

On 23 July 1996, 1,256,063 ordinary shares were allotted at 40.25p per share in part consideration for the acquisition of Melpet 1 Limited.

Directors

The Directors in office at the end of the year are listed below together with their interests at 1 July 1995 (or date of appointment) and 30 June 1996 in the ordinary shares of the Company:

	Ordinary shares		Share options		Warrants
	At 30 June 1996	At 1 July 1995 (or date of appointment)	At 30 June 1996	At 1 July 1995 (or date of appointment)	At 1 July 1995 (or date of appointment)
A C Surtees	270,000	200,000	–	–	25,000
R F M Adair	64,238,379	61,273,360	–	–	2,437,500
H O Cameron	14,148,718	14,148,718	1,304,000	–	–
G Lane	347,976	347,976	956,500	–	–
W L S Guinness	705,000	405,000	–	–	–
A T West	–	–	–	–	–

All the above holdings are beneficial.

Messrs A C Surtees and R F M Adair exercised their entitlements to ordinary shares under the terms of the warrants during the year. Further details of the share options are included in the Report of the Remuneration Committee on page 20.

Messrs H O Cameron, G Lane and W L S Guinness who were appointed to the Board on 13 December 1995 retire from the Board at the Annual General Meeting and, being eligible, offer themselves for election. Mr S B Pendock retired on 31 December 1995. All other directors served throughout the year.

In accordance with the Articles of Association, Mr R F M Adair 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 19 and 20.

No director had any interest in the shares of subsidiary undertakings. There have been no changes in directors' interests between 30 June 1996 and 30 August 1996.

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 and as disclosed in note 30.

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 Melrose 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 Portfeuilles. He holds a number of directorships in private companies covering a wide range of investments.

Mr Andrew West is 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.

Fixed assets

Additions to Group fixed assets during the year amounted to £5,524,000. The principal items of capital expenditure during the year were in respect of the acquisition of lease interests in the Permian Basin in New Mexico for £1,670,000 and in the Fort Worth Basin in Texas for £811,000 and in respect of the power generation project in the East Midlands amounting to £1,072,000.

Payment 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 30 August 1996, 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	%
R H K Nominees Limited (MBWA)	27,373,052	8.62
R H K Nominees Limited (CMA)	27,373,052	8.62
Chief Holdings Limited	13,530,025	4.26

Auditors

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

report of the directors continued

Post balance sheets events

On 5 September 1996 the Group acquired a 49% interest in the ordinary share capital of Rowebuy plc and in connection with the acquisition issued 22,389,584 new ordinary shares at 48p per share. Rowebuy, which is a new company set up specifically for the purposes of this transaction, has a 20% interest in Evikhon Oil Joint Stock Company, which has interests in, inter alia, oil and gas reserves in the Khanty-Mansiysk Autonomous District in Western Siberia. Messrs R F M Adair, H O Cameron and W L S Guinness, either directly or indirectly, have invested in aggregate £2,530,000 in Rowebuy. **Shareholders of the Company on the register at 4 September 1996 will be provided with an opportunity to subscribe for new ordinary shares in Rowebuy on the same terms. Further details will be provided in due course.**

On the same date, the Company placed 9,351,116 new ordinary shares to raise £4,489,000 (before expenses) for working capital purposes.

CREST

CREST is a new settlement system for securities which will replace the existing Talisman system. It is a voluntary system which will enable shareholders to hold and transfer their shares in electronic form rather than on paper if they wish. Shareholders who wish to retain their certificates will be able to do so. It is the intention of the Company to participate in CREST. Accordingly, the Directors have passed a resolution which will enable the Company's shares to join CREST.

The shares will not become transferable merely by virtue of the passing of the Directors' resolution; the permission of the Operator of the system, CRESTCo Limited, must be given before the shares become transferable. This is anticipated to occur in October 1996. The effect of the resolution is to disapply, in relation to the ordinary shares, those provisions of the Company's Articles of Association that are inconsistent with the holding and transfer of those shares in CREST and any provision of the Uncertificated Securities Regulations 1995, as and when the shares concerned enter the CREST system.

As a consequence of passing the resolution, the Company is obliged to give to its members notice of the resolution, which is as follows:

This is to give you notice, in accordance with the Uncertificated Securities Regulations 1995 that, on 19 September 1996, the Company resolved by resolution of the directors that the title to the ordinary shares of 5p each in the capital of the Company, in issued or to be issued form, may be transferred by means of a relevant system. The resolution of the Directors will become effective immediately prior to CRESTCo Limited granting permission for the shares concerned to be transferred by means of the CREST system.

Special business at the Annual General Meeting

Resolution 7 to be put to 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 1997 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 8 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 8 the specified amount represents 5% of the issued share capital. Resolution 9 will, if passed, amend the Articles of Association by increasing the amount payable as directors fees from £40,000 to £100,000.

By order of the Board
M L Manderson
Secretary

23 September 1996

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 all the executive directors. The Company's Articles of Association restrict non-executive directors' remuneration to an aggregate of £40,000 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 1996 was as follows:

	Salary £000	Benefits £000	Pension contri-butions £000	Fees £000	Others £000	Total 1996 £000	Total 1995 £000
Executives							
H O Cameron	87	2	9	–	–	98	–
R F M Adair	5	–	–	77	150	232	39
G Lane	64	4	6	–	–	74	–
Non-executives							
A C Surtees	–	–	–	15	–	15	8
W L S Guinness	–	–	–	7	–	7	–
A T West	–	–	–	12	–	12	12
Former director							
S B Pendock	45	–	110	–	35	190	77
	201	6	125	111	185	628	136

Mr R F M Adair is 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 was in recognition of the fact that fees previously paid to Mr Adair did not adequately reflect his contribution to the Company.

Other remuneration paid to Mr S B Pendock was in respect of compensation for loss of office.

Messrs H O Cameron, G Lane and W L S Guinness were appointed directors on 13 December 1995.

report of the remuneration committee continued

Pensions

The Company makes contributions at the rate of 10% of basic salary to personal pension schemes on behalf of Mr H O Cameron and Mr G Lane. A one-off contribution of £110,000 was made to an executive pension scheme on behalf of Mr S B Pendock. No pension contributions had previously been made on behalf of Mr S B Pendock during his period of service or on behalf of any other director.

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 number of options under this scheme held by executive directors (and former directors) are as follows:

	At 30 June 1996	At 1 July 1995 (or date of appointment)
H O Cameron	1,304,000	–
G Lane	956,500	–
S B Pendock	992,207	950,000

The number of options granted to Mr S B Pendock and the exercise price were adjusted during the year as a result of the Rights Issue of new ordinary shares in January 1996.

The market price of Melrose Energy ordinary shares at 30 June 1996 was 42.5p. During the year ended 30 June 1996 the range of the share price was 25p to 49.5p and the price at 30 August 1996 was 53.75p.

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

Date exercisable	Expiry date	Option exercise price	H O Cameron	G Lane	S B Pendock
March 1995	December 1997	19p	–	–	421,053
May 1996	December 1997	26p	–	–	571,154
June 1997	June 2003	46p	1,304,000	956,500	–

Service contracts

The consultancy agreement of Mr R F M Adair who is seeking re-election at the forthcoming Annual General Meeting, and Messrs H O Cameron and G Lane, who are seeking election at the forthcoming Annual General Meeting, have unexpired periods of one year. 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 have service contracts of one year in duration.

By order of the Remuneration Committee
A T West
Chairman of the Committee

23 September 1996

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 since the acquisition of Pentex Oil PLC in December 1995. Prior to this time the Company only had two non-executive directors. In all other respects, the Company complied with the Code of Best Practice throughout the year.

The Board of Directors

Following the acquisition of Pentex Oil PLC and the appointment of Messrs H O Cameron, G Lane and W L S Guinness as directors of the Company, the Board now comprises three 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 appraised 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 published financial statements 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 all the executive directors together with the Group Treasurer & Finance Manager, the UK Operations Director and the Managing Director of the Melrose Partnerships division. The Executive Committee will meet monthly. The Board will 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.

The systems for monitoring the effectiveness of internal controls at a Group level are currently under review by the Directors.

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 (on page 12), the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) 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 paragraphs of the Code specified for their review. 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, and that applicable accounting standards have been followed.

report of the auditors

to the members of Melrose Energy plc

We have audited the financial statements on pages 23 to 43 which have been prepared under the accounting policies set out on pages 28 and 29. 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 19 and 20.

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 1996 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

Grant Thornton

23 September 1996

consolidated profit and loss account

for the year ended 30 June 1996

	Note	Year ended 30 June 1996 £000	Year ended 30 June 1996 £000	Year ended 30 June 1995 £000
Turnover	1			
Continuing operations		24,011		
Acquisitions		13,156		
			37,167	14,081
Cost of sales			(18,877)	(7,819)
Depletion			(2,640)	(79)
Gross profit			15,650	6,183
Administrative expenses	2		(1,702)	(506)
Operating profit				
Continuing operations		9,031		
Acquisitions		4,917		
			13,948	5,677
Net interest payable	5		(1,013)	(27)
Profit on ordinary activities before taxation			12,935	5,650
Taxation on profit on ordinary activities	6		(1,493)	(310)
Profit for the year			11,442	5,340
Dividends	7		(2,756)	(892)
Retained profit for the year transferred to reserves	22		8,686	4,448
Earnings per share (p)	8		4.43	4.41
Pro-forma earnings per share (p)	8		4.41	2.96

The accounting policies and notes on pages 28 to 43 form part of these financial statements.

statement of total recognised gains and losses

for the year ended 30 June 1996

	Year ended 30 June 1996 £000	Year ended 30 June 1995 £000
Profit for the year	11,442	5,340
Currency translation differences on foreign currency net investment	41	(169)
	11,483	5,171

reconciliation of movements in shareholders' funds

for the year ended 30 June 1996

	Year ended 30 June 1996 £000	Year ended 30 June 1995 £000
Profit for the year	11,442	5,340
Dividends paid and proposed	(2,756)	(892)
	8,686	4,448
Other recognised gains and losses relating to the year	41	(169)
New share capital subscribed and to be subscribed	50,209	20,119
Goodwill written off	(22,310)	(17,800)
Net increase to shareholders' funds	36,626	6,598
Opening shareholders' funds	13,749	7,151
Closing shareholders' funds	50,375	13,749

group cash flow statement

for the year ended 30 June 1996

	Note	Year ended 30 June 1996 £000	Year ended 30 June 1995 £000
Net cash inflow from operating activities	23	12,145	7,668
Returns on investments and servicing of finance			
Interest paid		(3,330)	(99)
Finance lease interest paid		(106)	–
Interest received		727	72
Dividends paid		(1,510)	(464)
Net cash outflow from returns on investments and servicing of finance		(4,219)	(491)
Tax paid		(53)	–
Investing activities			
Purchase of tangible fixed assets		(4,451)	(2,026)
Purchase of fixed asset investments		–	(9)
Proceeds from sale of fixed assets		–	3
Investment in associated undertaking		(1,583)	(1,075)
Purchase of subsidiary undertakings	12	13,152	81
Net cash inflow/(outflow) from investing activities		7,118	(3,026)
Net cash inflow before financing		14,991	4,151
Financing			
Issue of shares		15,873	1,229
Expenses paid in connection with share issues		(1,060)	–
Capital element of finance lease rentals		(150)	–
Repayment of borrowings		(5,098)	(220)
Net cash inflow from financing	24	9,565	1,009
Increase in cash and cash equivalents	25	24,556	5,160

The accounting policies and notes on pages 28 to 43 form part of these financial statements.

consolidated balance sheet

as at 30 June 1996

	Note	As at 30 June 1996 £000	As at 30 June 1995 £000
Assets employed			
Fixed assets			
Intangible	10	10,397	816
Tangible	10	62,369	11,396
Investments	11	13,953	5,029
		86,719	17,241
Current assets			
Stock	13	272	–
Debtors	14	12,213	4,692
Cash at bank and in hand	15	30,677	5,799
		43,162	10,491
Creditors: amounts falling due within one year	16	(20,750)	(9,835)
Net current assets		22,412	656
Total assets less current liabilities		109,131	17,897
Creditors: amounts falling due after more than one year	17	(49,374)	(3,396)
Provision for liabilities and charges	19	(9,382)	(752)
		50,375	13,749
Financed by			
Capital and reserves			
Called up share capital	21	15,871	9,292
Share premium account	22	17,849	5,495
Other reserves	22	2,134	(6,873)
Profit and loss account	22	14,521	5,835
Equity shareholders' funds		50,375	13,749

The financial statements were approved by the Board of Directors on 23 September 1996.

H O Cameron
Chief Executive

H.O. Cameron

R F M Adair
Deputy Chairman and Finance Director

Robert FM Adair

The accounting policies and notes on pages 28 to 43 form part of these financial statements.

accounting policies

The financial statements have been prepared in accordance with 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 1996. 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 "US onshore", "US offshore", "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 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.

balance sheet

as at 30 June 1996

	Note	As at 30 June 1996 £000	As at 30 June 1995 £000
Assets employed			
Fixed assets			
Tangible	10	17	7
Investments	12	70,419	32,087
		70,436	32,094
Current assets			
Debtors	14	21,414	10,933
Cash at bank and in hand	15	7,950	507
		29,364	11,440
Creditors: amounts falling due within one year	16	(12,168)	(8,424)
Net current assets		17,196	3,016
Total assets less current liabilities		87,632	35,110
Provision for liabilities and charges	19	(1,732)	(372)
		85,900	34,738
Financed by			
Capital and reserves			
Called up share capital	21	15,871	9,292
Share premium account	22	17,354	5,000
Other reserves	22	50,529	19,253
Profit and loss account	22	2,146	1,193
Equity shareholders' funds		85,900	34,738

The financial statements were approved by the Board of Directors on 23 September 1996.

H O Cameron
Chief Executive

H.O. Cameron

R F M Adair
Deputy Chairman and Finance Director

Robert FM Adair

The accounting policies and notes on pages 28 to 43 form part of these financial statements.

Depletion

Capitalised costs in respect of oil and gas exploration and development 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 10-20%

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 risks 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.

notes to the financial statements

for the year ended 30 June 1996

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.

Acquisitions

Operating profit for the year ended 30 June 1996 includes the following amounts in respect of acquisitions during this period:

	£000
Turnover	13,156
Cost of sales	(5,160)
Depletion	(2,527)
Gross profit	5,469
Administrative expenses	(552)
Operating profit	4,917
Net interest payable	(1,574)
Profit on ordinary activities before taxation	3,343

Segmental information

	1996 Turnover £000	1996 Operating profit £000	1995 Turnover £000	1995 Operating profit £000
Continuing operations				
USA	24,011	9,982	14,081	6,089
UK	13,156	4,917	–	–
Group overheads	–	(951)	–	(412)
	37,167	13,948	14,081	5,677

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.

Comparative information for turnover and cost of sales for the year ended 30 June 1995 has been increased by an amount of £7,435,000 compared to the amounts previously stated. The comparative information has been restated because the directors consider that this basis of presentation is more appropriate having regard to the Group's activities. The equivalent adjustment to the current year's turnover and cost of sales was £13,525,000.

2 Administrative expenses

Administrative expenses include the following:

	1996 £000	1995 £000
Auditors' remuneration		
– for audit services	50	40
– for other services	33	10
Depreciation	148	1
Foreign exchange loss/(gain)	202	(59)
Share of profits of associated undertakings	10	–
Operating lease costs	123	–

3 Staff costs

	1996 £000	1995 £000
Wages and salaries	1,292	252
Social security costs	83	16
Pension costs	140	–
	1,515	268

	Number	Number
Average number of employees of the Group		
Management and administration	11	5
Technical and operational	35	–
	46	5

4 Remuneration in respect of directors of Melrose Energy plc

	1996 £000	1995 £000
Management remuneration	468	136
Pension contributions	125	–
Compensation for loss of office	35	–
	628	136

The emoluments of directors (excluding pension contributions) were as follows:

	£000	£000
Chairman	15	8
Highest paid director	232	77

The emoluments of directors (excluding pension contributions and compensation for loss of office) were in the following bands:

	Number	Number
£5,001 – £10,000	1	1
£10,001 – £15,000	2	1
£35,001 – £40,000	–	1
£40,001 – £45,000	1	–
£65,001 – £70,000	1	–
£75,001 – £80,000	–	1
£85,001 – £90,000	1	–
£230,001 – £235,000	1	–

5 Net interest payable

	1996 £000	1995 £000
Interest payable on bank loans, other loans and overdrafts repayable		
– within five years, otherwise than by instalments	24	99
– after more than five years, otherwise than by instalments	1,837	–
Finance charges in respect of leases	106	–
	1,967	99
Interest receivable	(954)	(72)
	1,013	27

notes to the financial statements continued

for the year ended 30 June 1996

6 Taxation on profit on ordinary activities

	1996 £000	1995 £000
UK corporation tax at 33%	133	131
Deferred tax	1,360	179
	1,493	310

The taxation charge has been reduced by the availability of losses brought forward from previous years. There are unrelieved tax losses of approximately £10 million (1995: £3 million) available for offset against future taxable profits.

7 Dividends

	1996 £000	1995 £000
Ordinary shares:		
Interim dividend of 0.29p per share (1995: 0.16p)	915	297
Final dividend of 0.58p per share (1995: 0.32p)	1,841	595
	2,756	892

8 Earnings per share

Earnings per share has been calculated by dividing the profit after taxation for the year ended 30 June 1996 of £11,442,000 (1995: £5,340,000) by the weighted average number of shares in issue of 258,066,000 (1995: 121,088,000). Fully diluted earnings per share is not materially different to the quoted amount.

Earnings per share for the year ended 30 June 1995 has been restated in accordance with SSAP 3 to take account of the effects of the Rights Issue in January 1996.

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 acquisitions completed during the year and the corresponding period:

	1996 £000	1995 £000
Profit for the year	11,442	5,340
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 acquisition of Melrose Petroleum group of companies with effect from 1 July 1994	–	187
Pro forma profit for the year	13,773	5,527
	Number	Number
Pro forma weighted average number of ordinary shares	312,635,000	186,723,000

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 profit after tax (but before dividends) of £3,709,000 (1995: £2,056,000) which is dealt with in the financial statements of the Company.

notes to the financial statements continued

for the year ended 30 June 1996

10 Fixed assets – tangible and intangible continued

The Company	Plant and equipment £000
Cost	
At 1 July 1995	9
Additions	12
At 30 June 1996	21
Depreciation	
At 1 July 1995	2
Provided during the year	2
At 30 June 1996	4
Net book value at 30 June 1996	17
Net book value at 30 June 1995	7

11 Investments

The Group	1996 £000	1995 £000
Interests in associated undertakings	3,431	2,234
Amounts owed by associated undertakings	10,522	2,795
	13,953	5,029

Interests in associated undertakings

At 30 June 1996 the Group had the following interests in associated undertakings:

	Capital contributed %	Share of profits and/or losses %
Melrose Partnerships Series II Nos 5-14	12.5	20.1
Melrose Partnerships Series III Nos 15-26	12.5	20.1
Melrose Partnerships Series IV Nos 27-41	12	0.1

The Group, through subsidiary undertakings, is general partner to the Melrose Partnerships and, as such, exercises significant influence over the affairs of those entities. Accordingly, the Melrose Partnerships are 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 Melrose Partnerships' principal activity is the development of oil and gas interests in the United States of America. The Partnerships are unincorporated and are registered in Scotland with a business address of No.1 Portland Place, London W1N 3AA.

Share of net assets of associated undertakings

	£000
At 1 July 1995	2,234
Additions	1,583
Acquisition of subsidiary undertaking (see note 12)	(396)
Share of profits of associated undertakings	10
At 30 June 1996	3,431

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 1995	816	14,576	51	14,627
Currency movements	(155)	(351)	2	(349)
Additions	–	4,390	1,134	5,524
Acquisition of subsidiary undertakings	10,000	46,986	1,395	48,381
Reclassification	(264)	264	–	264
At 30 June 1996	10,397	65,865	2,582	68,447
Depletion and depreciation				
At 1 July 1995	–	3,190	41	3,231
Currency movements	–	58	1	59
Provided during the year	–	2,640	148	2,788
At 30 June 1996	–	5,888	190	6,078
Net book value at 30 June 1996	10,397	59,977	2,392	62,369
Net book value at 30 June 1995	816	11,386	10	11,396

Tangible exploration and development costs comprise four cost pools:

	£000
UK onshore	39,899
UK offshore	2,362
US onshore	16,924
US offshore	792
	59,977

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 1996. These costs are in respect of the Group's interests in the Outer Continental Shelf prospects generated by Louisiana Offshore Ventures in the Gulf of Mexico, exploration licences in Italy and the coal bed methane project in the United Kingdom.

Pre-production costs incurred in oil and gas property acquisitions, exploration and development were capitalised as follows:

	£000
Development costs	1,909
Acquisition of properties	2,481
	4,390

Development costs amounting to £503,000 have been borne by the Melrose Partnerships on behalf of the Group in respect of its carried interests in certain properties in the USA.

Share of development costs of associated undertakings:

	£000
At 1 July 1995	4,361
Development costs incurred during the period	3,944
Acquisition of associated undertakings	(667)
At 30 June 1996	7,638

Assets held under finance leases

Plant and equipment includes assets held under finance leases at cost of £2,101,000 (1995: nil) and accumulated depreciation of £89,000 (1995: nil). Depreciation provided during the period in respect of finance leases amounted to £89,000 (1995: nil).

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 1995	33,287	31,200	2,087
Additions	38,332	38,332	–
At 30 June 1996	71,619	69,532	2,087
Provisions			
At 1 July 1995 and 30 June 1996	1,200	–	1,200
Net book value at 30 June 1996	70,419	69,532	887
Net book value at 30 June 1995	32,087	31,200	887

Acquisitions during the year

i Pentex Oil PLC

On 13 December 1995 the Company acquired the entire issued share capital of Pentex Oil PLC.

The assets and liabilities acquired comprised:

	At book value £000	Fair value adjustments £000	At fair value £000
Intangible fixed assets	12,624	(2,624)	10,000
Tangible fixed assets	46,327	(1,186)	45,141
Stocks	222	–	222
Debtors	3,160	–	3,160
Cash at bank and in hand	13,152	–	13,152
Total assets	75,485	(3,810)	71,675
Bank loans and overdrafts	(47,294)	–	(47,294)
Creditors	(3,630)	–	(3,630)
Provision for liabilities and charges	(4,561)	(2,619)	(7,180)
	20,000	(6,429)	13,571
Goodwill written off to reserves			21,320
			34,891
Satisfied by:			
Issue of shares			34,891

The fair value adjustments comprise:

	£000
Revaluation of oil and gas assets	(3,810)
Provisions for onerous lease obligations	(940)
Re-assessment of abandonment obligations	(1,679)
	(6,429)

notes to the financial statements continued

for the year ended 30 June 1996

12 Investments in subsidiary undertakings continued

Acquisitions during the year continued

The results of Pentex Oil PLC for the period prior to acquisition and the previous financial year are summarised below:

	Period from 1 January 1995 to date of acquisition £000	Year ended 31 December 1994 £000
Turnover	20,188	22,932
Cost of sales	(14,254)	(16,703)
Gross profit	5,934	6,229
Administrative expenses	(364)	(507)
Operating profit	5,570	5,722
Net interest payable	(2,505)	(2,467)
Profit on ordinary activities before tax	3,065	3,255
Taxation	–	–
Profit on ordinary activities after tax	3,065	3,255

Statement of total recognised gains and losses

	Period from 1 January 1995 to date of acquisition £000
Profit for the period	3,065
Currency translation difference on foreign currency net investment	285
	3,350

ii Melpet 1 Limited

On 23 April 1996 the Melrose Partnerships Series I Nos 1-4 were incorporated as Melpet 1 Limited with the Group receiving 20.1% of the issued share capital. On 6 June 1996 the Company acquired the remaining 79.9% of the issued ordinary share capital of Melpet 1 Limited. The assets and liabilities acquired comprised:

	At book value £000	Fair value adjustments £000	At fair value £000
Tangible fixed assets	3,240	–	3,240
Debtors	49	–	49
Total assets	3,289	–	3,289
Creditors	(481)	–	(481)
	2,808	–	2,808
Share of net assets of associated undertakings acquired			(396)
Net assets acquired			2,412
Goodwill written off to reserves			990
			3,402
Satisfied by:			
Cash			2,896
Issue of shares			506
			3,402

The consideration for this acquisition was not settled until after 30 June 1996 and is included in other creditors and called-up share capital to be issued (note 21 refers).

12 Investments in subsidiary undertakings continued

The Group's principal subsidiary undertakings, 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:

	Place of incorporation	Class of share capital held	Nature of business
UK			
Melrose Petroleum PLC		Ordinary	General partner to Melrose Partnerships Series I
Melrose Petroleum II PLC		Ordinary	General partner to Melrose Partnerships Series II
Melrose Petroleum III PLC		Ordinary	General partner to Melrose Partnerships Series III
Melrose Petroleum IV Limited		Ordinary	General partner to Melrose Partnerships Series IV
Melrose Petroleum (US) Limited	Texas, USA	Common	Provision of drilling services
Pentex Oil PLC		Ordinary	Intermediate holding company
Melrose Oil (UK) Limited* (registered in Scotland)		Ordinary	Oil and gas development and production
Melrose Oil & Gas Limited*		Ordinary	Oil and gas development and production
USA			
Melrose Oil Company	Utah, USA	Common	Oil and gas exploration, development and production
Melrose Energy Company	Texas, USA	Common	Oil and gas exploration, development and production
Melpet 1 Limited		Ordinary	Oil and gas development and production
Italy			
Pentex Italia Limited*		Ordinary	Oil and gas exploration, development and production

*indirectly held

13 Stocks

	1996 £000	1995 £000
Hydrocarbons	141	–
Materials and supplies	131	–
	272	–

notes to the financial statements continued

for the year ended 30 June 1996

14 Debtors

	The Group		The Company	
	1996 £000	1995 £000	1996 £000	1995 £000
Amounts falling due in less than one year				
Trade debtors	2,048	24	265	–
Amounts owed by associated undertakings	7,452	3,635	–	–
Amounts owed by subsidiary undertakings	–	–	20,038	10,610
Advance corporation tax recoverable	953	265	953	265
Other debtors	1,065	67	24	22
Prepayments and accrued income	695	701	134	36
	12,213	4,692	21,414	10,933

15 Cash at bank and in hand

Cash at bank includes £15,980,000 (1995: £5,176,000) held in restricted accounts reserved exclusively to meet certain of the Group's drilling commitments and site restoration obligations. A further £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		The Company	
	1996 £000	1995 £000	1996 £000	1995 £000
Bank loans and overdrafts	3,463	–	–	–
Trade creditors	9,889	6,809	43	58
Amounts due to subsidiary undertakings	–	–	6,377	6,190
Amounts due to related parties	–	1,174	–	1,237
Current taxation	1,217	396	953	265
Other creditors	3,404	–	2,896	–
Proposed dividend	1,841	595	1,841	595
Accruals and deferred income	682	861	58	79
Amounts due under finance leases	254	–	–	–
	20,750	9,835	12,168	8,424

17 Creditors: amounts falling due after more than one year

	The Group		The Company	
	1996 £000	1995 £000	1996 £000	1995 £000
Bank loans and overdrafts	37,443	–	–	–
Trade creditors	10,246	3,396	–	–
Amounts due under finance leases	1,685	–	–	–
	49,374	3,396	–	–

18 Borrowings

The Group	Bank loans and overdrafts £000	Finance leases £000	1996 Total £000	1995 Total £000
Repayable:				
In less than one year	3,463	254	3,717	–
Between one and two years	13,002	276	13,278	–
Between two and five years	17,805	979	18,784	–
After five years	6,636	430	7,066	–
	40,906	1,939	42,845	–

Bank loans and overdrafts includes an amount of £40,478,000 drawn down under the dollar denominated revolving credit facility of $US 79 million. 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 1995	752	–	752	–
Currency movement	5	–	5	–
Acquisition of subsidiaries	7,180	6,240	–	940
Provided during the year	1,445	85	1,360	–
At 30 June 1996	9,382	6,325	2,117	940

The Company	£000	£000	£000	£000
At 1 July 1995	372	–	372	–
Provided during the year	1,360	–	1,360	–
At 30 June 1996	1,732	–	1,732	–

20 Deferred taxation

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

	The Group		The Company	
	1996 £000	1995 £000	1996 £000	1995 £000
Amounts provided				
Retained earnings of overseas subsidiaries	385	380	–	–
Short term timing differences	1,732	372	1,732	372
	2,117	752	1,732	372

The Group has unrelieved tax losses of approximately £10,000,000 (1995: £3,000,000) 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 £4,964,000 (1995: £nil) in respect of accelerated capital allowances. The Company has no unprovided deferred tax (1995: £nil).

for the year ended 30 June 1996

21 Share capital

	1996 £000	1995 £000
Authorised		
440,000,000 (1995: 245,000,000) ordinary shares of 5p each	22,000	12,250
Allotted, called up and fully paid		
316,151,067 (1995: 185,848,331) ordinary shares of 5p each	15,808	9,292
To be allotted as called up and fully paid		
1,256,063 (1995: nil) ordinary shares of 5p each	63	–
	15,871	9,292

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 27 October 1995 8,088,594 ordinary shares were allotted at 25p per share to warrantholders in conversion of warrants on the first subscription date. On 6 June 1996 a further 2,285,655 ordinary shares were allotted at 29p per share on conversion of the remaining warrants.

On 13 December 1995, 81,141,102 ordinary shares were allotted at 43p per share in consideration for the acquisition of the entire issued share capital of Pentex Oil PLC.

On 6 January 1996, 38,787,385 ordinary shares were allotted at 34p per share by way of a one for five Rights Issue to provide funds for working capital.

On 23 July 1996, 1,256,063 ordinary shares were allotted at 40.25p per share in part consideration for the acquisition of Melpet 1 Limited (note 12 refers).

Share options

The Company has granted options to certain directors and employees in respect of 8,214,977 ordinary shares of 5p each. The options are exercisable as follows:

Exercise period	Number of options	Exercise price
March 1995 to December 1997	421,053	19p
December 1995 to December 2001	645,000	20p
May 1996 to December 1997	571,154	26p
May 1996 to December 2002	830,770	26p
June 1997 to June 2003	5,747,000	46p

22 Reserves

The Group	Share premium account £000	Other reserves £000	Profit and loss account £000
At 1 July 1995	5,495	(6,873)	5,835
Premium on shares issued (net of expenses)	12,354	31,276	–
Goodwill	–	(22,310)	–
Profit for the year	–	–	8,686
Exchange differences	–	41	–
At 30 June 1996	17,849	2,134	14,521

The cumulative amount of goodwill arising from acquisitions which has been written off to Other Reserves amounts to £47,489,000 (1995: £25,179,000).

notes to the financial statements continued

for the year ended 30 June 1996

25 Analysis of changes in cash and cash equivalents continued

Cash and cash equivalents comprise:

	1996 £000	Change in year £000	1995 £000	Change in year £000	1994 £000
Cash at bank and in hand	30,677	24,878	5,799	5,139	660
Bank overdrafts	(428)	(428)	–	21	(21)
	30,249	24,450	5,799	5,160	639

26 Effects of acquisition

The subsidiary undertakings acquired during the year made the following contributions to, and utilisations of, Group cash flows:

	1996 £000
Net cash flow from operating activities	5,887
Returns on investment and servicing of finance	(1,575)
Investing activities	(1,724)
Net cash flow before financing	2,588
Financing	(5,248)
Decrease in cash and cash equivalents	(2,660)

27 Capital commitments and contingencies

Capital commitments

The Group	1996 £000	1995 £000
Contracted for	1,644	–
Authorised but not contracted for	50	–
	1,694	–

The Company had capital commitments amounting to £50,000 (1995: £nil) which had been authorised but were not contracted for at the year end.

Contingent liabilities

The Group, through subsidiary undertakings, acts as general partner to the Melrose Partnerships Nos 5 to 41. The general partner has unlimited liability for any debts arising in the partnerships in excess of the capital contributed by the limited partners.

With the exception of unprovided deferred tax (note 20 refers), neither the Group nor the Company had any other contingent liabilities at 30 June 1996 or 30 June 1995.

28 Other financial commitments

Operating lease commitments	Land and buildings £000	Other £000	1996 £000	1995 £000
On leases expiring:				
Within one year	–	6	6	–
Between one and five years	–	48	48	–
After five years	240	–	240	–
	240	54	294	–

Finance lease obligations

Since the year end the Group has entered into additional finance lease obligations amounting to £1,287,000, of which £100,000 is in respect of the Company.

22 Reserves continued

The Company	Share premium account £000	Other reserves £000	Profit and loss account £000
At 1 July 1995	5,000	19,253	1,193
Premium on shares issued	13,414	31,276	–
Share issue expenses	(1,060)	–	–
Profit for the year	–	–	953
At 30 June 1996	17,354	50,529	2,146

The premium of 38p per share on the 81,141,102 ordinary shares issued in consideration for the acquisition of the entire issued share capital of Pentex Oil PLC and the premium of 35.25p per share on the 1,256,063 ordinary shares to be issued in connection with the acquisition of Melpet 1 Limited have been credited to Other Reserves in accordance with the provisions of S131(2) Companies Act 1985.

Share issue expenses include £35,000 paid to the Company's auditors.

23 Net cash inflow from operating activities

	1996 £000	1995 £000
Operating profit	13,948	5,677
Depletion and depreciation	2,788	80
Increase in stock	(50)	–
Increase in debtors	(11,134)	(3,622)
Increase in creditors	6,508	5,533
Site restoration provisions	85	–
Net cash inflow from operating activities	12,145	7,668

24 Analysis of changes in financing

	Share capital (including premium)		Loans and finance leases	
	1996 £000	1995 £000	1996 £000	1995 £000
At 1 July 1995	14,787	8,836	–	220
Issued for non-cash consideration	4,120	4,722	–	–
Arising on acquisition of subsidiary undertakings	–	–	47,294	–
Net cash inflow/(outflow) from financing	14,813	1,229	(5,248)	(220)
Inception of finance leases	–	–	1,073	–
Currency movement	–	–	(702)	–
At 30 June 1996	33,720	14,787	42,417	–

25 Analysis of changes in cash and cash equivalents

	1996 £000	1995 £000
At 1 July 1995	5,799	639
Net cash inflow	24,556	5,160
Effect of foreign exchange differences	(106)	–
At 30 June 1996	30,249	5,799

notice of annual general meeting continued

(b) the allotment of equity securities pursuant to the terms of any share scheme for employees of the Company approved by the members in General Meeting; and

(c) the allotment (otherwise than pursuant to sub-paragraphs (a) and (b) above) of equity securities up to an aggregate nominal amount of £872,870;

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 shall expire at the conclusion of the Annual General Meeting of the Company to be held in 1997 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.

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

That the draft regulations produced at the meeting and initialled by the chairman for the purposes of identification be adopted as the Articles of Association of The Company in substitution for and to the exclusion of all the existing Articles of Association.

By order of the Board
M L Manderson
Secretary

Registered Office
No. 1 Portland Place
London W1N 3AA

23 September 1996

Notes:

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.

notice of 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 7 November 1996 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 1996 (together with the report of the auditors).

2 To declare a final dividend.

3 To re-elect Mr R F M Adair 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 elect Messrs H O Cameron, G Lane and W L S Guinness, who were appointed Directors during the year, as Directors.

5 To reappoint Grant Thornton as the auditors.

6 To authorise the Directors to agree the remuneration of the auditors.

As special business:

7 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 any existing power 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 £4,131,860 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 1997, but so that this 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.

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

That subject to the passing of Resolution No. 7 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. 7 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 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);

five year summary

	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	Year ended 31 March 1992 £000
Turnover					
Continuing operations	24,011	3,270	223	572	792
Acquisitions	13,156	10,811	1,484	–	–
	37,167	14,081	1,707	572	792
Operating profit					
Continuing operations	9,031	2,476	(199)	(1,125)	372
Acquisitions	4,917	3,201	1,394	–	–
	13,948	5,677	1,195	(1,125)	372
Exceptional charges	–	–	8	(341)	–
Net interest payable	(1,013)	(27)	3	(56)	(75)
Profit on ordinary activities before taxation	12,935	5,650	1,206	(1,522)	297
Taxation on profit on ordinary activities	(1,493)	(310)	(30)	–	31
Profit for the year	11,442	5,340	1,176	(1,522)	328
Dividends	(2,756)	(892)	(166)	–	–
Retained profit for the year transferred to reserves	8,686	4,448	1,010	(1,522)	328
Earnings per share (p) (note 1)	4.41	2.96	1.62	(3.54)	0.8
Dividend per share (p)	0.87	0.48	0.2	–	–
Fixed assets	86,719	17,241	8,366	6,556	6,629
Net current assets/(liabilities)	22,412	656	(544)	(667)	(151)
Creditors: amounts falling due after more than one year	(49,374)	(3,396)	(473)	–	(132)
Provision for liabilities and charges	(9,382)	(752)	(198)	(206)	(176)
Shareholders' funds	50,375	13,749	7,151	5,683	6,170

Note:
1 Earnings per share for the years ended 30 June 1996 and 30 June 1995 are pro-forma amounts calculated on the basis set out on page 11 and note 8 to the financial statements.

29 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.

30 Related party transactions

During the year, the Directors set out below had interests in the following transactions:

i Messrs R F M Adair, H O Cameron and W L S Guinness are limited partners in the Melrose Partnerships Series IV which were formed in April 1996. The aggregate investment of these directors amounted to £825,000;

ii office and management services were provided by Terrace Hill Partnerships, in which Mr R F M Adair is a partner; and

iii as more fully described in note 31 below, Messrs R F M Adair, H O Cameron and W L S Guinness have subscribed for an aggregate of £2,530,000 in the issued share capital of Rowebuy plc.

31 Post balance sheet events

On 5 September 1996 the Group acquired a 49% interest in the ordinary share capital of Rowebuy plc and in connection with the acquisition issued 22,389,584 new ordinary shares at 48p per share. Rowebuy, which is a new company set up specifically for the purposes of this transaction, has a 20% interest in Evikhon Oil Joint Stock Company, which has interests in, inter alia, oil and gas reserves in the Khanty-Mansiysk Autonomous District in Western Siberia. Messrs R F M Adair, H O Cameron and W L S Guinness, either directly or indirectly, have invested in aggregate £2,530,000 in Rowebuy. Shareholders of the Company on the register at 4 September 1996 will be provided with an opportunity to subscribe for new ordinary shares in Rowebuy on the same terms.

On the same date, the Company placed 9,351,116 new ordinary shares to raise £4,489,000 (before expenses) for working capital purposes.

form of proxy melrose energy plc

Proxy form for an Annual General Meeting, to be held on 7 November 1996

I/We ....

Please insert full name and address BLOCK CAPITALS PLEASE

of ....

being (a) member(s) of the above-named Company, hereby appoint the Chairman of the Meeting* or

....

to act as my/our proxy and to vote as directed below on my/our behalf at the Annual General Meeting of the Company to be held at The Royal Thames Yacht Club, 60 Knightsbridge, London SW1 7LF on 7 November 1996 at 12 noon and at any adjournment thereof.

* If it is desired to appoint another person as proxy, the words "the Chairman of the Meeting" should be deleted, the name of the proxy inserted and the alteration initialled.

RESOLUTIONS	FOR	AGAINST
Ordinary business 1 To receive the Report and Accounts		
2 To declare a final dividend		
3 To re-elect Mr Robert F M Adair as Director		
4 To re-elect Messrs Henry O Cameron, George Lane and William L S Guinness as Directors		
5 To reappoint the auditors		
6 To approve the auditors' remuneration		
Special business 7 To give an allotment authority		
8 To disapply pre-emption rights		
9 To amend the Articles of Association regarding directors fees		

Date 1996

Signed ....

(or common seal)

Please indicate with an X how you wish your votes to be cast on a poll. Unless otherwise instructed, the proxy will vote or abstain as the proxy thinks fit. On any motion to amend any resolution, to propose a new resolution or to adjourn the Meeting, the proxy will act at his discretion.

Notes:

1 A proxy need not be a member of the Company.

2 In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority is determined by the order in which the names stand in the Register of Members in respect of the joint holding.

3 In the case of a corporation this proxy must be given under its common seal or be signed on its behalf by an attorney or officer duly authorised.

4 To be effective, this form must be lodged at the address overleaf not later than 48 hours before the time of the Meeting, or any adjournment thereof, together, if appropriate, with the power of attorney or other authority under which it is signed or a notarially certified copy of such power or, where the form has been signed by an officer on behalf of a corporation, or notarially certified copy of the authority under which it is signed.

5 Any alterations made in this form should be initialled.

6 The completion and return of this form will not prevent you from attending in person and voting at the Meeting should you subsequently decide to do so.

FOLD 3

BUSINESS REPLY SERVICE
Licence No. HF106

1

FOLD 1

Northern Registrars Limited
Northern House
Penistone Road
Fenay Bridge
Huddersfield
HD8 0JQ

FOLD 2

FOLD 4

TUCK IN