

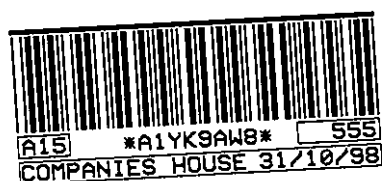
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**DANIEL INTERNATIONAL LIMITED**  
**(formerly Daniel International Holdings Limited)**

**DIRECTORS' REPORT AND CONSOLIDATED  
FINANCIAL STATEMENTS**

**31 DECEMBER 1997**

**Registered Number: 3196595**



**DANIEL INTERNATIONAL LIMITED**  
**(formerly Daniel International Holdings Limited)**

**DIRECTORS' REPORT**

The directors present their report together with the audited financial statements of Daniel International Limited ("the company") for the fifteen month period ended 31 December 1997. The company was incorporated as Daniel International Holdings Limited and changed its name to Daniel International Limited on 10 December 1996. The company changed its accounting reference date to 31 December so that its year end is coterminous with that of its parent.

**PRINCIPAL ACTIVITIES**

The company principally operates as a holding and management company for its parent's European operations. The company's parent is Daniel Industries Inc, a company incorporated in the United States.

The principal activities of the company and its subsidiaries ("the group") are the design, manufacture and sale of data acquisition, monitoring and control systems and electronic and mechanical flow measurement equipment systems, particularly in the oil and gas sectors.

The company's principal operating subsidiary is Daniel Europe Limited, a company incorporated in the United Kingdom.

**RESULTS AND DIVIDENDS**

The group made a loss after taxation for the fifteen months ended 31 December 1997 of £4,589,397 (five month period ended 30 September 1996 - £2,542,142). No dividend is proposed in respect of the period. The loss has been transferred from reserves.

On 30 September 1997, the group disposed of Daniel Messtechnik GmbH ("Messtechnik"), a subsidiary undertaking of Daniel Europe Limited based in Germany. The disposal gave rise to a loss in the group of £2,251,343, after taking into account the write-back of goodwill previously taken direct to reserves.

**DIRECTORS AND THEIR INTERESTS**

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

T Sivak	(United States, resigned 8 July 1998)
N C Butler	(Appointed 2 December 1996)
I A Reed	(Appointed 2 December 1996)
B Webb	(Appointed 2 December 1996)
H H Willis	(United States, appointed 2 December 1996, resigned 29 April 1997)

Subsequent to the period end, J M Tidwell (United States) was appointed as a director on 21 July 1998.

None of the directors in office during the period held any beneficial interests in the share capital of the company during the period.

**DANIEL INTERNATIONAL LIMITED**  
**(formerly Daniel International Holdings Limited)**

**DIRECTORS' REPORT (CONTINUED)**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**DISABLED EMPLOYEES**

The group gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately covered by a handicapped or disabled person.

With regard to existing employees and those who have become disabled during the year, the group will continue to examine ways and means of providing continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

**EMPLOYEE INVOLVEMENT**

Regular meetings are held between local management and employees to allow a free flow of information and ideas and so that the views of employees can be taken into account in making decisions which are likely to affect their interests.

**CREDITOR PAYMENT POLICY**

The group's policy with regard to the payment of suppliers is to:

- agree the terms of payment at the start of business with that supplier;
- ensure that the suppliers are made aware of the terms of payment; and
- pay in accordance with its contractual and legal obligations.

The group has taken, on average, 57 days to pay trade creditors.

**YEAR 2000**

The directors have initiated a review of the impact of rectifying inadequate systems with respect to the change of dates entailed by the new millennium. The review is well progressed and no significant costs have been or are anticipated to be incurred in completing this task within the group.

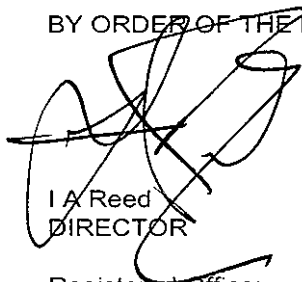
**DANIEL INTERNATIONAL LIMITED**  
**(formerly Daniel International Holdings Limited)**

**DIRECTORS' REPORT (CONTINUED)**

**AUDITORS**

Our auditors, Price Waterhouse, merged with Coopers & Lybrand on 1 July 1998 and a resolution to appoint the new firm, PricewaterhouseCoopers, as auditors to the company will be proposed at the annual general meeting.

BY ORDER OF THE BOARD



I A Reed  
DIRECTOR

30 October 1998

Registered Office:

Swinton Grange  
Malton  
North Yorkshire  
YO17 0QR

*Price Waterhouse*



**AUDITORS' REPORT TO THE SHAREHOLDER OF DANIEL INTERNATIONAL LIMITED (formerly Daniel International Holdings Limited)**

We have audited the financial statements on pages 5 to 23 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 9.

**Respective responsibilities of directors and auditors**

As described on page 2, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial 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 group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and the group as at 31 December 1997 and of the group's loss for the fifteen month period then ended and have been properly prepared in accordance with the Companies Act 1985.

*Price Waterhouse*

Price Waterhouse  
Chartered Accountants  
and Registered Auditors

30 October 1998

**DANIEL INTERNATIONAL LIMITED**  
(formerly Daniel International Holdings Limited)

**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE PERIOD ENDED 31 DECEMBER 1997**

	15 months ended 31 December 1997		5 months ended 30 September 1996	
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations
	£	£	£	£
<b>TURNOVER (Note 2)</b>	25,217,274	867,247	8,945,872	859,933
<b>COST OF SALES</b>	(16,860,157)	(1,010,382)	(7,100,940)	(605,785)
<b>GROSS PROFIT/(LOSS)</b>	8,357,117	(143,135)	1,844,932	254,148
Net operating expenses (Note 2)	(9,025,900)	(1,146,222)	(1,960,114)	(554,116)
<b>OPERATING LOSS</b>	(668,783)	(1,289,357)	(115,182)	(299,968)
Reorganisation provision (Note 6)	-	-	(171,471)	(1,637,457)
Loss on disposal of discontinued operations (Note 10)	-	(2,251,343)	-	-
Gain/Loss on foreign exchange	22,620	-	(8,329)	(24,764)
Gain on sale of fixed assets	11,238	-	-	8,685
Dividends receivable	-	-	3,000	-
<b>LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST</b>	(634,925)	(3,540,700)	(291,983)	(1,953,504)
Interest payable (Note 7)	(842,047)	(242,179)	(238,670)	(124,998)
Interest receivable	59,960	-	31,688	-
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	(1,417,012)	(3,782,879)	(498,965)	(2,078,502)
Taxation (Note 8)				
		610,494		35,325
<b>LOSS FOR THE FINANCIAL PERIOD</b>		(4,589,397)		(2,542,142)

There are no recognised gains and losses other than the loss for the financial period. The notes on pages 7 to 23 form part of the financial statements.

**DANIEL INTERNATIONAL LIMITED**  
**(formerly Daniel International Holdings Limited)**

**CONSOLIDATED BALANCE SHEET - 30 SEPTEMBER 1997**

	31 December 1997 £	30 September 1996 £
<b>FIXED ASSETS</b>		
Tangible assets (Note 9)	6,960,229	9,531,703
Investments (Note 10)	45,340	104,314
	<hr/>	<hr/>
	7,005,569	9,636,017
	<hr/>	<hr/>
<b>CURRENT ASSETS</b>		
Stocks (Note 11)	2,271,684	5,004,840
Debtors (Note 12)	10,300,018	9,591,606
Cash at bank and in hand	1,257,186	3,177,238
	<hr/>	<hr/>
	13,828,888	17,773,684
<b>CREDITORS - Amounts falling due within one year (Note 13)</b>	<hr/> (18,155,309)	<hr/> (14,103,836)
<b>NET CURRENT (LIABILITIES)/ASSETS</b>	<hr/> (4,326,421)	<hr/> 3,669,848
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<hr/> 2,679,148	<hr/> 13,305,865
<b>CREDITORS - Amounts falling due after more than one year (Note 14)</b>	(12,686)	(8,429,295)
<b>PROVISIONS FOR LIABILITIES AND CHARGES (Note 16)</b>	<hr/> (490,341)	<hr/> (1,861,433)
	<hr/> 2,176,121	<hr/> 3,015,137
	<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>		
Called-up share capital (Note 17)	8,594,790	8,594,790
Profit and loss account		
- accumulated (deficit)/surplus (Note 18)	(1,449,040)	3,140,357
Goodwill reserve (Note 18)	(4,969,629)	(8,720,010)
	<hr/>	<hr/>
<b>SHAREHOLDER'S FUNDS (Note 18)</b>	<hr/> 2,176,121	<hr/> 3,015,137
	<hr/>	<hr/>

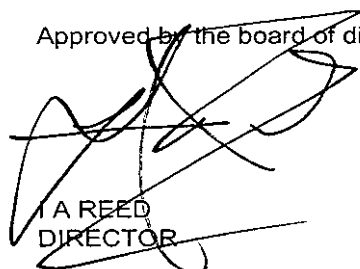
The notes on pages 8 to 23 form part of the financial statements.

**DANIEL INTERNATIONAL LIMITED**  
**(formerly Daniel International Holdings Limited)**

**COMPANY BALANCE SHEET - 31 DECEMBER 1997**

	31 December <u>1997</u> £	30 September <u>1996</u> £
<b>FIXED ASSETS</b>		
Investment in subsidiary undertakings (Note 10)	11,396,172	15,794,788
<b>CURRENT ASSETS</b>		
Debtors (Note 12)	2,244,791	1,502,217
Cash at bank and in hand	14,663	18,351
	<hr/>	<hr/>
	2,259,454	1,520,568
<b>CREDITORS - Amounts falling due within one year (Note 13)</b>	(10,227,905)	(438,648)
	<hr/>	<hr/>
<b>NET CURRENT (LIABILITIES)/ASSETS</b>	(7,968,451)	1,081,920
	<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	3,427,721	16,876,708
<b>CREDITORS - Amounts falling due after more than one year (Note 14)</b>	-	(8,400,000)
	<hr/>	<hr/>
	3,427,721	8,476,708
	<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>		
Called-up share capital (Note 17)	8,594,790	8,594,790
Profit and loss account - accumulated deficit (Note 18)	(5,167,069)	(118,080)
	<hr/>	<hr/>
<b>SHAREHOLDER'S FUNDS (Note 18)</b>	3,427,721	8,476,708
	<hr/>	<hr/>

Approved by the board of directors on 30 October 1998



J A REED  
DIRECTOR

The notes on pages 8 to 23 form part of the financial statements.



**DANIEL INTERNATIONAL LIMITED**  
**(formerly Daniel International Holdings Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -**  
**31 DECEMBER 1997**

**1 ACCOUNTING POLICIES**

The following accounting policies have been consistently applied in the preparation of the financial statements:

**(a) Basis of accounting**

The consolidated financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards. The consolidated financial statements include the financial statements of the company and its subsidiaries, each of which have co-terminous period ends.

In accordance with Section 230 (1) of the Companies Act 1985, the profit and loss account of the company is not published. The loss of the company for the year is disclosed in Note 18. The parent company (Note 21) has confirmed that it will provide the company with sufficient funds to allow it to meet its obligations as they fall due.

**(b) Tangible fixed assets**

Tangible fixed assets are stated at cost, less accumulated depreciation. Hardware assets manufactured by the company are capitalised at material cost only with no addition for labour or overhead costs. Depreciation is provided so as to write off the cost or valuation on a straight line basis of each asset over its estimated useful life. The principal periods of depreciation are:

Buildings	40 years
Other fixed assets	3 - 4 years

Rental payments made under operating leases are charged against trading profit on a straight-line basis over the term of the lease.

**(c) Fixed asset investments**

Fixed asset investments, including those in subsidiaries and associated undertakings, are included in the balance sheet at cost of investment less provision for permanent impairment of value.

**(d) Government grants**

Government grants receivable as a contribution towards expenditure on tangible fixed assets are treated as deferred credits and released to the profit and loss account over the estimated useful life of the asset to which they relate. Grants receivable in respect of revenue items are credited to the profit and loss account in the same period as the related expenditure is incurred.

**(e) Stocks**

Stocks (excluding long-term contract balances) are stated at the lower of cost and net realisable value. Work in progress is stated at cost which includes direct labour and appropriate overheads relevant to the stage of production reached. Assets held for sale are stated at the lower of cost or directors' estimated market value.

Long-term contracts are stated at cost net of amounts transferred to cost of sales, (including attributable profits), and after deducting foreseeable losses and any surplus payments on account.

**DANIEL INTERNATIONAL LIMITED**  
**(formerly Daniel International Holdings Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -**  
**31 DECEMBER 1997 (CONTINUED)**

**1 ACCOUNTING POLICIES (CONTINUED)**

**(f) Deferred taxation**

Provision is made for deferred taxation on all material timing differences under the liability method where, after allowing for taxation losses carried forward, there is a reasonable probability that a taxation liability will arise in the foreseeable future.

**(g) Foreign exchange**

Profits and losses on exchange, whether realised or unrealised, arising on monetary assets or liabilities denominated in foreign currencies are included in the results for the period. Monetary assets and liabilities in foreign currencies are converted to sterling at rates of exchange ruling at the balance sheet date.

In the group balance sheet, assets and liabilities of overseas subsidiaries are translated at period end rates of exchange and any gain or loss arising is carried directly to reserves.

**(h) Research and development**

Research and development expenditure is expensed when incurred.

**(i) Pensions**

The expected cost of pensions, in respect of those subsidiary undertakings which operate defined benefit schemes, is charged to the profit and loss account so as to spread the cost of pensions over the period benefiting from employees' services. In subsidiaries where defined contribution schemes are in place, the cost is charged to the profit and loss account as incurred.

**(j) Goodwill**

Goodwill arising on acquisition of businesses is charged directly to the goodwill reserve in the period of purchase.

**(k) Cash flow statement**

In accordance with Financial Reporting Standard 1, no cash flow statement has been presented as such a statement, consistent with the requirements of the standard, is included in the publicly available consolidated financial statements of the parent company (Note 21).

**(l) Related party transactions**

In accordance with the exemption permitted by FRS 8, Related Party Transactions, transactions with fellow group companies have not been disclosed.

**(m) Turnover**

Turnover represents amounts receivable, excluding VAT, for goods supplied and services rendered during the period together with the sales value attributable to the percentage completion of long-term contracts in progress (excluding Value Added Tax). All turnover is regarded as one class of business.

**DANIEL INTERNATIONAL LIMITED**  
**(formerly Daniel International Holdings Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -**  
**31 DECEMBER 1997 (CONTINUED)**

**2 TURNOVER AND OPERATING EXPENSES**

All turnover is regarded as one class of business. An analysis of turnover by geographical market has not been given because the directors believe that to do so may jeopardise the group's marketing strategy.

Operating expenses are analysed as follows:

	15 months ended 31 December 1997			5 months ended 30 September 1996		
	<u>Continuing</u>	<u>Discontinued</u>	<u>Total</u>	<u>Continuing</u>	<u>Discontinued</u>	<u>Total</u>
	£	£	£	£	£	£
Marketing and distribution	3,690,796	211,203	3,901,999	858,760	189,278	1,048,038
Administrative expenses	4,075,523	805,188	4,880,711	887,894	514,245	1,402,139
Research and development	1,325,222	248,278	1,573,500	254,707	122,361	377,068
Other operating income	(65,641)	(118,447)	(184,088)	(41,247)	(271,768)	(313,015)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	9,025,900	1,146,222	10,172,122	1,960,114	554,116	2,514,230
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

**DANIEL INTERNATIONAL LIMITED**  
**(formerly Daniel International Holdings Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -**  
**31 DECEMBER 1997 (CONTINUED)**

**3 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION**

The loss on ordinary activities before taxation is stated after charging/(crediting) the following:

	15 months ended 31 December 1997 £	5 months ended 30 September 1996 £
Depreciation (Note 9)	2,074,221	619,642
Gain on sale of fixed assets	(11,238)	(8,685)
Government grants	(184,892)	(95,074)
Gain/(loss) on foreign exchange	(22,620)	33,093
Auditors' remuneration - audit services	51,000	42,500
	<hr/>	<hr/>

In addition to the depreciation charge shown for the five months ended 30 September 1996, £671,613 of accelerated depreciation is included in reorganisation costs (Note 6), which relates to the write-down of certain land and buildings as at 30 September 1996.

Aggregate fees paid to the company's auditors for non-audit services supplied to the company and its UK subsidiaries in the 15 month period was £32,700 (5 month period ended 30 September 1996 - £35,470).

**4 DIRECTORS' REMUNERATION**

None of the directors in office at 31 December 1997 received remuneration for services provided to the company during the period. The emoluments of Messrs Butler, Reed and Webb are disclosed in the financial statements of Daniel Europe Limited and Spectra-Tek International Limited.

**5 EMPLOYEE COSTS**

	15 months ended 31 December 1997 £	5 months ended 30 September 1996 £
Wages and salaries	7,560,990	3,168,959
Social security costs	594,849	277,191
Pension costs	525,235	274,603
	<hr/>	<hr/>
	8,681,074	3,720,753
	<hr/>	<hr/>

**DANIEL INTERNATIONAL LIMITED**  
**(formerly Daniel International Holdings Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -**  
**31 DECEMBER 1997 (CONTINUED)**

**5 EMPLOYEE COSTS (CONTINUED)**

The average number of persons employed by the group during the period was as follows:

	<u>15 months ended</u> <u>31 December 1997</u>	<u>5 months ended</u> <u>30 September 1996</u>
	Number	Number
Manufacturing, design and development	263	247
Sales and administration	87	129
	<hr/>	<hr/>
	350	376
	<hr/>	<hr/>

**6 REORGANISATION PROVISION**

During the five months ended 30 September 1996, provisions totalling £1,637,457 were made in respect of certain fixed assets held for sale and stock held by Daniel Messtechnik GmbH ("Messtechnik", a German subsidiary undertaking - Note 10), a discontinued operation. An additional £171,471 was incurred in the same period in respect of redundancies and reorganisation costs in relation to continuing operations.

**7 INTEREST PAYABLE**

	<u>15 months ended</u> <u>31 December 1997</u>	<u>5 months ended</u> <u>30 September 1996</u>
	£	£
Bank overdrafts and loans	743,625	238,670
Amounts owed to related undertakings	340,601	124,998
	<hr/>	<hr/>
	1,084,226	363,668
	<hr/>	<hr/>

**DANIEL INTERNATIONAL LIMITED**  
**(formerly Daniel International Holdings Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -**  
**31 DECEMBER 1997 (CONTINUED)**

**8 TAXATION**

The tax credit consists of the following:

	15 months ended <u>31 December 1997</u> £	5 months ended <u>30 September 1996</u> £
UK corporation tax		
- current period	(169,852)	(65,082)
- prior period adjustment	(105,295)	-
Overseas taxation	63,678	21,082
Deferred taxation (Note 16)		
- current period	(100,077)	-
- prior period adjustment	(298,950)	8,675
	<hr/>	<hr/>
	(610,494)	(35,325)
	<hr/>	<hr/>

The tax credit entirely relates to continuing operations. The low effective rate of tax credit has arisen due to the level of disallowable expenditure in the period and because no tax benefit has been assumed for the loss arising on the sale of Messtechnik.

**DANIEL INTERNATIONAL LIMITED**  
**(formerly Daniel International Holdings Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -**  
**31 DECEMBER 1997 (CONTINUED)**

**9 TANGIBLE FIXED ASSETS**

Group	Land and <u>buildings</u> £	Plant and <u>machinery</u> £	Fixtures, fittings tools and <u>equipment</u> £	Total £
<b>Cost</b>				
1 October 1996	7,120,712	3,095,711	5,063,784	15,280,207
Additions	1,881,218	343,338	441,868	2,666,424
Disposals	(3,194,407)	(1,976,204)	(1,464,800)	(6,635,411)
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 1997	5,807,523	1,462,845	4,040,852	11,311,220
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>				
1 October 1996	1,905,441	1,232,239	2,610,824	5,748,504
Charge for the period (Note 3)	274,934	845,641	953,646	2,074,221
Disposals	(1,229,067)	(1,197,958)	(1,044,709)	(3,471,734)
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 1997	951,308	879,922	2,519,761	4,350,991
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net Book Amount</b>				
31 December 1997	4,856,215	582,923	1,521,091	6,960,229
	<hr/>	<hr/>	<hr/>	<hr/>
30 September 1996	5,215,271	1,863,472	2,452,960	9,531,703
	<hr/>	<hr/>	<hr/>	<hr/>

Land and buildings at cost represents:

	<u>31 December 1997</u> £	<u>30 September 1996</u> £
Freehold	5,789,802	7,102,991
Short leasehold	17,721	17,721
	<hr/>	<hr/>
	5,807,523	7,120,712
	<hr/>	<hr/>

**DANIEL INTERNATIONAL LIMITED**  
**(formerly Daniel International Holdings Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -**  
**31 DECEMBER 1997 (CONTINUED)**

**9 TANGIBLE FIXED ASSETS (CONTINUED)**

**Operating lease obligations**

The group has annual obligations payable under operating leases expiring:

	31 December 1997		30 September 1996	
	<u>Land and buildings</u>	<u>Other</u>	<u>Land and buildings</u>	<u>Other</u>
	£	£	£	£
Within one year	24,707	37,593	-	24,031
Between one and five years	175,961	79,397	112,455	75,879
After more than five years	-	-	33,000	18,685
	<u>200,668</u>	<u>116,990</u>	<u>145,455</u>	<u>118,595</u>

**10 INVESTMENTS**

**Group**

	15 months ended 31 December 1997	5 months ended 30 September 1996
	£	£
Associate undertakings	30,340	89,314
Other investments	15,000	15,000
	<u>45,340</u>	<u>104,314</u>

The investment in associated undertakings comprise:

Advanced Spectra-Tek Private Limited - a company incorporated in India in which Spectra-Tek UK Limited, a subsidiary undertaking, holds 40% of the issued share capital.

Wagon Greenfield Sdn Bhd - a long term investment in a joint venture (with Wagon Engineering Sdn Bhd of Malaysia) which is incorporated in Malaysia. Greenfield UK Limited, a subsidiary undertaking, holds 49% of the issued share capital. During the period, this investment was fully provided against in the financial statements of Greenfield UK Limited.

Spectra-Tek Inc - a long term investment in a joint venture with Webco Inc, which is incorporated in the USA. Spectra-Tek International Limited, a subsidiary undertaking, holds 50% of the issued share capital. During the period, this investment was fully provided against in the financial statements of Daniel Europe Limited.



**DANIEL INTERNATIONAL LIMITED**  
**(formerly Daniel International Holdings Limited)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -**  
**31 DECEMBER 1997 (CONTINUED)**

**10 INVESTMENTS (CONTINUED)**

**Investment in subsidiary undertakings**

At 31 December 1997, the company held 100% of the ordinary share capital in Daniel Europe Limited and Spectra-Tek International Limited. These investments are included in the balance sheet at cost less provision for permanent impairment of value.

During the period Daniel Europe Limited owned 98% of the ordinary share capital of Daniel Messtechnik GmbH ("Messtechnik"). Messtechnik is incorporated in Germany and was sold on 30 September 1997. The disposal gave rise to a loss in the group of £2,251,343, after taking into account the write-back of goodwill previously taken directly to reserves.

The disposal of Messtechnik gave rise to a permanent diminution of the value of Daniel Europe Limited, and accordingly, the company has written off £4,398,616 from the cost of its investment in subsidiary undertakings during the period.

The principal subsidiaries of Daniel Europe Limited, each of which are wholly owned, comprise:

Spectra-Tek UK Limited  
Spectra-Tek Holdings Limited

The principal subsidiaries of Spectra-Tek International Limited, each of which are wholly owned, comprise:

Greenfield UK Limited  
Spectra-Tek Asia Pacific Private Limited (incorporated in Singapore)

The group and company's investments comprise undertakings whose principal nature of business is the design, manufacture and sale of electronic and mechanical flow measurement equipment systems. Greenfield UK Limited owns a building in Potsdam, Germany, which is leased to third parties.

**11 STOCKS**

	31 December 1997	30 September 1996
	<u>Group</u>	<u>Group</u>
	£	£
Raw materials	1,807,852	2,074,771
Work in progress	444,666	615,095
Finished goods	19,166	27,095
Assets held for sale	-	2,287,879
	<hr/>	<hr/>
	2,271,684	5,004,840
	<hr/>	<hr/>

**DANIEL INTERNATIONAL LIMITED**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -**  
**31 DECEMBER 1997 (CONTINUED)**

**12 DEBTORS**

	31 December 1997		30 September 1996	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	£	£	£	£
Trade debtors	5,105,530	-	3,709,842	-
Amounts recoverable on contracts	2,067,850	-	3,156,920	-
Amounts owed by group undertakings	1,864,326	2,243,238	301,474	1,500,831
Other debtors	551,368	1,553	377,794	1,386
Pension fund prepayment	367,937	-	379,794	-
Prepayments and deferred income	173,155	-	1,281,211	-
Corporation tax recoverable	169,852	-	284,000	-
VAT recoverable	-	-	101,178	-
	<hr/>	<hr/>	<hr/>	<hr/>
	10,300,018	2,244,791	9,591,606	1,502,217
	<hr/>	<hr/>	<hr/>	<hr/>

**13 CREDITORS - Amounts falling due within one year**

	31 December 1997		30 September 1996	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	£	£	£	£
Amounts owed to group undertakings	13,829,031	10,227,905	8,156,584	387,005
Trade creditors	2,226,955	-	1,852,125	-
Accruals and deferred income	842,853	-	1,214,871	51,643
Bank overdrafts (Note 15)	415,402	-	1,318,905	-
Taxation and social security	329,614	-	281,347	-
Other creditors	141,362	-	593,825	-
Payments on account	297,341	-	142,627	-
Foreign corporation tax	64,293	-	1,519	-
Hire purchase creditors				
- current portion	8,458	-	10,653	-
UK corporation tax	-	-	531,380	-
	<hr/>	<hr/>	<hr/>	<hr/>
	18,155,309	10,227,905	14,103,836	438,648
	<hr/>	<hr/>	<hr/>	<hr/>

**DANIEL INTERNATIONAL LIMITED**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -**  
**31 DECEMBER 1997 (CONTINUED)**

**14 CREDITORS - Amounts falling due after more than one year**

	<u>31 December</u>		<u>30 September</u>	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	<u>1997</u>	<u>1997</u>	<u>1997</u>	<u>1996</u>
	£	£	£	£
Borrowings (Note 15)	-	-	8,400,000	8,400,000
Hire purchase creditors	12,686	-	29,295	-
	<u>12,686</u>	<u>-</u>	<u>8,429,295</u>	<u>8,400,000</u>

**15 BORROWINGS**

Bank overdrafts are repayable on demand and are secured over certain of the group's assets.

Borrowings due after more than one year at 30 September 1996 consisted of a term loan from Wachovia Bank of Georgia (United States of America). This loan bore interest at 6.875% and was guaranteed by Daniel Industries, Inc. This loan was repaid during the period ended 31 December 1997 and was replaced by intercompany borrowings.

The amounts owed to related undertakings are unsecured, repayable on demand and certain of these advances bear interest at commercial rates.

**16 PROVISION FOR LIABILITIES AND CHARGES**

	<u>31 December 1997</u>	<u>30 September 1996</u>
	<u>Group</u>	<u>Group</u>
	£	£
Deferred taxation	347,807	746,834
Deferred government grants	142,534	1,114,599
	<u>490,341</u>	<u>1,861,433</u>

The company has no material deferred tax assets or liabilities.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -**  
**31 DECEMBER 1997 (CONTINUED)**

**16 PROVISION FOR LIABILITIES AND CHARGES (CONTINUED)**

**Deferred Taxation**

Full provision has been made for all material deferred taxation liabilities in the group balance sheet. The provision is analysed:

	<u>31 December 1997</u>	<u>30 September 1996</u>
	£	£
Capital allowances in excess of depreciation	362,335	662,100
Other timing differences	(14,528)	84,734
	<hr/>	<hr/>
	347,807	746,834
	<hr/>	<hr/>

The movement on the deferred tax provision is as follows:

	£
1 October 1996	746,834
Transferred to profit and loss account (Note 8)	(399,027)
	<hr/>
31 December 1997	347,807
	<hr/>

**Deferred government grants**

	£
30 September 1996	1,114,599
Released to profit and loss account	(184,892)
Reduction in respect of disposals of subsidiary (Note 10)	(787,173)
	<hr/>
	142,534
	<hr/>

**17 CALLED UP SHARE CAPITAL**

<b>Authorised:</b>	£
10,000,000 ordinary shares of £1 each	10,000,000
	<hr/>
<b>Allotted, issued and fully paid:</b>	
8,594,790 ordinary shares of £1 each	8,594,790
	<hr/>

On 30 August 1996 8,594,788 £1 ordinary shares were issued to Daniel Industries Inc. in exchange for 8,594,788 £1 ordinary shares in Daniel Europe Limited.

**DANIEL INTERNATIONAL LIMITED**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -**  
**31 DECEMBER 1997 (CONTINUED)**

**18 SHAREHOLDER'S FUNDS**

	<u>Called up share capital</u>	<u>Profit and loss account - accumulated surplus/(deficit)</u>	<u>Goodwill reserve</u>	<u>Total shareholder's funds</u>
<b>Group</b>				
9 May 1996	-	5,682,499	(3,750,381)	1,932,118
Share capital contributed on incorporation	2	-	-	2
Share capital issued during period (Note 17)	8,594,788	-	-	8,594,788
Goodwill arising on acquisition (Note 23)	-	-	(4,969,629)	(4,969,629)
Loss for the financial period	-	(2,542,142)	-	(2,542,142)
	<hr/>	<hr/>	<hr/>	<hr/>
30 September 1996	8,594,790	3,140,357	(8,720,010)	3,015,137
Goodwill written back on disposal of subsidiary (Note 10)	-	-	3,750,381	3,750,381
Loss for the financial period	-	(4,589,397)	-	(4,589,397)
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 1997	8,594,790	(1,449,040)	(4,969,629)	2,176,121
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Company</b>				
Share capital contributed on incorporation - 9 May 1996	2	-	-	2
Share capital issued during period (Note 17)	8,594,788	-	-	8,594,788
Loss for the financial period	-	(118,080)	-	(118,080)
	<hr/>	<hr/>	<hr/>	<hr/>
30 September 1996	8,594,790	(118,080)	-	8,476,710
Loss for the financial period	-	(5,048,989)	-	(5,048,989)
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 1997	8,594,790	(5,167,069)	-	3,427,721
	<hr/>	<hr/>	<hr/>	<hr/>

**DANIEL INTERNATIONAL LIMITED**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -**  
**31 DECEMBER 1997 (CONTINUED)**

**19 PENSION COMMITMENTS**

**Company**

The company has no employees and does not operate a pension scheme.

**Daniel Europe Limited**

Daniel Europe Limited operates two pension schemes:

- a) The first provides benefits on final pensionable salary for UK employees. The assets of the scheme are held separately from those of the company, being invested principally with two insurance companies in units of their pooled funds. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified Actuary on the basis of triennial actuarial valuations using the projected unit method. The most recent actuarial valuation was at 1 January 1996. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increases in salaries. It was assumed that the investment return would be 8.5% per annum and that the salary increases would average 7.5% per annum. The scheme does not provide for increases in pensions in course of payment except as required by legislation.

The pension charge for the period was £255,608 (five month period ended 30 September 1996 - £82,008). This included £17,841 (five month period ended 30 September 1996 - £5,947) in respect of the amortisation of experience surpluses that are being recognised over 15 years, the average expected remaining service lives of employees.

The most recent actuarial valuation showed that the market value of the scheme assets was £6,342,000 and that the actuarial value of those assets represented 116% of the benefits which had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees will remain at 7.2% and 4% of earnings respectively.

- b) Daniel Europe Limited also operates a defined benefit scheme for certain former Spectra-Tek employees with assets held in a separately administered fund.

The total net pension cost of the scheme for the period was £269,627 (1996 - £192,595). This included £29,336 (1996 - £11,000) in respect of the amortisation of the surplus which is being recognised over 7 years, being the average expected remaining service lives of employees. The cost is assessed in accordance with the advice of external consulting actuaries. The latest actuarial valuation of the scheme was performed as at 1 July 1996 using the projected unit method. The principal assumptions adopted in the valuation were that, over the long term, the investment return would be 8% per annum, the rate of salary increase would be 7% per annum, and the rate of pension increase would be 6.5% per annum. The assumed rate of dividend growth was 3.5%.

At the date of the latest actuarial valuation at 1 July 1996, the market value of the assets of the scheme was £2,701,516 and the actuarial value sufficient to cover 113% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -**  
**31 DECEMBER 1997 (CONTINUED)**

**20 CONTINGENT LIABILITIES**

Performance bonds have been granted by the group's bankers in favour of customers for sums totalling £6,103,685 at 31 December 1997 (£4,071,613 at 30 September 1996).

**21 PARENT COMPANY**

The ultimate parent is Daniel Industries, Inc., which is incorporated in the United States of America. A copy of the consolidated financial statements can be obtained from 9753 Pine Lake Drive, Houston, TX77055.

**22 ACQUISITION OF THE SPECTRA-TEK GROUP OF COMPANIES**

In accordance with FRS 6 "Acquisitions and Mergers", the following disclosures are in respect of the historical financial statements of the Spectra-Tek companies and their acquisition by Daniel International Limited during the five month period ended 30 September 1996.

The Spectra-Tek companies were acquired on 28 May 1996. Summarised profit and loss account information, which has been derived from individual financial statements of the companies acquired for the relevant periods prior to acquisition, is as follows:

	2 months ended 28 May 1996 £	Year ended 31 March 1996 £
Turnover	1,238,414	11,511,033
Operating (loss)/profit	(214,607)	661,855
(Loss)/profit before taxation	(233,991)	682,567
Taxation credit/(charge)	70,792	(227,371)
(Loss)/profit after tax for the financial period	(163,199)	455,196

**DANIEL INTERNATIONAL LIMITED**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -**  
**31 DECEMBER 1997 (CONTINUED)**

**23 ACQUISITION OF THE SPECTRA-TEK GROUP OF COMPANIES (CONTINUED)**

**Fair value adjustments**

The following table sets out the book value of the Spectra-Tek net assets immediately prior to acquisition and the fair value adjustments recognised on acquisition.

	<u>Fixed assets</u> £	<u>Current assets</u> £	<u>Creditors less than 1 year</u> £	<u>Creditors more than 1 year</u> £	<u>Total</u> £
Book value	1,893,739	2,770,560	(1,836,466)	(481,840)	2,345,993
Fair value adjustments	-	141,000	-	(256,622)	(115,622)
Fair value of net assets acquired	<u>1,893,739</u>	<u>2,911,560</u>	<u>(1,836,466)</u>	<u>(738,462)</u>	<u>2,230,371</u>
Consideration					<u>7,200,000</u>
Goodwill arising on acquisition (Note 18)					<u>4,969,629</u>

The fair value adjustments include an increase in bad debt provision, the recognition of a pension fund prepayment and the inclusion of a provision for deferred taxation to ensure that these amounts are stated on a basis consistent with the group's accounting policies.

The consideration comprised entirely cash and was funded by the long term borrowings described in Note 15.