

ARTHUR
ANDERSEN
& CO

34226.

MURRAY PIPEWORK LIMITED

ACCOUNTS -- 31 JULY 1987

TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS.

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RECEIVED
27 JUN 1988

MURRAY PIPEWORK LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 JULY 1987

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report for the year ended 31 July 1987.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW:

The principal activity of the company continues to be fabrication and erection of pipework.

RESULTS AND DIVIDENDS:

Results for the year are as follows:

Accumulated deficit at 31 July 1986	£235,288
Loss for the year after taxation	574,143
Amortisation of revaluation reserve	(7,640)

Accumulated deficit at 31 July 1987	£801,791
	=====

No dividends were paid or proposed during the year.

The directors who served during the year together with their interests in the shares of the ultimate holding company, Murray International Holdings Limited, were:

	<u>Ordinary shares of £1 each</u>	
	<u>31 July 1987</u>	<u>31 July 1986</u>
Mr J Knubley	-	-
Mr D E Murray	899,600	899,600
Mr J MacDonald	-	-
Mr D R Sleight	-	-
Mr A N Seymour (appointed 26 March 1987)	-	-

During the year no director had a beneficial interest in the shares of Murray Pipework Limited.

MURRAY PIPEWORK LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 JULY 1987

FIXED ASSETS:

Information relating to changes in tangible fixed assets is given in Note 9 to the accounts.

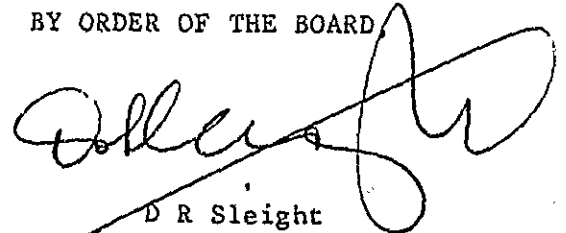
AUDITORS:

The directors will place a resolution before the annual general meeting to re-appoint Arthur Andersen & Co as auditors for the ensuing year.

Bonnington House
Kirknewton
Midlothian
EH27 8BB

29 January 1988

BY ORDER OF THE BOARD



D R Sleight
Secretary

ARTHUR ANDERSEN & Co.

18 CHARLOTTE SQUARE
EDINBURGH EH2 4DF

To the Members of MURRAY PIPEWORK LIMITED:

We have audited the accounts set out in pages 4 to 18 in accordance with approved Auditing Standards.

The accounts have been drawn up on a going concern basis, which assumes continuing financial support from the ultimate parent company.

As described in note 17, the company is seeking to recover contractual claims relating to work carried out during the year. The final outcome of the negotiations cannot be quantified at this time.

In our opinion, subject to continuing financial support from the ultimate parent company and subject to the effect of adjustments, if any, relating to the matter referred to in the preceeding paragraph, the accounts, which have been prepared under the historical cost convention as modified by the revaluation of land and buildings and certain plant and machinery, give a true and fair view of the state of affairs of the company at 31 July 1987, and of the loss and source and application of funds for the year then ended, and comply with the Companies Act 1985.

Arthur Andersen & Co

29 January 1988

MURRAY PIPEWORK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 JULY 1987

	<u>Notes</u>	<u>1987</u>	<u>1986</u>
TURNOVER	1e & 2	£3,178,967	£1,297,650
Cost of sales		(3,199,310)	(826,978)
GROSS PROFIT (LOSS)		(20,343)	470,672
Other operating expenses (net)	3	(460,553)	(394,650)
OPERATING PROFIT (LOSS)		(480,896)	76,022
Interest payable and similar charges	4	(110,859)	(21,806)
PROFIT (LOSS) BEFORE EXCEPTIONAL ITEMS		(591,755)	54,216
Exceptional items	7	-	(52,990)
PROFIT (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	5	(591,755)	1,226
Tax on profit (loss) on ordinary activities	8	17,612	(17,612)
PROFIT (LOSS) FOR THE FINANCIAL YEAR		(574,143)	(16,386)
Amortisation of revaluation reserve	16	7,640	21,738
ACCUMULATED DEFICIT at beginning of year		(235,288)	(240,640)
ACCUMULATED DEFICIT at end of year		£ (801,791)	£ (235,288)

The accompanying notes are an integral part of this profit and loss account.

MURRAY PIPEWORK LIMITED

BALANCE SHEET -- 31 JULY 1987

	<u>Notes</u>	<u>1987</u>	<u>1986</u>
FIXED ASSETS			
Tangible assets	1b & 9	£ 599,437	£ 687,349
CURRENT ASSETS			
Stocks	1c & 10	474,489	292,023
Debtors	11	1,207,394	259,551
Cash at bank and in hand		1,250	1,250
		1,683,133	552,824
CREDITORS: Amounts falling due within one year	12	(2,385,309)	(646,066)
NET CURRENT LIABILITIES		(702,176)	(93,242)
TOTAL ASSETS LESS CURRENT LIABILITIES		(102,739)	594,107
CREDITORS: Amounts falling due after more than one year	13	(589,629)	(594,362)
PROVISIONS FOR LIABILITIES AND CHARGES	14	-	(17,612)
NET LIABILITIES		£ (692,368)	£ (17,867)
CAPITAL AND RESERVES			
Called-up share capital	15	£ 22,858	£ 22,858
Revaluation reserve	1f & 16	86,565	194,563
Profit and loss account	16	(801,791)	(235,288)
TOTAL CAPITAL EMPLOYED		£ (692,368)	£ (17,867)

SIGNED ON BEHALF OF THE BOARD ON 29 JANUARY 1988

J D KNUBLEY

)

) Directors

J MacDONALD

)

The accompanying notes are an integral part of this balance sheet.

MURRAY PIPEWORK LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 31 JULY 1987

	<u>1987</u>	<u>1986</u>
SOURCE OF FUNDS		
Loss on ordinary activities after taxation	£ (574,143)	£ (16,386)
Add (deduct) items not involving the movement of funds during the year		
- depreciation	53,639	42,787
- loss (gain) on disposal of tangible fixed assets	4,553	(1,289)
- amortisation of deferred income	(1,829)	(4,551)
	-----	-----
Total funds generated (absorbed) by operations	(517,780)	20,561
Proceeds from disposal of tangible fixed assets	13,551	1,300
Increase in creditors falling due after more than one year	-	2,977
Increase (decrease) in provisions for liabilities and charges	(17,612)	17,612
Increase in net current liabilities, as shown below	608,934	156,169
	-----	-----
	£ 87,093	£ 198,619
	=====	=====
APPLICATION OF FUNDS		
Purchase of tangible fixed assets at cost	84,189	198,619
Decrease in creditors falling due after more than one year	2,904	-
	-----	-----
	£ 87,093	£ 198,619
	=====	=====
INCREASE (DECREASE) IN NET CURRENT LIABILITIES		
Stocks	£ (182,466)	£ 83,037
Debtors	(947,843)	135,326
Creditors falling due within one year	1,372,660	3,659
	-----	-----
	242,351	222,022
Movement in net liquid funds		
- bank loans and overdrafts	366,583	(65,853)
	-----	-----
	£ 608,934	£ 156,169
	=====	=====

The accompanying notes are an integral part of this statement.

MURRAY PIPEWORK LIMITED

NOTES TO ACCOUNTS --- 31 JULY 1987

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1. ACCOUNTING POLICIES:

The principal accounting policies are:

a) Basis of accounting

The accounts are prepared under the historical cost convention modified to include the revaluation of tangible fixed assets.

b) Tangible fixed assets

All fixed assets are shown at original historical cost or subsequent valuation, any related government grants being reported as deferred income and amortised over the expected useful life of the asset concerned. The balance of unused grants is disclosed as deferred income if material.

Depreciation is provided on all assets other than investment properties at rates calculated to write off the cost or valuation, less estimated residual value, of fixed assets on a straight-line basis over their estimated useful lives as follows:

Investment properties - not depreciated
Plant and machinery - 8-10 years
Motor vehicles - 4 years

c) Stocks

Stocks are stated at the lower of cost and net realisable value.

Cost incurred in bringing raw materials and work in progress to their present location and condition is based on purchase cost on a first-in, first-out basis, including transport.

Net realisable value is based on estimated normal selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

In accordance with SSAP9, long term contract work-in-progress is valued at cost plus attributable profit (if any), less the aggregate of foreseeable losses (if any) and progress payments received and receivable. The directors consider that this method, which represents a departure from the statutory accounting policy (on treatment of attributable profit) is necessary to show a true and fair view.

d) Pension costs

The company operates a contributory pension scheme, providing for defined benefits for eligible employees.

MURRAY PIPEWORK LIMITED

NOTES TO THE ACCOUNTS (Continued)

1. ACCOUNTING POLICIES (Continued):

e) Turnover

Turnover comprises the value of sales (excluding VAT and trade discounts) of goods and services in the normal course of business.

f) Revaluation reserve

Surpluses (deficits) arising on the revaluation of individual tangible fixed assets are credited (debited) to a non-distributable reserve known as revaluation reserve (see also Note 16). Revaluation deficits in excess of the amount of prior revaluation surpluses on the same asset are charged to the profit and loss account. On the disposal of a revalued tangible fixed asset any remaining surplus corresponding to the item is transferred to the profit and loss account. Where depreciation charges are increased following a revaluation, an amount equal to such increase is transferred annually from this reserve to the profit and loss account below the profit for the financial year.

g) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

The taxation liabilities of certain group companies are reduced wholly or in part by the surrender of losses by fellow group companies. The tax benefits arising from group relief are recognised in the accounts of the recipient companies.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax authorities) has been calculated on the liability method. Deferred tax is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse, as shown in Note 14.

2. SEGMENT INFORMATION:

The turnover is attributable to the one particular activity of the company. A geographical analysis of turnover was:

	<u>Turnover</u>	
	<u>1987</u>	<u>1986</u>
United Kingdom	£3,145,551	£1,278,650
Europe	33,416	19,000
	-----	-----
	£3,178,967	£1,297,650
	=====	=====

MURRAY PIPEWORK LIMITED

NOTES TO THE ACCOUNTS (Continued)

3. OTHER OPERATING EXPENSES (NET):

	<u>1987</u>	<u>1986</u>
Distribution costs	£ 33,807	31,433
Administration expenses	426,746	363,217
	-----	-----
	£ 460,553	394,650
	=====	=====

4. INTEREST PAYABLE AND SIMILAR CHARGES:

	<u>1987</u>	<u>1986</u>
On bank loans, overdrafts and other loans		
- repayable within five years, not by instalments	£ 107,605	£ 20,731
- repayable within five years, by instalments	3,254	1,075
	-----	-----
	£ 110,859	£ 21,806
	=====	=====

Included in the above is the interest element of charges payable under hire purchase contracts of £ 3,254 (1986 - £1,075).

5. PROFIT (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION:

The profit (loss) on ordinary activities before taxation is stated after crediting:

	<u>1987</u>	<u>1986</u>
a) Gain on disposal of tangible fixed assets	£ -	£ 1,289
b) Amortisation of deferred income	1,829	4,551
	=====	=====

and after charging:

a) Depreciation	£ 53,639	£ 42,787
b) Loss on disposal of tangible fixed assets	4,553	-
c) Hire of plant and machinery	12,695	42,089
d) Hire of motor vehicles	12,639	-
e) Auditors' remuneration	5,000	4,000
f) Staff costs - (see note 6)	2,885,152	757,599
	=====	=====

MURRAY PIPEWORK LIMITED

NOTES TO THE ACCOUNTS (Continued)

6. STAFF COSTS:

Particulars of employee costs (including executive directors) are as shown below:

	<u>1987</u>	<u>1986</u>
Employee costs during the year amounted to:		
Wages and salaries	£2,617,042	£671,727
Social security costs	256,096	64,964
Other pension costs	12,014	20,908
	-----	-----
	£2,885,152	£757,599
	=====	=====

The average weekly number of persons employed by the company during the year was:

	<u>1987</u> <u>Number</u>	<u>1986</u> <u>Number</u>
Production	171	62
Administration	16	8
	==	==

Directors' remuneration:

The employee costs shown above include the following remuneration in respect of directors of the company:

Fees as directors	£ -	£ -
Other emoluments (including pension contributions)	33,892	35,047
	-----	-----
	£ 33,892	£ 35,047
	=====	=====

The directors' remuneration shown above (excluding pensions and pension contributions) included:

Chairman	£ -	£ -
	=====	=====
Highest paid director	£ 31,441	£ 9,333
	=====	=====

MURRAY PIPEWORK LIMITED

NOTES TO THE ACCOUNTS (Continued)

5. STAFF COSTS (Continued):

	<u>Number</u>	<u>Number</u>
Other directors received emoluments (excluding pensions and pension contributions) in the following ranges:		
Up to £ 5,000	2	2
£ 5,001 - £10,000	1	3
	===	===

EXCEPTIONAL ITEMS:

The exceptional expense of £52,990 in the prior year relates to expenditure incurred in relocating the company's operations during that year from Nitshill, Glasgow to Newbridge, Edinburgh.

TAX ON PROFIT (LOSS) ON ORDINARY ACTIVITIES:

The tax charge (credit) is based on the profit (loss) for the year and comprises -

	<u>1987</u>	<u>1986</u>
Corporation tax at 35% (1986 - 38.33%)	£ -	£ -
Deferred taxation arising from		
- capital allowances	(16,320)	80,985
- losses carried forward	(1,292)	(63,373)
	-----	-----
	£(17,612)	£ 17,612
	=====	=====

TANGIBLE FIXED ASSETS:

The following are included in the net book value of tangible fixed assets:

	<u>1987</u>	<u>1986</u>
Investment properties, freehold land and buildings	£232,000	£332,358
Plant and machinery	367,437	354,991
	-----	-----
Net tangible fixed assets	£599,437	£687,349
	=====	=====

MURRAY PIPEWORK LIMITED

NOTES TO THE ACCOUNTS (Continued)

TANGIBLE FIXED ASSETS: (Continued)

a) The movement in the year was as follows:

	Investment Properties, Freehold Land and Buildings	Plant and Machinery	Total
COST OR VALUATION:			
Beginning of year	£332,358	£545,344	£877,702
Additions	-	84,189	84,189
Disposals	-	(69,752)	(69,752)
Revaluation deficit	(100,358)	-	(100,358)
	-----	-----	-----
End of year	£232,000	£559,781	£791,781
	=====	=====	=====
DEPRECIATION:			
Beginning of year	£ -	£190,353	£190,353
Charge	-	53,639	53,639
Disposals	-	(51,648)	(51,648)
	-----	-----	-----
End of year	£ -	£192,344	£192,344
	=====	=====	=====
NET BOOK VALUE			
beginning of year	£332,358	£354,991	£687,349
	=====	=====	=====
NET BOOK VALUE			
end of year	£232,000	£367,437	£599,437
	=====	=====	=====

MURRAY PIPEWORK LIMITED

NOTES TO THE ACCOUNTS (Continued)

TANGIBLE FIXED ASSETS: (Continued)

b) Basis of valuation

Plant and machinery (including fixtures and fittings) are shown at cost or valuation. Investment properties, freehold land and buildings are at valuation.

	<u>1987</u>		<u>1986</u>	
	Investment Properties, Freehold Land and Buildings	Plant and Machinery	Investment Properties, Freehold Land and Buildings	Plant and Machinery
Professionally valued				
- existing use	£232,000	£204,000	£325,000	£204,000
At cost	-	355,781	7,358	341,344
	-----	-----	-----	-----
Cost or valuation				
end of year	£232,000	£559,781	£332,358	£545,344
	=====	=====	=====	=====

The investment properties were revalued, on an open-market, existing-use basis by Messrs D M Hall and Sons, Chartered Surveyors, as at 31 July 1987. Plant and machinery was valued, on an open-market, existing-use basis, by James Barr & Co., Chartered Surveyors, as at 31 July 1984. Investment properties are not depreciated as this would conflict in the directors' opinion, with the requirement to give a true and fair view. The depreciation which would have been charged had the investment properties been depreciated would have been £6,647 (1986 - £6,647).

c) Original cost, and depreciation based on cost, of investment properties, freehold land and buildings and plant and machinery included at valuation:

	<u>1987</u>		<u>1986</u>	
	Investment Properties, Freehold Land and Buildings	Plant and Machinery	Investment Properties, Freehold Land and Buildings	Plant and Machinery
Original cost	£214,198	£437,943	£206,840	£437,943
Depreciation based on cost	-	(421,066)	-	(377,272)
	<u>£214,198</u>	<u>£ 16,877</u>	<u>£206,840</u>	<u>£ 60,671</u>
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

MURRAY PIPEWORK LIMITED

NOTES TO THE ACCOUNTS (Continued)

0. STOCKS:

The following are included in the net book value of stocks:

	<u>1987</u>	<u>1986</u>
Raw materials and consumables	£ 18,105	£ 25,057
Work-in-progress	456,384	266,966
	-----	-----
	£474,489	£292,023
	=====	=====

1. DEBTORS

The following are included in the net book value of debtors:

Amounts falling due within one year:

	<u>1987</u>	<u>1986</u>
Trade debtors (Note 17)	£1,184,070	£171,129
Amounts owed by holding company and fellow subsidiaries	10,239	58,580
Amounts owed by associate companies	1,572	-
Prepayments and accrued income	11,513	29,842
	-----	-----
	£1,207,394	£259,551
	=====	=====

CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR:

	<u>1987</u>	<u>1986</u>
Current portion of loans (Note 13)	£ 2,000	£ 2,000
Bank loans and overdrafts (secured)	610,365	243,782
Trade creditors	364,977	110,267
Amounts owed to holding company and fellow subsidiaries	855,783	193,334
Other creditors		
- VAT	170,352	2,660
- due under hire purchase agreements	24,659	10,094
- other	125,456	42,085
- social security and PAYE	216,431	33,086
Accruals and deferred income	15,296	8,758
	-----	-----
	£2,385,309	£646,066
	=====	=====

The company's overdraft is secured by a floating charge and a standard security over the company's investment properties. The overdraft is also guaranteed to a limit of £375,000 by the company's ultimate parent company.

MURRAY PIPEWORK LIMITED

NOTES TO THE ACCOUNTS (Continued)

1. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR:

The following amounts are included in creditors falling due after more than one year:

	<u>1987</u>	<u>1986</u>
Loans wholly repayable within five years: 11.5% from ICFC repayable by half yearly instalments of £1,000 secured by a fixed charge over the company's heritable property and a floating charge over all of the company's assets	£ 8,000	£ 10,000
Holding company loan - interest free	579,080	579,080
	587,080	589,080
Less repayments due within one year	(2,000)	(2,000)
	585,080	587,080
Amounts due under hire purchase agreements	4,073	4,977
Accruals and deferred income - government grants	476	2,305
	<u>£589,629</u>	<u>£594,362</u>

2. PROVISIONS FOR LIABILITIES AND CHARGES:

	<u>1987</u>	<u>1986</u>
Excess of tax allowances over book depreciation of fixed assets	£ 64,655	£ 80,985
Tax effect of losses carried forward	(64,655)	(63,373)
	£ -	£ 17,612
The movement on deferred taxation comprises -		
Beginning of year	£ 17,612	£ -
Charged (credited) to profit and loss, in respect of		
- capital allowances	(16,320)	80,985
- losses carried forward	(1,292)	(63,373)
End of year	<u>£ -</u>	<u>£ 17,612</u>

MURRAY PIPEWORK LIMITED

NOTES TO THE ACCOUNTS (Continued)

PROVISIONS FOR LIABILITIES AND CHARGES (Continued):

The full potential amount of deferred taxation on all timing differences is as follows -

	<u>1987</u>	<u>1986</u>
Excess of tax allowances over book depreciation of fixed assets	£ 64,655	£ 80,985
Tax effect of losses carried forward	(64,655)	(63,373)
Taxes that would arise if land and buildings were to be disposed of at their revalued amounts	6,230	35,000
	-----	-----
	£ 6,230	£ 52,612
	=====	=====

CALLED-UP SHARE CAPITAL:

	<u>1987</u>	<u>1986</u>
Authorised:		
25,000 Ordinary shares of £1 each	25,000	25,000
	=====	=====
Allotted, called-up and fully-paid:		
22,858 Ordinary shares of £1 each	£ 22,858	£ 22,858
	=====	=====

RESERVES:

Of total reserves shown in the balance sheet, the following amounts are regarded as distributable or otherwise:

	<u>1987</u>	<u>1986</u>
Distributable		
- profit and loss account	£(801,791)	£(235,288)
Non-distributable		
- revaluation reserve	86,565	194,563
	-----	-----
Total reserves	£(715,226)	£ (40,725)
	=====	=====

MURRAY PIPEWORK LIMITED

NOTES TO THE ACCOUNTS (Continued)

RESERVES (Continued):

	<u>Revaluation reserve</u>	<u>Profit and loss account</u>	<u>Total</u>
Beginning of year	£ 194,563	£ (235,288)	£ (40,725)
Loss after taxation	-	(574,143)	(574,143)
Amortisation of revaluation surplus	(7,640)	7,640	-
Revaluation deficit	(100,358)	-	(100,358)
	-----	-----	-----
End of year	£ 86,565	£ (801,791)	£ (715,226)
	=====	=====	=====

No deferred tax has been provided in respect of the revaluation reserve, since the directors consider that no liability to tax will arise in the foreseeable future. The contingent tax liability is set out in Note 14.

CONTRACT CLAIMS:

During the year the company experienced severe difficulties in carrying out certain fabrication contract work due to delays and other problems outwith its control. As a result, significant cost overruns were incurred and the company is seeking to recover the additional costs from the contractors.

Negotiations with the contractors are currently underway and the directors have received professional advice from contract and legal advisers to the effect that the claims for recovery are soundly based. The directors intend vigorously to pursue full settlement of these claims and as an interim measure have reflected all of the contract costs and a conservative portion of the claims submitted in the accounts to 31 July 1987.

FINANCIAL COMMITMENTS:

a) Capital commitments:

At the end of the year there were no capital commitments (1986 - £Nil).

b) Operating lease commitments:

The company has minimum annual rentals under operating leases as follows -

Operating leases which expire -

- within 1 year	£ 4,830
- within 2-5 years	15,136
- after 5 years	-

	£19,966
	=====

MURRAY PIPEWORK LIMITED

NOTES TO THE ACCOUNTS (Continued)

ULTIMATE HOLDING COMPANY:

The ultimate parent company is Murray International Holdings Limited, which is incorporated in England. The directors have drawn up the accounts on a going concern basis which assumes continuing financial support from Murray International Holdings Limited.