



**SPECIALISED PETROLEUM
MANUFACTURING LIMITED**

Report and Financial Statements

30 June 1998

**Deloitte & Touche
66 Queen's Road
Aberdeen
AB15 4YE**



**REPORT AND FINANCIAL STATEMENTS 1998****CONTENTS****Page****Officers and professional advisers****1****Directors' report****2****Statement of directors' responsibilities****3****Auditors' report****4****Profit and loss account****5****Balance sheet****6****Notes to the accounts****8**

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 1998.

ACTIVITIES

The company's principal activity is the selling and rental of specialised flow control products to the oil industry.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The company has had an extremely successful and profitable year, generating an after tax profit of £529,597 (1997: £518,773). The directors are confident about the future prospects of the company.

DIVIDENDS

The results for the year are set out on page 5. The directors do not recommend the payment of a dividend.

FIXED ASSETS

Changes in fixed assets during the year are summarised in note 7.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year, together with their interests in the share capital of the company, are as follows:

	Ordinary shares	
	1998	1997
	No	No
D E Lowrance	1	1
A McDonald	-	-
R Gilbert	-	-

YEAR 2000

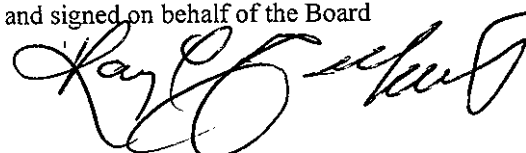
The directors are currently reviewing in-house electronic systems and are planning to have all of these year 2000 compliant by 30 June 1999. The ability of suppliers and external service providers to cope with this issue is also being addressed.

AUDITORS

The company's auditors Pannell Kerr Forster (Aberdeen Practice) merged with Deloitte & Touche in October 1997 and now practice as Deloitte & Touche.

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



A McDonald
Secretary



**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company 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
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. 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.



AUDITORS' REPORT TO THE MEMBERS OF

SPECIALISED PETROLEUM MANUFACTURING LIMITED

We have audited the financial statements on pages 5 to 14 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 3 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 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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 June 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and Registered Auditors


PROFIT AND LOSS ACCOUNT
Year ended 30 June 1998

	Note	£	1998 £	1997 £
TURNOVER: continuing operations	2		3,062,589	2,445,542
Cost of sales			<u>1,621,123</u>	<u>1,261,314</u>
Gross profit			1,441,466	1,184,228
Administrative expenses			649,952	414,101
Other operating income			<u>-</u>	<u>(2,000)</u>
 OPERATING PROFIT: continuing operations	4		791,514	772,127
Interest receivable and similar income		813		1,837
Interest payable and similar charges	5	<u>(15,037)</u>		<u>-</u>
			<u>(14,224)</u>	<u>1,837</u>
 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			777,290	773,964
Tax on profit on ordinary activities	6		<u>247,693</u>	<u>255,191</u>
PROFIT FOR THE FINANCIAL YEAR			529,597	518,773
 Retained profit brought forward			<u>964,001</u>	<u>445,228</u>
Retained profit carried forward			<u>1,493,598</u>	<u>964,001</u>

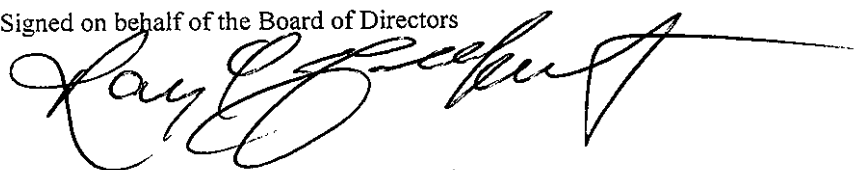
There are no recognised gains or losses for the current financial year and the preceding financial year other than as stated in the profit and loss account.

BALANCE SHEET
30 June 1998

	Note	1998 £	1997 £
FIXED ASSETS			
Tangible assets	7	<u>1,010,446</u>	<u>313,795</u>
CURRENT ASSETS			
Stocks	8	676,615	350,512
Debtors	9	1,001,006	687,161
Cash at bank and in hand		<u>134,257</u>	<u>177,169</u>
		<u>1,811,878</u>	<u>1,214,842</u>
CREDITORS: amounts falling due within one year	10	<u>597,420</u>	<u>556,872</u>
NET CURRENT ASSETS		<u>1,214,458</u>	<u>657,970</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,224,904</u>	<u>971,765</u>
CREDITORS: amounts falling due after more than one year	11	<u>(730,306)</u>	<u>(6,764)</u>
		<u>1,494,598</u>	<u>965,001</u>
CAPITAL AND RESERVES			
Called up share capital	13	1,000	1,000
Profit and loss account		<u>1,493,598</u>	<u>964,001</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS	14	<u>1,494,598</u>	<u>965,001</u>

These financial statements were approved by the Board of Directors on 26 January 1999

Signed on behalf of the Board of Directors



A McDonald
Director




CASH FLOW STATEMENT
Year ended 30 June 1998
**RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW/(OUTFLOW) FROM
OPERATING ACTIVITIES**

	1998 £	1997 £
Operating profit	791,514	772,127
Depreciation of tangible fixed assets	137,202	95,499
Loss on sale of fixed assets	16,380	5,785
Increase in debtors	(313,845)	(276,685)
(Increase)/decrease in stock	(326,103)	58,547
Decrease in creditors	(82,310)	(280,108)
Net cash inflow from operating activities	<u>222,838</u>	<u>375,165</u>

CASH FLOW STATEMENT (note 15)

	£	£
Net cash inflow from operating activities	222,838	375,165
Returns on investment and servicing of finance	(14,224)	1,837
Taxation	(255,393)	(133,464)
Capital expenditure	(850,233)	(236,343)
	<u>(897,012)</u>	<u>7,195</u>
Financing	<u>854,100</u>	<u>-</u>
Increase/(decrease) in cash	<u>(42,912)</u>	<u>7,195</u>

	£	£
Reconciliation of net cash flow to movement in net debt (note 16)		
Increase/(decrease) in cash in the period	(42,912)	7,195
Loan movement	(857,878)	-
Net movement in finance leases	3,778	(11,336)
	<u>(897,012)</u>	<u>(4,141)</u>
Changes in net funds/(debt)		
Net funds at 30 June 1997	165,833	169,974
Net funds/(debt) at 30 June 1998	<u>(731,179)</u>	<u>165,833</u>

Details of major transactions are given in note 17.



NOTES TO THE ACCOUNTS
Year ended 30 June 1998

1. ACCOUNTING POLICIES

The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Tangible fixed assets

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Land and buildings	Over 25 years
Plant, machinery, fixtures, fittings & office equipment	20% per annum
Motor vehicles	25% per annum

Stocks

Stocks and work-in-progress are stated at the lower of cost and net realisable value. Cost is determined on a first in first out basis, and includes all direct costs incurred and attributable production overheads. Net realisable value is based on estimated selling price allowing for all further costs of completion and disposal.

Deferred taxation

Provision is made for deferred tax using the liability method to the extent that it is probable that a liability will crystallise.

Leases

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Pension costs

The company operates two defined contribution pension schemes. The pension charge in the profit and loss account represents the amounts payable by the company to the funds in respect of the year.

2. TURNOVER

Turnover represents amounts derived from the provision of goods and services which fall within the company's ordinary activities after deduction of trade discounts and value added tax.

23% of turnover (1997: 14%) is attributable to geographical markets outside of the United Kingdom:

	1998	1997
	£	£
United Kingdom	2,366,783	2,114,642
Europe	583,470	319,914
USA	99,122	6,600
Middle East	7,716	4,386
Far East	5,498	-
	<u>3,062,589</u>	<u>2,445,542</u>


NOTES TO THE ACCOUNTS
Year ended 30 June 1998
3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1998 £	1997 £
Directors' remuneration		
Emoluments (excluding pension contributions)	82,316	66,168
The number of directors who were members of company pension schemes were :		
	No	No
Money purchase schemes	1	1
	1998 £	1997 £
Staff costs during the year (including directors)		
Wages and salaries	309,531	236,499
Social security costs	27,383	23,668
Pension costs	11,232	4,275
	348,146	264,442
The average number of employees during the year was:		
Sales	1	1
Workshop	5	5
Administration	5	5
	11	11

4. OPERATING PROFIT

	1998 £	1997 £
Operating profit is after charging:		
Depreciation		
- owned assets	133,168	95,163
- held under finance leases	4,034	336
Auditors' remuneration	3,300	3,150
and after crediting:		
Rents receivable (non-property)	833,070	816,153

NOTES TO THE ACCOUNTS
Year ended 30 June 1998
5. INTEREST PAYABLE

	1995 £	1994 £
Loans from group undertakings	14,184	-
Finance leases and hire purchase contracts	853	-
	<u>15,037</u>	<u>-</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998 £	1997 £
United Kingdom corporation tax at 31% (1997 - 31%)	<u>247,693</u>	<u>255,191</u>

7. TANGIBLE FIXED ASSETS

	Heritable Land and Buildings £	Plant & Machinery, Fixtures and fittings £	Motor Vehicles £	Total £
Cost				
At 1 July 1997	10,700	550,411	40,826	601,937
Additions in year	702,350	147,883	-	850,233
Disposals in year	(10,700)	(11,030)	-	(21,730)
	<u>702,350</u>	<u>687,264</u>	<u>40,826</u>	<u>1,430,440</u>
At 30 June 1998				
Accumulated depreciation				
At 1 July 1997	4,732	271,246	12,164	288,142
Charge in year	8,515	118,480	10,207	137,202
Disposals in year	(5,350)	-	-	(5,350)
	<u>7,897</u>	<u>389,726</u>	<u>22,371</u>	<u>419,994</u>
At 30 June 1998				
Net book value				
At 30 June 1998	<u>694,453</u>	<u>297,538</u>	<u>18,455</u>	<u>1,010,446</u>
At 30 June 1997	<u>5,968</u>	<u>279,165</u>	<u>28,662</u>	<u>313,795</u>

Included in plant and equipment is equipment held for rental purposes the original cost of which is £560,542 (1997: £461,380) and on which depreciation of £319,388 (1997: £211,489) has been charged.

The net book amounts of motor vehicles above include £11,766 (1997: £15,800) in respect of assets held under finance leases or hire purchase contracts.


NOTES TO THE ACCOUNTS
Year ended 30 June 1998
8. STOCKS

	1998 £	1997 £
Raw materials	676,615	350,512

9. DEBTORS

	1998 £	1997 £
Trade debtors	846,192	672,779
Amounts due from group undertakings	91,850	-
Prepayments and accrued income	62,964	14,382
	<u>1,001,006</u>	<u>687,161</u>

All amounts are due within one year.

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £	1997 £
Obligations under finance leases and hire purchase contracts	3,779	4,572
Trade creditors	53,885	30,749
Amounts due to group undertakings	131,351	157,825
Corporation tax	247,693	255,393
Other taxes and social security	95,018	78,586
Accruals and deferred income	65,694	29,747
	<u>597,420</u>	<u>556,872</u>

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

	1998 £	1997 £
Loan from group undertaking	726,527	-
Obligations under finance leases and hire purchase contracts	3,779	6,764
	<u>730,306</u>	<u>6,764</u>


NOTES TO THE ACCOUNTS
Year ended 30 June 1998
12. BORROWINGS

	1998 £	1997 £
Other loans (note 18)	857,878	-
Obligations under finance leases and hire purchase contracts	7,558	11,336
	<u>865,436</u>	<u>11,336</u>
The maturity of the above amounts is as follows:		
Within one year or on demand	135,130	4,572
Between one and two years	159,194	6,764
Between two and five years	571,112	-
	<u>865,436</u>	<u>11,336</u>

13. CALLED UP SHARE CAPITAL

	1998 £	1997 £
Authorised		
100,000 ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
Called up, allotted and fully paid		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £	1997 £
Profit attributable to members of the company	529,597	518,773
Opening shareholders' funds	<u>965,001</u>	<u>446,228</u>
Closing shareholders' funds	<u>1,494,598</u>	<u>965,001</u>

NOTES TO THE ACCOUNTS
Year ended 30 June 1998
15. GROSS CASH FLOWS

	1998 £	1997 £
Returns on investment and servicing of finance		
Interest received	813	1,837
Interest paid	(15,037)	-
	<u>(14,224)</u>	<u>1,837</u>
Capital expenditure		
Payments to acquire tangible fixed assets	<u>(850,233)</u>	<u>(236,343)</u>
Financing		
New loans	857,878	-
Capital element of finance lease rentals	(3,778)	-
	<u>854,100</u>	<u>-</u>

16. ANALYSIS OF CHANGES IN NET DEBT

	1997 £	Cash flows £	1998 £
Cash at bank and in hand	177,169	(42,912)	134,257
Overdrafts	-	-	-
		(42,912)	
Debt due within one year	-	(131,351)	(131,351)
Debt due after one year	-	(726,527)	(726,527)
Finance leases	(11,336)	3,778	(7,558)
	<u>165,833</u>	<u>(897,012)</u>	<u>(731,179)</u>

17. MAJOR TRANSACTIONS

During the year, the company entered into a long term loan in order to purchase new premises. The value of the loan is £857,878.

18. TRANSACTIONS WITH RELATED PARTIES

During the year the company made purchases from Special Projects Manufacturing Inc totalling £1,821,412 (1997: £1,195,527), and made sales to the same company totalling £98,205 (1997: £Nil). SPM Inc have also given the company a \$1.4m loan to purchase their new office premises. At the year end the loan balance due to SPM Inc was £857,878 (1997: £NIL). The loan is repayable over 5 years, with interest being charged at 8.5%.

19. PENSION COSTS

The company operates two defined contribution pension schemes, the assets of which are held separately from those of the company in independently administered funds. Payments to the scheme in the financial year were £8,781 (1997: £4,275).

**NOTES TO THE ACCOUNTS****Year ended 30 June 1998****20. PARENT UNDERTAKINGS AND CONTROLLING PARTIES**

In the opinion of the directors the ultimate parent undertaking company is Special Projects Manufacturing Inc, a company incorporated in the USA. A copy of the parent company accounts can be obtained from Special Projects Manufacturing Inc, 7601 Wyatt Drive, Fort Worth, Texas 76108-2587, United States.