

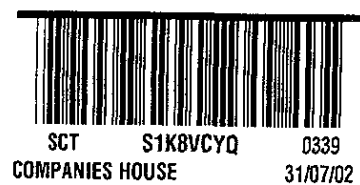
**SPECIALISED PETROLEUM
MANUFACTURING LIMITED**

Report and Financial Statements

30 June 2001

020731506

**Deloitte & Touche
2 Queen's Terrace
Aberdeen
AB10 1XL**



SPECIALISED PETROLEUM MANUFACTURING LIMITED

REPORT AND FINANCIAL STATEMENTS 2001

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
Cash flow statement	Error! Bookmark not defined.
Notes to the accounts	8
Additional information	15

SPECIALISED PETROLEUM MANUFACTURING LIMITED

REPORT AND FINANCIAL STATEMENTS 2001

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D E Lowrance
A McDonald
R Gilbert
W Reid

SECRETARY

A McDonald

REGISTERED OFFICE

2 Queen's Terrace
Aberdeen
AB10 1XL

BANKERS

Bank of Scotland
39 Albyn Place
Aberdeen
AB10 1YN

SOLICITORS

The Grant Smith Law Practice
7 Waverley Place
Aberdeen
AB10 1XH

AUDITORS

Deloitte & Touche
Chartered Accountants
2 Queen's Terrace
Aberdeen
AB10 1XL

SPECIALISED PETROLEUM MANUFACTURING LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2001.

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 £625,404 (2000: £226,475). 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 recommend that no dividend be paid for the year (2000: £Nil). The retained profit of £625,404 (2000: £226,475) is transferred to reserves.

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	
	2001 Number	2000 Number
D E Lowrance	1	1
A McDonald	-	-
R Gilbert	-	-
W Reid	-	-

AUDITORS

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.

SPECIALISED PETROLEUM MANUFACTURING LIMITED

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; and
- 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 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.

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



W Reid
Director





INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SPECIALISED PETROLEUM MANUFACTURING LIMITED

We have audited the financial statements of Specialised Petroleum Manufacturing Limited for the year ended 30 June 2001, which comprise the profit and loss account, the balance sheet, the cashflow statement and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of director's responsibilities the company's directors are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of opinion

We conducted our audit in accordance with United Kingdom 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 as at 30 June 2001 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



SPECIALISED PETROLEUM MANUFACTURING LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 30 June 2001

	Note	2001 £	2000 £
TURNOVER: continuing operations	2	3,202,234	2,357,322
Cost of sales		<u>1,738,703</u>	<u>1,345,893</u>
Gross profit		1,463,531	1,011,429
Administrative expenses		<u>662,954</u>	<u>616,475</u>
		800,577	394,954
Other operating income		<u>26,000</u>	<u>38,500</u>
OPERATING PROFIT:			
continuing operations	4	826,577	433,454
Interest receivable and similar income		101,859	2,760
Interest payable and similar charges	5	<u>(268)</u>	<u>(61,460)</u>
		101,591	(58,700)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		928,168	374,754
Tax on profit on ordinary activities	6	<u>(302,764)</u>	<u>(148,279)</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR		625,404	226,475
Retained profit brought forward		<u>2,084,886</u>	<u>1,858,411</u>
Retained profit carried forward		<u><u>2,710,290</u></u>	<u><u>2,084,886</u></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.

SPECIALISED PETROLEUM MANUFACTURING LIMITED

BALANCE SHEET 30 June 2001

	Note	£	2001 £	£	2000 £
FIXED ASSETS					
Tangible assets	7		842,171		835,050
CURRENT ASSETS					
Stocks	8	411,948		607,716	
Debtors	9	1,664,607		703,286	
Cash at bank and in hand		255,989		347,248	
		<u>2,332,544</u>		<u>1,658,250</u>	
CREDITORS: amounts falling due within one year	10	<u>(452,557)</u>		<u>(407,414)</u>	
NET CURRENT ASSETS			<u>1,879,987</u>		<u>1,250,836</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>2,722,158</u>		<u>1,250,836</u>
CREDITORS: Amounts falling due after more than one year	11		<u>(10,868)</u>		<u>-</u>
TOTAL NET ASSETS			<u><u>2,711,290</u></u>		<u><u>2,085,886</u></u>
CAPITAL AND RESERVES					
Called up share capital	13		1,000		1,000
Profit and loss account			<u>2,710,290</u>		<u>2,084,886</u>
EQUITY SHAREHOLDERS' FUNDS	14		<u><u>2,711,290</u></u>		<u><u>2,085,886</u></u>

These financial statements were approved by the Board of Directors on 30 July 2002.

Signed on behalf of the Board of Directors

W Reid
W Reid
Director

SPECIALISED PETROLEUM MANUFACTURING LIMITED

CASH FLOW STATEMENT

Year ended 30 June 2001

	Note	2001 £	2000 £
Net cash inflow from operating activities	15	277,867	604,615
Returns on investment and servicing of finance	16	101,591	(58,700)
Taxation	16	(268,016)	(222,107)
Capital expenditure	16	(201,149)	(118,657)
		<u>(89,707)</u>	<u>205,151</u>
Financing	16	17,078	(3,779)
		<u>(72,629)</u>	<u>201,372</u>
(Decrease)/increase in cash			

Reconciliation of net cash flow to movement in net funds (note 17)

	£	£
(Decrease)/increase in cash in the period	(72,629)	201,372
Cash (inflow)/outflow from (increase)/decrease in lease financing	<u>(17,078)</u>	<u>3,779</u>
Changes in net funds resulting from cash flows	(89,707)	205,151
New finance leases	(18,630)	-
Net funds brought forward	<u>347,248</u>	<u>142,097</u>
Net funds carried forward	<u>238,911</u>	<u>347,248</u>

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted by the directors are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Tangible fixed assets

Depreciation is not provided on freehold land. On other assets it is provided to write off the cost less estimated residual value in equal annual instalments over the estimated useful economic lives of the assets. The rates of depreciation are as follows:

Freehold buildings	4% per annum
Plant, machinery, fixtures, fittings & office equipment	20% per annum
Motor vehicles	25% per annum

Stocks

Stocks 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

Deferred taxation is provided on timing differences arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future without replacement, calculated at the rates at which it is expected that tax will arise.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

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 the profit and loss account 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.

SPECIALISED PETROLEUM MANUFACTURING LIMITED

NOTES TO THE ACCOUNTS (continued)

Year ended 30 June 2001

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.

Geographical analysis of turnover by destination

	2001 £	2000 £
United Kingdom	2,393,845	1,738,861
Other European countries	779,404	574,209
North America	1,367	14,744
Middle East	27,618	29,508
	<u>3,202,234</u>	<u>2,357,322</u>

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2001 £	2000 £
Directors' remuneration		
Emoluments	<u>126,139</u>	<u>93,699</u>
Company contributions to money purchase pension schemes in respect of directors' services	<u>5,168</u>	<u>5,168</u>

The number of directors who were members of company pension schemes were :

	Number	Number
Money purchase schemes	<u>2</u>	<u>2</u>

	2001 £	2000 £
--	-----------	-----------

Information regarding employees

Staff costs incurred during the year (including directors)

Wages and salaries	331,859	255,537
Social security costs	33,717	24,471
Pension costs	15,778	12,150
	<u>381,354</u>	<u>292,158</u>

Average number of persons employed during the year:

	Number	Number
Sales	2	1
Workshop	7	5
Administration	6	5
	<u>15</u>	<u>11</u>

SPECIALISED PETROLEUM MANUFACTURING LIMITED

NOTES TO THE ACCOUNTS (continued) Year ended 30 June 2001

4. OPERATING PROFIT

	2001 £	2000 £
Operating profit is after charging:		
Depreciation		
- owned assets	186,257	174,159
- held under finance leases	5,130	4,034
Auditors' remuneration	4,100	4,050
	<u> </u>	<u> </u>
and after crediting:		
Rents receivable (property)	26,000	38,500
Rentals receivable (non-property)	949,098	535,267
	<u> </u>	<u> </u>

5. INTEREST PAYABLE

	2001 £	2000 £
Finance leases and hire purchase contracts	268	803
Loans from group undertakings	-	60,287
Interest on corporation tax	-	370
	<u> </u>	<u> </u>
	268	61,460
	<u> </u>	<u> </u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001 £	2000 £
United Kingdom corporation tax at 30% (2000: 30%)	305,012	146,594
Adjustment in respect of previous year	(2,248)	1,685
	<u> </u>	<u> </u>
	302,764	148,279
	<u> </u>	<u> </u>

The current year tax charge is disproportionate to the result for the year due to the incidence of certain items of expenditure which do not qualify for tax relief and the non-recognition of a deferred tax asset.

SPECIALISED PETROLEUM MANUFACTURING LIMITED

NOTES TO THE ACCOUNTS (continued)

Year ended 30 June 2001

7. TANGIBLE FIXED ASSETS

	Heritable land and buildings £	Rental Tools £	Plant & machinery, fixtures and fittings £	Motor vehicles £	Total £
Cost					
At 1 July 2000	705,650	710,907	148,999	16,136	1,581,692
Additions	-	186,156	10,710	22,913	219,779
Disposals	-	(21,271)	-	-	(21,271)
At 30 June 2001	705,650	875,792	159,709	39,049	1,780,200
Accumulated depreciation					
At 1 July 2000	55,285	576,652	102,266	12,439	746,642
Charge for the year	23,692	146,215	16,350	5,130	191,387
Disposals	-	-	-	-	-
At 30 June 2001	78,977	722,867	118,616	17,569	938,029
Net book value					
At 30 June 2001	626,673	152,925	41,093	21,480	842,171
At 30 June 2000	650,365	134,255	46,733	3,697	835,050

The net book amount of motor vehicles above include £21,480 (2000: £3,697) in respect of assets held under finance leases or hire purchase contracts.

8. STOCKS

	2001 £	2000 £
Raw materials	411,948	607,716

9. DEBTORS

	2001 £	2000 £
Trade debtors	945,922	686,328
Loan to group undertakings	681,730	-
Prepayments and accrued income	36,955	16,958
	1,664,607	703,286

All amounts are due within one year.

SPECIALISED PETROLEUM MANUFACTURING LIMITED

NOTES TO THE ACCOUNTS (continued)

Year ended 30 June 2001

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £	2000 £
Obligations under finance leases and hire purchase contracts	6,210	-
Trade creditors	52,352	30,945
Amounts due to group undertakings	33,956	74,142
Corporation tax	183,013	148,265
Other taxes and social security	78,113	68,442
Accruals and deferred income	98,913	85,620
	<u>452,557</u>	<u>407,414</u>

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

	2001 £	2000 £
Obligations under finance leases and hire purchase contracts	<u>10,868</u>	<u>-</u>

12. BORROWINGS

	2001 £	2000 £
Obligations under finance leases and hire purchase contracts	<u>17,078</u>	<u>-</u>
The maturity of the above amounts is as follows:		
Within one year or on demand	6,210	-
Between one and two years	6,210	-
Between two and five years	4,658	-
	<u>17,078</u>	<u>-</u>

Obligations under finance leases and hire purchase contracts are secured by the related leased assets.

13. CALLED UP SHARE CAPITAL

	2001 £	2000 £
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>

SPECIALISED PETROLEUM MANUFACTURING LIMITED

NOTES TO THE ACCOUNTS (continued) Year ended 30 June 2001

14. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2001 £	2000 £
Profit for the financial year	625,404	226,475
Opening shareholders' funds	<u>2,085,886</u>	<u>1,859,411</u>
Closing shareholders' funds	<u>2,711,290</u>	<u>2,085,886</u>

15. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 £	2000 £
Operating profit	826,577	433,454
Depreciation of tangible fixed assets	191,387	178,193
Loss on sale of fixed assets	21,271	5,743
(Increase) in debtors	(961,321)	(248,860)
Decrease in stock	195,768	107,332
Increase in creditors	4,185	128,753
Net cash inflow from operating activities	<u>277,867</u>	<u>604,615</u>

16. GROSS CASH FLOWS

	2001 £	2000 £
Returns on investment and servicing of finance		
Interest received	101,859	2,760
Interest paid	<u>(268)</u>	<u>(61,460)</u>
	<u>101,591</u>	<u>(58,700)</u>
Taxation		
UK Corporation tax paid	<u>(268,076)</u>	<u>(222,107)</u>
Capital expenditure		
Payments to acquire tangible fixed assets	(201,149)	(122,257)
Receipts from sales of fixed assets	<u>-</u>	<u>3,600</u>
	<u>(201,149)</u>	<u>(118,657)</u>
Financing		
New finance leases	18,630	-
Capital element of finance lease rentals	<u>(1,552)</u>	<u>(3,779)</u>
	<u>17,078</u>	<u>(3,779)</u>

SPECIALISED PETROLEUM MANUFACTURING LIMITED

NOTES TO THE ACCOUNTS (continued) Year ended 30 June 2001

17. ANALYSIS OF CHANGES IN NET FUNDS

	2000 £	Cash flows £	Other non- cash changes £	2001 £
Cash at bank and in hand	347,248	(91,259)	-	255,989
Finance leases	-	1,552	(18,630)	(17,078)
	<u>347,248</u>	<u>(89,707)</u>	<u>(18,630)</u>	<u>238,911</u>

18. 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 £15,778 (2000: £12,150). There were no outstanding or prepaid contributions at the balance sheet date (2000: £Nil).

19. PARENT UNDERTAKING AND CONTROLLING PARTY

In the opinion of the directors the ultimate parent undertaking company is SPM Flow Control Inc., a company incorporated in the USA. A copy of the parent company accounts can be obtained from SPM Flow Control Inc., 7601 Wyatt Drive, Fort Worth, Texas 76108-2587, USA. As the company is a wholly owned subsidiary of SPM Flow Control Inc., the company has taken advantage of the exemption contained in FRS 8 section 3 (c) and has therefore not disclosed transactions or balances with entities which form part of the group.