

**SPECIALISED PETROLEUM
MANUFACTURING LIMITED**

Report and Financial Statements

30 June 2000

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

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SPECIALISED PETROLEUM MANUFACTURING LIMITED

REPORT AND FINANCIAL STATEMENTS 2000

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	7
Notes to the accounts	8 - 14
Additional information report	15
Additional information	16 - 17

SPECIALISED PETROLEUM MANUFACTURING LIMITED

REPORT AND FINANCIAL STATEMENTS 2000

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 2000.

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 another successful and profitable year, generating an after tax profit of £226,475 (1999: £364,813). This is considered satisfactory having regard to the difficult market conditions in the oil industry at this time. 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 (1999: £Nil). The retained profit of £226,475 (1999: £364,813) is transferred to reserves.

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:

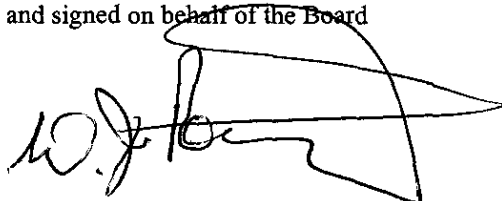
	2000 Number	Ordinary shares 1999 Number
D E Lowrance	1	1
A McDonald	-	-
R Gilbert	-	-
W Reid	-	-

W Reid was appointed a director on 1 August 1999.

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.

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



Director

15 June 2001

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.

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, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

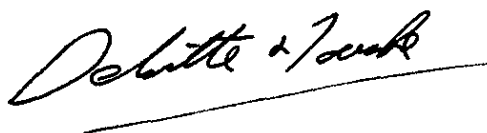
Basis of opinion

We conducted our audit in accordance with 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 at 30 June 2000 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 2000

	Note	2000 £	1999 £
TURNOVER: continuing operations	2	2,357,322	2,390,541
Cost of sales		<u>1,345,893</u>	<u>1,237,314</u>
Gross profit		1,011,429	1,153,227
Administrative expenses		<u>616,475</u>	<u>584,849</u>
		394,954	568,378
Other operating income		<u>38,500</u>	<u>17,333</u>
OPERATING PROFIT: continuing operations	4	433,454	585,711
Interest receivable and similar income		2,760	2,984
Interest payable and similar charges	5	<u>(61,460)</u>	<u>(793)</u>
		(58,700)	2,191
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		374,754	587,902
Tax on profit on ordinary activities	6	<u>(148,279)</u>	<u>(223,089)</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR		226,475	364,813
Retained profit brought forward		<u>1,858,411</u>	<u>1,493,598</u>
Retained profit carried forward		<u><u>2,084,886</u></u>	<u><u>1,858,411</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 2000

	Note	£	2000 £	£	1999 £
FIXED ASSETS					
Tangible assets	7		835,050		900,329
CURRENT ASSETS					
Stocks	8	607,716		715,048	
Debtors	9	703,286		454,426	
Cash at bank and in hand		347,248		145,876	
		<u>1,658,250</u>		<u>1,315,350</u>	
CREDITORS: amounts falling due within one year	10	<u>(407,414)</u>		<u>(356,268)</u>	
NET CURRENT ASSETS			<u>1,250,836</u>		<u>959,082</u>
TOTAL NET ASSETS			<u>2,085,886</u>		<u>1,859,411</u>
CAPITAL AND RESERVES					
Called up share capital	12		1,000		1,000
Profit and loss account			<u>2,084,886</u>		<u>1,858,411</u>
EQUITY SHAREHOLDERS' FUNDS	13		<u>2,085,886</u>		<u>1,859,411</u>

These financial statements were approved by the Board of Directors on *1 June 2001*

Signed on behalf of the Board of Directors



Director

SPECIALISED PETROLEUM MANUFACTURING LIMITED

CASH FLOW STATEMENT

Year ended 30 June 2000

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000 £	1999 £
Operating profit	433,454	585,711
Depreciation of tangible fixed assets	178,193	173,145
Loss on sale of fixed assets	5,743	15,974
(Increase)/decrease in debtors	(248,860)	546,580
Decrease/(increase) in stock	107,332	(38,433)
Increase/(decrease) in creditors	128,753	(84,201)
Net cash inflow from operating activities	604,615	1,198,776

CASH FLOW STATEMENT (note 14)

	£	£
Net cash inflow from operating activities	604,615	1,198,776
Returns on investment and servicing of finance	(58,700)	2,191
Taxation	(222,107)	(248,689)
Capital expenditure	(118,657)	(79,002)
	205,151	873,276
Financing	(3,779)	(861,657)
	201,372	11,619

	£	£
Reconciliation of net cash flow to movement in net funds (note 15)		
Increase in cash in the period	201,372	11,619
Loan movement	-	857,878
Net movement in finance leases	3,779	3,779
	205,151	873,276
Changes in net funds		
Net funds/(debt) brought forward	142,097	(731,179)
Net funds carried forward	347,248	142,097

NOTES TO THE ACCOUNTS

Year ended 30 June 2000

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

Freehold land and 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.

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.

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	2000 £	1999 £
United Kingdom	1,738,861	1,723,355
Other European countries	574,209	636,063
North America	14,744	4,190
Middle East	29,508	26,933
	<u>2,357,322</u>	<u>2,390,541</u>

SPECIALISED PETROLEUM MANUFACTURING LIMITED

NOTES TO THE ACCOUNTS (continued)

Year ended 30 June 2000

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2000 £	1999 £
Directors' remuneration		
Emoluments (excluding pension contributions)	93,699	58,877
<hr/>		
The number of directors who were members of company pension schemes were :		
	Number	Number
Money purchase schemes	2	1
<hr/>		
	2000 £	1999 £
Information regarding employees		
Staff costs incurred during the year (including directors)		
Wages and salaries	255,537	243,045
Social security costs	24,471	28,294
Pension costs	12,150	11,867
	<hr/>	<hr/>
	292,158	283,206
<hr/>		
Average number of persons employed during the year:		
	Number	Number
Sales	1	1
Workshop	5	5
Administration	5	5
	<hr/>	<hr/>
	11	11
<hr/>		

4. OPERATING PROFIT

	2000 £	1999 £
Operating profit is after charging:		
Depreciation		
- owned assets	174,159	169,111
- held under finance leases	4,034	4,034
Auditors' remuneration	4,050	3,900
<hr/>		
and after crediting:		
Rents receivable (property)	38,500	17,333
Rents receivable (non-property)	535,267	670,509
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SPECIALISED PETROLEUM MANUFACTURING LIMITED

NOTES TO THE ACCOUNTS (continued)

Year ended 30 June 2000

5. INTEREST PAYABLE

	2000	1999
	£	£
Finance leases and hire purchase contracts	803	793
Loans from group undertakings	60,287	-
Interest on corporation tax	370	-
	<u>61,460</u>	<u>793</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2000	1999
	£	£
United Kingdom corporation tax at 30% (1999 – 30.75%)	146,594	213,586
Adjustment in respect of previous year	1,685	9,503
	<u>148,279</u>	<u>223,089</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 2000

7. TANGIBLE FIXED ASSETS

	Heritable land and buildings £	Plant & machinery, fixtures and fittings £	Motor vehicles £	Total £
Cost				
At 1 July 1999	705,650	746,992	40,826	1,493,468
Additions	-	122,257	-	122,257
Disposals	-	(9,343)	(24,690)	(34,033)
	<u>705,650</u>	<u>859,906</u>	<u>16,136</u>	<u>1,581,692</u>
At 30 June 2000	705,650	859,906	16,136	1,581,692
Accumulated depreciation				
At 1 July 1999	31,591	528,970	32,578	593,139
Charge for the year	23,694	149,948	4,551	178,193
Disposals	-	-	(24,690)	(24,690)
	<u>55,285</u>	<u>678,918</u>	<u>12,439</u>	<u>746,642</u>
At 30 June 2000	55,285	678,918	12,439	746,642
Net book value				
At 30 June 2000	<u>650,365</u>	<u>180,988</u>	<u>3,697</u>	<u>835,050</u>
At 30 June 1999	<u>674,059</u>	<u>218,022</u>	<u>8,248</u>	<u>900,329</u>

Included in plant and equipment is equipment held for rental purposes, the original cost of which is £710,907 (1999: £616,343) and on which accumulated depreciation of £576,652 (1999: £442,739) has been charged.

The net book amount of motor vehicles above include £Nil (1999: £7,732) in respect of assets held under finance leases or hire purchase contracts.

8. STOCKS

	2000 £	1999 £
Raw materials	<u>607,716</u>	<u>715,048</u>

9. DEBTORS

	2000 £	1999 £
Trade debtors	686,328	330,828
Amounts due from group undertakings	-	97,689
Prepayments and accrued income	16,958	25,909
	<u>703,286</u>	<u>454,426</u>

All amounts are due within one year.

SPECIALISED PETROLEUM MANUFACTURING LIMITED

NOTES TO THE ACCOUNTS (continued)

Year ended 30 June 2000

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2000	1999
	£	£
Obligations under finance leases and hire purchase contracts	-	3,779
Trade creditors	30,945	22,168
Amounts due to group undertakings	74,142	-
Corporation tax	148,265	222,093
Other taxes and social security	68,442	54,362
Accruals and deferred income	85,620	53,866
	<u>407,414</u>	<u>356,268</u>

11. BORROWINGS

	2000	1999
	£	£
Obligations under finance leases and hire purchase contracts	-	3,779
The maturity of the above amounts is as follows:		
Within one year or on demand	-	3,779

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

SPECIALISED PETROLEUM MANUFACTURING LIMITED

NOTES TO THE ACCOUNTS (continued)

Year ended 30 June 2000

12. CALLED UP SHARE CAPITAL

	2000	1999
	£	£
Authorised		
100,000 ordinary shares of £1 each	100,000	100,000
Called up, allotted and fully paid		
1,000 ordinary shares of £1 each	1,000	1,000

13. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2000	1999
	£	£
Profit for the financial year	226,460	364,813
Opening shareholders' funds	1,859,411	1,494,598
Closing shareholders' funds	2,085,871	1,859,411

14. GROSS CASH FLOWS

	2000	1999
	£	£
Returns on investment and servicing of finance		
Interest received	2,760	2,984
Interest paid	(61,460)	(793)
	(58,700)	2,191
Taxation		
UK Corporation tax paid	(222,107)	(248,689)
Capital expenditure		
Payments to acquire tangible fixed assets	(122,257)	(79,002)
Receipts from sales of fixed assets	3,600	-
	(118,657)	(79,002)
Financing		
Repayment of borrowings	-	(857,878)
Capital element of finance lease rentals	(3,779)	(3,779)
	(3,779)	(861,657)

SPECIALISED PETROLEUM MANUFACTURING LIMITED

NOTES TO THE ACCOUNTS (continued)

Year ended 30 June 2000

15. ANALYSIS OF CHANGES IN NET FUNDS

	1999	Cash flows	2000
	£	£	£
Cash at bank and in hand	145,876	201,372	347,248
Finance leases	(3,779)	3,779	-
	<u>142,097</u>	<u>205,151</u>	<u>347,248</u>

16. TRANSACTIONS WITH RELATED PARTIES

During the year the company made purchases from SPM Flow Control Inc. totalling £1,094,124 (1999: £1,215,972), and made sales to the same company totalling £14,447 (1999: £4,190). Interest of £60,287 (1999: £Nil) was paid to SPM Flow Control Inc. during the year. At the year end, debtors include an amount of £Nil (1999: £97,689) due from SPM Flow Control Inc. At the year end, creditors include an amount of £74,142 (1999: £Nil) due to SPM Flow Control Inc. The company also made sales of £29,181 (1999: £21,812) to SPM Dubai during the year.

17. 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 £12,150 (1999: £11,867). There were no outstanding or prepaid contributions at the balance sheet date (1999: £Nil).

18. 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.