

POWERFLO SYSTEMS LIMITED

Annual Report and Financial Statements

for the year ended 30 April 1999

Registered No. 1237504



Powerflo Systems Limited
Annual report and Financial Statements
for the year ended 30 April 1999

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Powerflo Systems Limited

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Directors and Advisers

Directors

I.A.Suttie
J. Kelly
R. Spinks
C. Kidd

Registered Office

Coalpark Lane
Lower Swanwick
Nr Southampton
SO3 7DL

Company Secretary

C. Kidd
Orwell House
Souter Head Road
Altens
Aberdeen
AB12 3LF

Auditors

Deloitte & Touche
39 St Vincent Place
Glasgow
G1 2QQ

Bankers

Bank of Scotland
39 Albyn Place
Aberdeen
AB10 1YN

Powerflo Systems Limited
Report of the Directors
for the year ended 30 April 1999

The directors present their report and accounts for the year to 30 April 1999

Results and Dividends

The profit for the year of £ 205,385 (1998 :£85,092) is dealt with as shown in the profit and loss account.
No dividend is proposed.

Principal Activity

The principal activity of the Company during the year was the assembly and sale of high pressure water machinery.

Year 2000

The Group's business systems and processes were reviewed for Year 2000 compliance in 1998 to identify areas of risk. A programme was developed to ensure that all business systems will correctly process future dates, that any embedded logic units will operate over the millennium change and to liaise with the Group's suppliers and customers to ensure continuity of supply chain arrangements.
The approach with regard to business systems has been a combination of modification to existing systems and replacement as part of the Group's ongoing investment programme. The Group has communicated with its suppliers to ensure that all purchases now meet Year 2000 compliance.
The cost of achieving full compliance has not been quantified, the cost however is expected to be modest given that older systems requiring modification were scheduled for replacement.

Review of the business and future development

Both the level of business and the year end financial position were satisfactory, and the directors expect that the present level of activity will be sustained for the foreseeable future.

Directors

The directors during the year were as follows :

Mr I. A. Suttie
Mr R. Spinks
Mr J. Kelly
Mr C. Kidd
Mr T. Sausen (resigned 12 May 1999)

Directors' interests in shares of the Company

The directors had no interest in the share capital of the Company. The interests of Mr I A Suttie in Orwell Group plc, the ultimate parent company are disclosed in the financial statements of that company.

Powerflo Systems Limited
Report of the Directors
for the year ended 30 April 1999

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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 and the Group as at the end of the financial year 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; and
- 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the Group's system of internal control, for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

Auditors

Coopers & Lybrand resigned as auditors on 10 June 1999, and Deloitte & Touche were appointed by the director to fill the vacancy. Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to appoint them as auditors will be proposed at the Annual General Meeting.

On behalf of the Board



I.A. Suttie
Director

Date : 30th August 1999

We have audited the accounts on pages 5 to 12 which have been prepared under the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 3 the company's director is responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 director in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the company, 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 also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 30 April 1999 and of the profit for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.

Deloitte + Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors

15 September 1999

39 St Vincent Place
Glasgow
G1 2QQ

Powerflo Systems Limited
Profit and Loss Account
for the year ended 30 April 1999

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	Note	1999 £	1998 £
Turnover	2	3,800,570	2,988,855
Cost of Sales		2,724,097	2,200,349
Gross Profit		<u>1,076,473</u>	<u>788,506</u>
Net operating expenses	3	630,363	631,463
Operating Profit	4	<u>446,109</u>	<u>157,043</u>
Bank interest receivable		854	8,212
Interest payable and similar charges	7	(137,713)	(12,774)
Profit on ordinary activities before taxation		<u>309,251</u>	<u>152,481</u>
Taxation	8	103,866	67,389
Retained profit for the financial year	14	<u><u>205,385</u></u>	<u><u>85,092</u></u>

All items dealt with in arriving at the profit for the year relate to continuing activities.

There are no recognised gains or losses other than the profit for the year stated above.

There is no difference between the profit on ordinary activities before taxation and the profit for the year stated above and their historical cost equivalents.

Powerflo Systems Limited
Balance Sheet as at 30 April 1999

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	Note	1999 £	1998 £
Fixed Assets			
Tangible assets	9	339,876	325,913
Current Assets			
Work in Progress	10	656,454	571,920
Debtors	11	2,982,925	1,844,781
Cash at bank		148	15,134
		<u>3,639,528</u>	<u>2,431,835</u>
Creditors : amounts falling due within one year	12	3,313,559	2,282,533
Net Current Assets		<u>325,969</u>	<u>149,302</u>
Total Assets less Current Liabilities		665,845	475,215
Creditors: amounts falling due after more than one year	12	19,699	34,454
Net Assets		<u><u>646,146</u></u>	<u><u>440,761</u></u>
CAPITAL AND RESERVES			
Called up share capital	13	9,000	9,000
Share premium account	14	97,024	97,024
Profit & Loss Account	14	540,122	334,737
Equity Shareholders' Funds	15	<u><u>646,146</u></u>	<u><u>440,761</u></u>

The financial statements on pages 5 to 12 were approved by the directors on 30th August 1999 and signed on behalf of the Board by



I A Suttie
 Director

Powerflo Systems Limited
Notes to the Financial Statements
for the year ended 30 April 1999

1. Principal Accounting Policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Accounting convention

The accounts are prepared under the historical cost convention.

Fixed Assets

All tangible fixed assets are recorded at cost including any incidental expenses of acquisition.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life as follows:

Plant & Machinery	4 years
Motor Vehicles	4 years
Office equipment & fittings	4 years
Land and Buildings	25 years

Stock and work in progress

Stock and work in progress have been valued at the lower of cost and net realisable value.

Deferred Taxation

Deferred taxation is provided using the liability method on all timing differences to the extent that it is probable that a liability will crystallise.

Foreign Currency Translation

Transactions denominated in foreign currencies have been translated to sterling at the average rate for the month. Exchange gains and losses resulting from these translations and transactions are credited or charged to the results before tax. Assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year.

Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company, in an independently administered fund.

The pension cost charges in the profit and loss account represent contributions payable by the company in respect of that year.

Cash Flow Statement

The company has taken advantage of the exemption in Financial Reporting Standard No.1 from producing a cash flow statement on the grounds that the company qualifies as a small company under the terms of section 247 of the Companies Act 1985.

Powerflo Systems Limited
Notes to the Financial Statements (continued)
for the year ended 30 April 1999

Leased assets

The cost of operating leases are charged to the Profit and Loss Account as they accrue.

Assets obtained under finance lease and hire purchase contracts are capitalised in the balance sheet and depreciated over their useful lives.

The interest element of rental obligations is charged to the profit and loss account over the period of the agreement.

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties.

3. Net operating expenses

	1999	1998
	£	£
Distribution costs	370,051	305,823
Administration expense	260,313	325,640
	<u>630,363</u>	<u>631,463</u>

4. Operating Profit

Operating profit is stated after charging/(crediting) -

	1999	1998
	£	£
Depreciation: owned	36,719	25,468
leased	34,543	37,445
Auditor's remuneration - Audit fee	4,000	4,000
Loss on sale of tangible fixed assets	-	891
	<u> </u>	<u> </u>

5. Directors Emoluments

	£	£
Other emoluments	<u>60,000</u>	<u>60,000</u>

6. Staff Costs

	£	£
Wages and salaries	600,154	401,783
Social Security Costs	58,920	38,930
Other Pension Costs	20,280	17,166
	<u>679,354</u>	<u>457,879</u>

The average weekly number of employees during the year was as follows :

	1999	1998
Administration	16	10
Operatives	6	6
	<u>22</u>	<u>16</u>

Powerflo Systems Limited
Notes to the Financial Statements (continued)
for the year ended 30 April 1999

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	1999 £	1998 £
7. Interest payable and similar charges		
On bank overdrafts	133,627	6,320
On hire purchase contracts	4,086	6,455
	<u>137,713</u>	<u>12,775</u>

8. Taxation on profit on ordinary activities

	£	£
United Kingdom corporation tax at 31% (1998: 31%)	103,866	67,389
	<u>103,866</u>	<u>67,389</u>

The high tax charge in the period arises due to expenditure for which no tax relief is available .

9. Tangible fixed assets

	Short lease £	Freehold Property £	Plant & Machinery £	Motor Vehicles £	Office equipment & fittings	Total £
Cost						
At 1 May 1998	8,627	192,584	43,801	179,994	64,646	489,652
Additions	-	-	20,208	22,713	42,304	85,225
At 30 April 1999	<u>8,627</u>	<u>192,584</u>	<u>64,009</u>	<u>202,707</u>	<u>106,950</u>	<u>574,877</u>
Depreciation						
At 1 May 1998	8,627	1,284	32,985	78,695	42,148	163,739
Charge for year	-	7,704	7,046	39,941	16,571	71,262
At 30 April 1999	<u>8,627</u>	<u>8,988</u>	<u>40,031</u>	<u>118,636</u>	<u>58,719</u>	<u>235,001</u>
Net Book Value						
At 30 April 1999	<u>-</u>	<u>183,596</u>	<u>23,978</u>	<u>84,071</u>	<u>48,231</u>	<u>339,876</u>
Net Book Value						
At 1 May 1998	<u>-</u>	<u>191,300</u>	<u>10,816</u>	<u>101,299</u>	<u>22,498</u>	<u>325,913</u>

The Net Book Value of fixed assets at 30 April 1999 includes assets held under finance lease and hire purchase agreements of £78,141 (1998 £101,299) .

Powerflo Systems Limited
Notes to the Financial Statements (continued)
for the year ended 30 April 1999

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10. Stocks and work in progress

	1999 £	1998 £
Finished goods and work in progress	<u>656,454</u>	<u>571,920</u>

11. Debtors

	1999 £	1998 £
Amounts falling due within one year		
Trade debtors	325,422	629,797
Amounts owed by fellow subsidiary undertakings	2,653,583	1,063,778
Other taxes	-	145,048
Prepayments and accrued income	<u>3,921</u>	<u>6,158</u>
	<u>2,982,925</u>	<u>1,844,781</u>

12. Creditors : amounts falling due within one year

	1999 £	1998 £
Bank Overdraft	2,335,149	1,018,352
Trade Creditors	329,602	673,332
Amounts due to parent company and fellow subsidiary undertakings	264,207	152,675
Other taxation and social security	36,373	15,618
Corporation tax	172,329	68,463
Hire purchase	31,437	51,793
Accruals	<u>144,463</u>	<u>302,300</u>
	<u>3,313,559</u>	<u>2,282,533</u>

The bank overdraft is secured by a Bond and Floating Charge over the assets of the company.

Creditors falling due after one year

Hire purchase	<u>19,699</u>	<u>34,454</u>
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Powerflo Systems Limited
Notes to the Financial Statements (continued)
for the year ended 30 April 1999

13. Share Capital

	1999 £	1998 £
Authorised: 10,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid: 9,000 Ordinary shares of £1 each	<u>9,000</u>	<u>9,000</u>

14. Reserves

	Share capital £	Share premium £	Profit & loss account £
At 1 May 1998	9,000	97,024	334,737
Retained profit for the year	-	-	205,385
At 30 April 1999	<u>9,000</u>	<u>97,024</u>	<u>540,122</u>

15. Reconciliation of movement in shareholders' funds

	1999 £	1998 £
Opening shareholders' funds	440,761	355,669
Profit for financial year	205,385	85,092
Closing shareholders' funds	<u>646,146</u>	<u>440,761</u>

16. Contingent Liabilities and Financial Commitments

	1999 £	1998 £
Lease cost in respect of building which expires in less than 5 years	<u>-</u>	<u>29,000</u>

17. Related party transactions

The company is a wholly owned subsidiary of Orwell Group plc which prepares consolidated financial statements, therefore the company is exempt from the requirement to disclose further information with regard to related party transactions which are eliminated on consolidation.

18. Ultimate Parent Company

Powerflo Systems Limited is a wholly owned subsidiary of Orwell Group plc. The directors regard Orwell Group plc a company registered in Scotland, as the ultimate parent company at 30 April 1999. The directors regard Mr I A Suttie as the ultimate controlling party by virtue of his controlling interest in the equity capital of Orwell Group plc. Copies of the parent company's financial statements may be obtained from the registered office detailed on page 1.