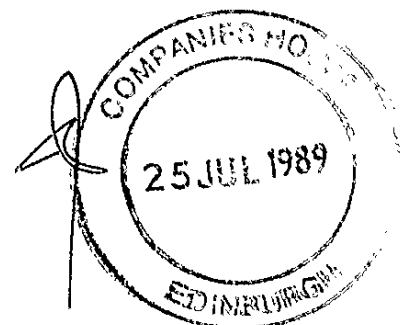


Arthur Young

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Chartered Accountants, Glasgow



PRIME ACTUATOR CONTROL SYSTEMS LIMITED

REPORT AND ACCOUNTS
JULY 31, 1988

95751.

PRIME ACTUATOR CONTROL SYSTEMS LIMITED

1.

DIRECTORS' REPORT

The directors submit their report and accounts for the year ended July 31, 1988.

Results and dividends

The trading loss for the period, after taxation, amounted to £563,205 which stands as a debit on reserves.

The directors do not recommend the payment of a dividend.

Review of the business

The company's principal activity is the manufacture and sale of actuator control systems for use in the oil, natural gas and other related industries.

Fixed assets

The changes in fixed assets during the year are summarised in notes 8 and 9 to the accounts.

Future developments

The directors consider that 1989 will be a year of difficult trading conditions and expect that there will be an effective response to the challenges thereof.

Directors and their interests

The directors at July 31, 1988, none of whom had any interest in the share capital of the company during the year, were as follows:

Henry Zarrow
Jack Zarrow
R.A. Mulholland (resigned January 31, 1989)
T.M. Tompkins (resigned July 31, 1988)
M.A. Calvert

Change in share capital

At an extraordinary general meeting held on July 20, 1988 it was resolved that the authorised share capital of the company be increased to £1,600,000 by the creation of 1,599,000 shares of £1 each. It was further resolved that 1,562,000 shares of £1 each be issued at par. Further details are outlined in note 15.

Close company status

The company is a close company within the provisions of the Income and Corporation Taxes Act 1970.

PRIME ACTUATOR CONTROL SYSTEMS LIMITED

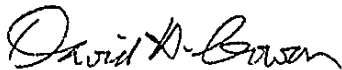
2.

DIRECTORS' REPORT
(continued)

Auditors

A resolution to reappoint Arthur Young as auditors will be put to the members at the Annual General Meeting.

BY ORDER OF THE BOARD



DAVID H. COWAN
Secretary

June 30, 1989



Arthur Young

Chartered Accountants
George House, 50 George Square,
Glasgow G2 1RR

REPORT OF THE AUDITORS TO THE MEMBERS OF PRIME ACTUATOR CONTROL SYSTEMS LIMITED

We have audited the accounts on pages 4 to 12 in accordance with approved auditing standards.

In our opinion the accounts, which have been prepared under the historical cost convention, give a true and fair view of the state of the company's affairs at July 31, 1988 and of its loss for the period then ended and comply with the Companies Act 1985.

Arthur Young

ARTHUR YOUNG

June 30, 1989

PRIME ACTUATOR CONTROL SYSTEMS LIMITED

4.

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JULY 31, 1988

	<u>Notes</u>	£	<u>1988</u> £	<u>1987</u> £
Turnover	2		228,080	51,616
Cost of sales			492,714	255,035
			-----	-----
Gross loss			(264,634)	(203,419)
Distribution costs		63,746		53,176
Administrative expenses		161,796		121,919
		-----		-----
			225,542	175,095
			-----	-----
Operating loss	3		(490,176)	(378,514)
Interest receivable	5	145		202
Interest payable	6	(73,174)		(29,996)
		-----		-----
			(73,029)	(29,794)
			-----	-----
Loss on ordinary activities before taxation			(563,205)	(408,308)
Taxation	7		-	-
			-----	-----
Loss on ordinary activities after taxation			(563,205)	(408,308)
Loss brought forward			(465,686)	(57,378)
			-----	-----
Loss carried forward			£(1,028,891)	£(465,686)
			=====	=====

The notes on pages 7 to 12 form part of these accounts.

PRIME ACTUATOR CONTROL SYSTEMS LIMITED

5.

BALANCE SHEET AT JULY 31, 1988

	<u>Notes</u>	£	<u>1988</u> £	<u>1987</u> £
Fixed assets:				
Intangible assets	8		5,908	3,252
Tangible assets	9		324,135	307,517
			<u>330,043</u>	<u>310,769</u>
Current assets:				
Stocks	10	158,184		80,155
Debtors	11	108,985		13,012
Cash at bank and in hand		50,388		25,946
		<u>317,557</u>		<u>119,113</u>
Creditors: amounts falling due within one year	12	113,100		95,135
		<u>113,100</u>		<u>95,135</u>
Net current assets/(liabilities)			204,457	23,978
Total assets less current liabilities			<u>534,500</u>	<u>334,747</u>
Creditors: amounts falling due after more than one year	13		391	799,433
			<u>£534,109</u>	<u>£(464,686)</u>
Capital and reserves:				
Called up share capital	15		1,563,000	1,000
Profit and loss account	16		(1,028,891)	(465,686)

J. ZARROW

M.A. CALVERT

Directors

June 30, 1989

£534,109£(464,686)

The notes on pages 7 to 12 form part of these accounts.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED JULY 31, 1988

	£	1988 £	1987 £
Source of funds:			
Loss on ordinary activities		(563,205)	(408,308)
- Adjustment for items not involving the movement of funds:			
Government grants	-		(60,000)
Depreciation and amortisation	70,672		55,593
Exchange gains	(34,619)		(42,508)
		36,053	(46,915)
Total absorbed by operations		(527,152)	(455,223)
Funds from other sources:			
Loan advances	677,146		742,095
Government grants received	-		60,000
Issue of shares	1,562,000		-
		2,239,146	802,095
		1,711,994	346,872
Application of funds:			
Purchase of intangible fixed assets	3,122		2,942
Purchase of tangible fixed assets	86,824		88,189
Loan repayment	1,441,569		-
		1,531,515	91,131
Working capital increase		£ 180,479	£255,741
Components of increase in working capital:			
Stocks		78,029	75,782
Trade debtors		92,911	173
Other debtors		3,062	(37,249)
Trade creditors		(13,658)	8,381
Other creditors		15,524	191,653
		175,868	238,740
Movement in net liquid funds:			
Bank and cash	24,442		(1,454)
Bank overdraft	(19,831)		18,455
		4,611	17,001
		£180,479	£255,741

The notes on pages 7 to 12 form part of these accounts.

NOTES TO THE ACCOUNTS AT JULY 31, 1988

1. Accounting policies

Accounting convention

The accounts are prepared under the historical cost convention.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, i.e. three to ten years. Intangible assets are depreciated on the same basis.

Project Grants

Project Grants are credited to revenue as awarded providing the conditions on which they are dependent have been fulfilled.

Stocks

Stocks are stated at the lower of cost and net realisable value as follows:

Cost incurred in bringing each product to its present location and condition:

Raw materials	-	purchase cost on a first-in, first-out basis
Work-in-progress	-	cost of direct materials and labour plus attributable
and finished goods		overheads based on normal level of activity.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Deferred taxation

Deferred taxation is provided on the liability method on all timing differences which are expected to reverse in the future, calculated at the rate at which it is estimated that tax will be payable.

Leased assets

Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

2. Turnover

Turnover represents the invoiced amount of goods sold and services provided during the period, stated net of value added tax.

NOTES TO THE ACCOUNTS AT JULY 31, 1988
(continued)

3. Operating loss

(a) This is stated after charging:

	<u>1988</u> £	<u>1987</u> £
Directors' remuneration (see below)	46,982	42,057
Depreciation and amortisation	70,672	55,593
Net exchange loss/(gain)	(34,619)	(42,508)
Hire of plant and machinery	795	872
Auditors' remuneration	1,200	1,000
	=====	=====

(b) Directors' remuneration:

Other emoluments	£46,982	£42,057
	=====	=====

The emoluments of the highest paid director (excluding pension contributions) were £41,732 (1987 - £39,032).

The emoluments (excluding pension contributions) of the other directors fell within the following ranges:

	No.	No.
£Nil - £5,000	4	4
	===	===

4. Staff costs

	<u>1988</u> £	<u>1987</u> £
Wages and salaries	310,018	257,617
Social security costs	26,371	21,500
Other pension costs	8,975	5,624
	-----	-----
	£345,364	£284,741
	=====	=====

The average weekly number of employees during the period was made up as follows:

	No.	No.
Office and management	14	10
Manufacturing	14	12
	---	---
	28	22
	===	===

PRIME ACTUATOR CONTROL SYSTEMS LIMITED

9.

NOTES TO THE ACCOUNTS AT JULY 31, 1988
(continued)

5. Interest receivable

	<u>1988</u>	<u>1987</u>
Bank interest	£145 ===	£202 ===

6. Interest payable

	<u>1988</u>	<u>1987</u>
Group companies	£73,174 =====	£29,996 =====

7. Taxation

No tax charge arose during the year due to the existence of tax losses.

If full provision had been made for the potential amount of deferred tax, the tax charge for the year would have been adjusted by £Nil (1987 - £Nil).

8. Intangible fixed assets

	<u>Patents</u> £
Cost:	
Cost at July 31, 1987	3,383
Additions	3,122

At July 31, 1988	6,505

Amortisation:	
At July 31, 1987	131
Provided during period	466

At July 31, 1988	597

Net book value:	
At July 31, 1988	£5,908
	=====
At July 31, 1987	£3,252
	=====

NOTES TO THE ACCOUNTS AT JULY 31, 1988
(continued)9. Tangible fixed assets

	<u>Plant, vehicles and equipment</u> £
Cost:	
At July 31, 1987	366,658
Additions	86,824

At July 31, 1988	453,482

Depreciation:	
At July 31, 1987	59,141
Provided during the period	70,206

At July 31, 1988	129,347

Net book value:	
At July 31, 1988	£324,135
	=====
At July 31, 1987	£307,517
	=====

10. Stocks

	<u>1988</u> £	<u>1987</u> £
Raw materials	149,699	80,155
Work-in-progress	8,485	-
	-----	-----
	£158,184	£80,155
	=====	=====

The directors consider that the difference between replacement cost and book value is immaterial.

11. Debtors

	<u>1988</u> £	<u>1987</u> £
Trade debtors	93,084	173
Amount owed by fellow subsidiary	-	6,452
Other debtors	15,901	6,387
	-----	-----
	£108,985	£13,012
	=====	=====

NOTES TO THE ACCOUNTS AT JULY 31, 1988
(continued)12. Creditors: amounts falling due within one year

	<u>1988</u> £	<u>1987</u> £
Bank overdraft	19,831	-
Trade creditors	61,574	47,916
Accruals	18,899	21,920
Other taxes and social security costs	8,583	15,268
Amount due to fellow subsidiary	4,213	10,031
	<u>£113,100</u>	<u>£95,135</u>
	=====	=====

13. Creditors: amounts falling due after more than one year

	<u>1988</u>	<u>1987</u>
Loan - -	£ 391	£799,433
Wholly repayable within five years	=====	=====

14. Deferred taxation

Deferred taxation has not been provided in the accounts due to the accumulated losses. The potential amounts are as follows:

	<u>1988</u> £	<u>1987</u> £
Capital allowances in advance of depreciation	55,728	40,138
Less: taxation losses	(55,728)	(40,138)
	<u>£ -</u>	<u>£ -</u>
	=====	=====

In addition to the above, losses are available for carry forward against future trading profits of the company to the value of £398,609 (1987 - £177,572).

15. Share capital

	<u>1988</u> No.	<u>Authorised</u> <u>1987</u> No.	<u>Allotted, called-up</u> <u>and fully paid</u> <u>1988</u>	<u>1987</u>
Ordinary shares of £1 each	1,600,000	1,000	£1,563,000	£1,000
	=====	=====	=====	=====

At an extraordinary general meeting held on July 20, 1988 it was resolved that the authorised share capital of the company be increased to £1,600,000 by the creation of 1,599,000 shares of £1 each ranking pari passu for all purposes with the existing shares of £1 each. It was further resolved that 1,562,000 shares of £1 each be issued at par payable in full on allotment. These resolutions allowed the company to secure the funding necessary for the continued development of the company.

NOTES TO THE ACCOUNTS AT JULY 31, 1988
(continued)16. Reserves

	<u>1988</u>	<u>1987</u>
Profit and loss account deficit:		
At July 31, 1988	£(1,028,891)	£(465,686)
	=====	=====

17. Lease commitments

At July 31, 1988 the company had an annual commitment of £40,000 under a non-cancellable operating lease for land and buildings. The lease is due to expire at some time after five years.

18. Capital commitments

Amounts contracted for but not provided in the accounts amounted to £Nil.
Amounts authorised by the directors but not contracted for were £610,000.

19. Pension commitments

The company operates a retirement benefit plan. The plan and fund is set up under a separate trust and its assets are completely separate from the assets of the company. It is the policy to fund pension liabilities by the payment of contributions, charged to profit and loss account, based on the advice of independent actuaries.

20. Ultimate holding company

The company's ultimate holding company is Sooner Pipe and Supply Corporation Inc., which is incorporated in the U.S.A.

21. Going concern

The company's continued treatment as a going concern depends on the continuing support of its ultimate holding company.