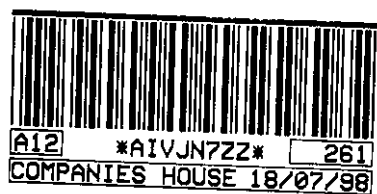


Registered number: 773331

NUMATIC INTERNATIONAL LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 1997

STEWART & CO.
CHARTERED ACCOUNTANTS
Camberley



NUMATIC INTERNATIONAL LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31st December 1997

CONTENTS

| | Page |
|--|---------|
| Company information | 1 |
| Directors' report | 2 - 3 |
| Statement of directors' responsibilities | 4 |
| Auditors' report | 5 |
| Consolidated Profit and loss account | 6 |
| Consolidated Balance sheet | 7 |
| Company Balance sheet | 8 |
| Consolidated Cash flow statement | 9 |
| Notes | 10 - 18 |

The following pages do not form part of the statutory accounts

| | |
|---|------------|
| Company only detailed trading and profit and loss account | Appendix 1 |
| Consolidated detailed trading and profit and loss account | Appendix 2 |

NUMATIC INTERNATIONAL LIMITED

COMPANY INFORMATION

31st December 1997

| | |
|-------------------|---|
| INCORPORATED | In England on 9th September 1963 |
| NUMBER | 773331 |
| DIRECTORS | Mr C R Duncan Mrs A R Duncan |
| SECRETARY | Mrs A R Duncan |
| REGISTERED OFFICE | Knoll House Knoll Road Camberley Surrey GU15 3SY |
| BANKERS | Barclays Bank Plc King George Street Yeovil Somerset BA20 1PX |
| AUDITORS | Stewart & Co. Chartered Accountants Knoll House Knoll Road Camberley GU15 3SY |

NUMATIC INTERNATIONAL LIMITED

DIRECTORS' REPORT

31st December 1997

The directors present their report and the audited financial statements of the group and company for the year ended 31st December 1997.

Principal activity

The principal activity of the group is that of general engineering and there has been no change in this activity during the year.

Results and dividends

The results for the year are shown in the profit and loss account on page 6. The group's balance sheet as detailed on page 7 shows a satisfactory position, shareholders' funds amounting to £16639000.

Business review

The 1997 performance has been substantially influenced by the foreign exchange position of the pound sterling and the weakening of the South African rand. At this point in time we anticipate that the high sterling position will continue during the whole of 1998 but it has clearly been decided that we will maintain our share of the export markets which constitute close to 40% of the company's sales.

The Chalon business continues to struggle and although sales have increased substantially the economies of scale have still to show through in terms of profit. The turnaround at Chalon has taken longer than anticipated as substantial revisions have proved necessary within the whole of the manufacturing process in order to improve labour efficiency without losing the traditional values within the product itself.

Fixed assets

In the opinion of the directors there is no significant difference between the present market value of the company's properties and the amounts at which they are stated in the accounts. Details are set out in note 7.

Directors

The directors of the company during the year and their interests in the shares of the company as recorded in the register of directors' interests were as follows

| | 31st December 1997 Ordinary Shares of £1 each | 31st December 1996 Ordinary shares of £1 each |
|----------------|---|---|
| Mr C R Duncan | 4,750,000 | 4,750,000 |
| Mrs A R Duncan | 250,000 | 250,000 |

continued

NUMATIC INTERNATIONAL LIMITED

DIRECTORS' REPORT
(continued)

31st December 1997

Employees

The group involves employees in the business in various ways. Regular meetings are held between managers and the Union Representatives of staff to discuss any issues arising and the Health and Safety Committee liases with staff. Furthermore, wages are based on a productivity scheme, which involves disclosure to staff of sales performance.

It is the group's policy to consider applications for employment from disabled people on the same basis as other potential employees. Ability and aptitude are the determining factors in the selection, training, career development and promotion of all employees. If an employee becomes disabled during the period of employment the company will, if necessary and to the extent possible, retrain the employee for duties suited to that employee's abilities following disablement.

Research and Development

The group carries out on going research and development to enhance and improve existing products, to develop new ones and to improve production techniques.

Auditors

Stewart & Co. have agreed to offer themselves for re-appointment as auditors of the group and company.

On behalf of the board

Knoll House
Knoll Road
Camberley
Surrey GU15 3SY

26th June 1998

Mrs A R Duncan
Secretary

NUMATIC INTERNATIONAL LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES

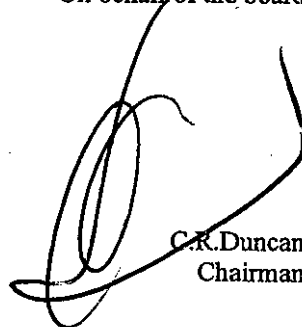
Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and 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 group 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 group and 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

26th June 1998

On behalf of the board



C.R. Duncan
Chairman

NUMATIC INTERNATIONAL LIMITED

AUDITORS' REPORT

Auditors' report to the members of

Numatic International Limited

We have audited the financial statements on pages 6 to 18 which have been prepared under the historical cost convention and the accounting policies set out on pages 10 and 11.

Respective responsibilities of directors and auditors

As described on page 4, 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 group'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 error or other irregularity. 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 group's and the company's affairs as at 31st December 1997 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Camberley
26th June 1998

Stewart & Co.
Registered Auditor
Chartered Accountants

NUMATIC INTERNATIONAL LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31st December 1997

| | Note | 1997 £'000 | 1996 £'000 |
|--|------|---------------|---------------|
| Turnover | 2 | 47784 | 44093 |
| Cost of sales | | 33492 | 31006 |
| Gross profit | | <u>14292</u> | <u>13087</u> |
| Net operating expenses | | | |
| Distribution costs | | 1169 | 1045 |
| Administrative expenses | | 9580 | 8367 |
| Operating profit | 3 | <u>3543</u> | <u>3675</u> |
| Interest payable | 3 | <u>264</u> | <u>216</u> |
| Profit on ordinary activities before taxation | | 3279 | 3459 |
| Taxation | 5 | <u>1114</u> | <u>1391</u> |
| Profit on ordinary activities after taxation | | 2165 | 2068 |
| retained for the year | 15 | <u>2165</u> | <u>2068</u> |

None of the company's activities were acquired or discontinued during the above two financial years.

There are no recognised gains and losses in 1997 or 1996 other than the profit for the year.

NUMATIC INTERNATIONAL LIMITED

CONSOLIDATED BALANCE SHEET

at 31st December 1997

| | Note | £'000 | 1997 £'000 | £'000 | 1996 £'000 |
|--|------|-------|---------------|--------------|---------------|
| Fixed assets | | | | | |
| Tangible assets | 6 | | 12411 | | 11809 |
| Current assets | | | | | |
| Stock and work in progress | 9 | 6182 | | 6216 | |
| Debtors | 10 | 6989 | | 6714 | |
| Cash at bank and in hand | | 909 | | 110 | |
| | | | <u>14080</u> | <u>13040</u> | |
| Creditors: amounts falling due within one year | 11 | 7755 | | 8344 | |
| Net current assets | | | 6325 | | 4696 |
| Total assets less current liabilities | | | <u>18736</u> | | <u>16505</u> |
| Creditors: amounts falling due after more than one year | 12 | | 2020 | | 2027 |
| Provision for liabilities and charges | 13 | | 77 | | |
| Net Assets | | | <u>16639</u> | | <u>14478</u> |
| Capital and reserves | | | | | |
| Called up share capital | 14 | | 5000 | | 5000 |
| Profit and loss account | 15 | | 11639 | | 9478 |
| Total shareholders' funds | | | <u>16639</u> | | <u>14478</u> |

The financial statements on pages 6 to 18 were approved by the board of directors on 26th June 1998 and signed on its behalf by:



C R Duncan
Chairman

NUMATIC INTERNATIONAL LIMITED

COMPANY BALANCE SHEET

at 31st December 1997

| | Note | 1997 £'000 | 1996 £'000 |
|--|------|---------------------|---------------------|
| Fixed assets | | | |
| Tangible assets | 6 | 11217 | 10749 |
| Investment in subsidiaries | 8 | 333 | 333 |
| | | <u>11550</u> | <u>11082</u> |
| Current assets | | | |
| Stock and work in progress | 9 | 5288 | 5382 |
| Debtors | 10 | 9469 | 8496 |
| Cash at bank and in hand | | 639 | 1 |
| | | <u>15396</u> | <u>13879</u> |
| Creditors: amounts falling due within one year | 11 | <u>6478</u> | <u>7256</u> |
| Net current assets | | <u>8918</u> | <u>6623</u> |
| Total assets less current liabilities | | <u>20468</u> | <u>17705</u> |
| Creditors: amounts falling due after more than one year | 12 | <u>2000</u> | <u>2000</u> |
| Provision for liabilities and charges | 13 | <u>77</u> | |
| Net Assets | | <u><u>18391</u></u> | <u><u>15705</u></u> |
| Capital and reserves | | | |
| Called up share capital | 14 | 5000 | 5000 |
| Profit and loss account | 15 | 13391 | 10705 |
| Total shareholders' funds | | <u><u>18391</u></u> | <u><u>15705</u></u> |

The financial statements on pages 6 to 18 were approved by the board of directors on 26th June 1998 and signed on its behalf by:



C. R. Duncan
Chairman

NUMATIC INTERNATIONAL LIMITED
CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31st December 1997

| | Note | 1997 £'000 | 1996 £'000 |
|--|------|---------------|---------------|
| Net cash inflow/(outflow) from operating activities | 16 | 4933 | 2463 |
| Returns on Investment and Servicing of Finance | | | |
| Interest paid | | (264) | (216) |
| Taxation | | | |
| Corporation tax paid | | (1370) | (804) |
| Capital expenditure and financial investment | | | |
| Purchase of tangible fixed assets | | (1157) | (1103) |
| Sale of tangible fixed assets | | 27 | 36 |
| Net cash outflow from investing activity | | (1130) | (1067) |
| Increase in cash | 16 | <u>2169</u> | <u>376</u> |

NUMATIC INTERNATIONAL LIMITED

NOTES ON FINANCIAL STATEMENTS

31st December 1997

1 Accounting policies

The principal accounting policies of the group are as follows

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Basis of consolidation

The consolidated financial statements fully incorporate the financial statements of the company and all of its subsidiaries.

Turnover

Turnover represents the amount derived from the provision of goods and services falling within the company's activities after deduction of value added tax.

Depreciation

Depreciation of fixed assets is calculated to write off their cost or valuation less any residual value over their estimated useful lives as follows:

| | |
|------------------------------|---|
| Freehold land | 0% per annum straight line |
| Freehold buildings | 0% per annum straight line (France 5% straight line) |
| Leasehold land and buildings | straight line over period of lease |
| Plant and machinery | on a straight line monthly basis over the first 5 years to 20% of original cost, thereafter its value in use is reassessed on an annual basis |
| Motor vehicles | 20% per annum straight line |

No depreciation is provided on freehold property as the depreciation charge in the year and the accumulated depreciation at the balance sheet date which would be required under SSAP 12 are not considered material.

Leases and hire purchase contracts

Rentals paid under operating leases are charged to income as incurred.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is computed on a first in first out basis and in the case of work in progress and finished goods includes labour and attributable overheads based on normal levels of activity and state of completion. Net realisable value is based on estimated selling price less the estimated cost of disposal.

Deferred taxation

Deferred taxation is provided on the liability method in respect of the taxation effect of all timing differences to the extent that tax liabilities are likely to crystallise in the foreseeable future.

Research and Development expenditure

Research and development expenditure is written off as incurred.

NUMATIC INTERNATIONAL LIMITED

NOTES ON FINANCIAL STATEMENTS

31st December 1997

1 Accounting policies (continued)**Foreign Currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Balances denominated in foreign currencies are restated at the exchange rate ruling as at the balance sheet date, any gain or loss being dealt with in the profit and loss account. Balance sheets and profit and loss accounts of foreign subsidiaries are translated at the rates ruling at the balance sheet date. Differences on translation arising from changes in the sterling value of overseas net assets due to subsequent variations in exchange rates are shown as a movement in reserves and in the statement of total recognised gains and losses. All differences are taken to the profit and loss account.

Pension schemes

The parent company operates a defined benefit pension scheme, the assets of which are held in a trustee administered fund. Employees contribute 5% of salary (4% until April 1997) with the balance of required contributions being met by the company (7.3% of salary as at the balance sheet date). Audited accounts are prepared annually the latest set being made up to 31st March 1997. The assets and liabilities of the scheme are reviewed on a triennial basis by an actuary for funding purposes, the last valuation being as at 1st April 1997.

The actuarial assessment considers the assets and liabilities at the date of calculation and forecasts assets and liabilities in the future according to a set of assumptions, the most important of which are the rate of return on the assets and the rate of increase in remuneration and pensions. The assumptions used at 1st April 1997 were:

| | |
|--------------------|--|
| Price inflation | 5% per annum |
| Investment return | 9% per annum (4% real rate of return in excess of assumed rate of future price inflation of 5%) |
| Earnings increases | 7% per annum ((4% real rate of return in excess of assumed rate of future price inflation of 5%) plus 0.5% per annum promotional increases. |
| Pension increases | 3% per annum on the GMP element of a members pension accrued after 6 April 1988. 4% for Limited Price Indexation in respect of pensions accrued after 5 April 1997. |
| Dividend growth | 4.5% per annum |

At the date of the latest valuation the actuarial valuation of the assets was £4961000 and of the liabilities £5271000 representing a shortfall of £310000. This underfunding is being reduced by the increase in company contributions to the rate of 7.3% operating at the balance sheet date as compared to the projected long term rate for the company of 6.6%. No provision has been made in these financial statements for the underfunding.

The parent company also operates a defined contribution scheme for the directors. No contributions were made during the year (1996 Nil) and there were no outstanding liabilities due to the scheme as at the balance sheet date.

2 Turnover

The turnover for the year was derived from the group's principal activity. In the opinion of the directors all geographical markets are supplied under similar terms conditions and prices and the products supplied form one class of business. Inter group trading is eliminated on consolidation.

NUMATIC INTERNATIONAL LIMITED

NOTES ON FINANCIAL STATEMENTS

31st December 1997

3 Operating profit

| | 1997 £'000 | 1996 £'000 |
|---|---------------|---------------|
| Operating profit is stated after crediting | | |
| Profit on sale of assets | 12 | - |
| and after charging | | |
| Staff costs (note 4) | 10072 | 9125 |
| Auditors' remuneration UK auditors | 20 | 17 |
| Auditors' remuneration overseas auditors | 11 | 11 |
| Research and development expenditure | 131 | 113 |
| Operating leases | | |
| Plant and machinery | 168 | 191 |
| Motor Vehicles | 255 | 259 |
| Land and buildings | 141 | 156 |
| Loss on sale of assets | - | 224 |
| Depreciation of tangible fixed assets (note 6) | | |
| owned assets | 540 | 322 |

4 Directors and employees

| | 1997 £'000 | 1996 £'000 |
|---|---------------|---------------|
| Staff costs including directors' emoluments | | |
| Wages and salaries | 8682 | 7907 |
| Social security costs | 979 | 902 |
| Pension costs | 411 | 316 |
| | 10072 | 9125 |
| Directors | £'000 | £'000 |
| Emoluments | 537 | 392 |
| Company contributions to money purchase pension schemes | - | - |
| | 537 | 392 |
| Average monthly number employed including executive directors: | Number | Number |
| Production | 402 | 363 |
| Administration, selling and management | 104 | 100 |
| | 506 | 463 |

NUMATIC INTERNATIONAL LIMITED

NOTES ON FINANCIAL STATEMENTS

31st December 1997

5 Taxation

| | 1997 £'000 | 1996 £'000 |
|---|---------------|---------------|
| Corporation tax of the group on profit on ordinary activities at 31% (1996 33%) | 1037 | 1312 |
| Under provision in earlier years | - | 79 |
| Transfer to deferred taxation reserve | 77 | - |
| | <u>1114</u> | <u>1391</u> |

6 Tangible fixed assets

| GROUP | Freehold Property £'000 | Plant and Machinery £'000 | Motor Vehicles £'000 | Furniture and Equipment £'000 | Small Tools £'000 | Total £'000 |
|------------------------|-------------------------------|------------------------------------|----------------------------|--|-------------------------|----------------|
| Cost | | | | | | |
| 1st January 1997 | 9967 | 1929 | 319 | 707 | 30 | 12952 |
| Exchange adjustments | (32) | (3) | - | (5) | - | (40) |
| Additions | 376 | 731 | - | 84 | - | 1191 |
| Disposals | - | (1) | (54) | (1) | - | (56) |
| 31st December 1997 | <u>10311</u> | <u>2656</u> | <u>265</u> | <u>785</u> | <u>30</u> | <u>14047</u> |
| Depreciation | | | | | | |
| 1st January 1997 | 61 | 678 | 87 | 317 | - | 1143 |
| Exchange adjustments | (4) | (1) | - | (1) | - | (6) |
| Charge for year | 21 | 377 | 17 | 125 | - | 540 |
| Disposals | - | - | (40) | (1) | - | (41) |
| 31st December 1997 | <u>78</u> | <u>1054</u> | <u>64</u> | <u>440</u> | <u>-</u> | <u>1636</u> |
| Net book amount | | | | | | |
| 31st December 1997 | <u>10233</u> | <u>1602</u> | <u>201</u> | <u>345</u> | <u>30</u> | <u>12411</u> |
| 1st January 1997 | <u>9906</u> | <u>1251</u> | <u>232</u> | <u>390</u> | <u>30</u> | <u>11809</u> |

NUMATIC INTERNATIONAL LIMITED

NOTES ON FINANCIAL STATEMENTS

31st December 1997

6 Tangible fixed assets

| COMPANY | Freehold Property £'000 | Plant and Machinery £'000 | Motor Vehicles £'000 | Furniture and Equipment £'000 | Small Tools £'000 | Total £'000 |
|------------------------|-------------------------------|------------------------------------|----------------------------|--|-------------------------|----------------|
| Cost | | | | | | |
| 1st January 1997 | 9040 | 1794 | 265 | 551 | 30 | 11680 |
| Additions | 192 | 707 | - | 44 | - | 943 |
| Disposals | - | - | (54) | - | - | (54) |
| 31st December 1997 | 9232 | 2501 | 211 | 595 | 30 | 12569 |
| Depreciation | | | | | | |
| 1st January 1997 | - | 606 | 73 | 252 | - | 931 |
| Charge for year | - | 365 | 4 | 92 | - | 461 |
| Disposals | - | - | (40) | - | - | (40) |
| 31st December 1997 | - | 971 | 37 | 344 | - | 1352 |
| Net book amount | | | | | | |
| 31st December 1997 | 9232 | 1530 | 174 | 251 | 30 | 11217 |
| 1st January 1997 | 9040 | 1188 | 192 | 299 | 30 | 10749 |

7 Land and buildings

| | Group | | Company | |
|-----------------|---------------|---------------|---------------|---------------|
| | 1997 £'000 | 1996 £'000 | 1997 £'000 | 1996 £'000 |
| Freehold | 10137 | 9862 | 9232 | 9040 |
| Short leasehold | 96 | 44 | - | - |
| | 10233 | 9906 | 9232 | 9040 |

8 Investment in subsidiaries

| | 1997 £'000 | 1996 £'000 |
|------|---------------|---------------|
| Cost | 333 | 333 |
| | 333 | 333 |

| <u>Subsidiary</u> | <u>% Holding</u> | <u>Country of incorporation</u> |
|---------------------------------|------------------|---------------------------------|
| Numatic International SA | 100 | France |
| Numatic International (Pty) Ltd | 100 | South Africa |
| Chalon (UK) Ltd | 100 | England |

NUMATIC INTERNATIONAL LIMITED

NOTES ON FINANCIAL STATEMENTS

31st December 1997

9 Stocks

| | Group | | Company | |
|------------------|-------------|-------------|-------------|-------------|
| | 1997 | 1996 | 1997 | 1996 |
| | £'000 | £'000 | £'000 | £'000 |
| Raw materials | 3764 | 3647 | 3621 | 3528 |
| Work in progress | 218 | 204 | 160 | 136 |
| Finished goods | 2200 | 2365 | 1507 | 1718 |
| | <u>6182</u> | <u>6216</u> | <u>5288</u> | <u>5382</u> |

10 Debtors

| | Group | | Company | |
|------------------------------------|-------------|-------------|-------------|-------------|
| | 1997 | 1996 | 1997 | 1996 |
| | £'000 | £'000 | £'000 | £'000 |
| Trade debtors | 6293 | 5991 | 5064 | 5116 |
| Amounts owed by group undertakings | - | - | 3888 | 2865 |
| Other debtors | 43 | 104 | - | 39 |
| Prepayments and accrued income | 653 | 619 | 517 | 476 |
| | <u>6989</u> | <u>6714</u> | <u>9469</u> | <u>8496</u> |

11 Creditors: amounts falling due within one year

| | Group | | Company | |
|------------------------------------|-------------|-------------|-------------|-------------|
| | 1997 | 1996 | 1997 | 1996 |
| | £'000 | £'000 | £'000 | £'000 |
| Bank loan and overdrafts | 372 | 1742 | - | 1447 |
| Pension scheme loan | - | 200 | - | 200 |
| Obligations under finance leases | 8 | 12 | - | - |
| Trade creditors | 5135 | 4131 | 4523 | 3643 |
| Corporation tax | 1037 | 1370 | 1037 | 1312 |
| Other taxation and social security | 575 | 484 | 346 | 266 |
| Accruals and deferred income | 628 | 405 | 572 | 388 |
| | <u>7755</u> | <u>8344</u> | <u>6478</u> | <u>7256</u> |

12 Creditors: amounts falling due after more than one year

| | Group | | Company | |
|----------------------------------|-------------|-------------|-------------|-------------|
| | 1997 | 1996 | 1997 | 1996 |
| | £'000 | £'000 | £'000 | £'000 |
| Bank loan | 1000 | 1000 | 1000 | 1000 |
| Pension scheme loan | 1000 | 1000 | 1000 | 1000 |
| Obligations under finance leases | 20 | 27 | - | - |
| | <u>2020</u> | <u>2027</u> | <u>2000</u> | <u>2000</u> |

NUMATIC INTERNATIONAL LIMITED

NOTES ON FINANCIAL STATEMENTS

31st December 1997

13 Deferred taxation

Group:

| | 1997 | | 1996 | |
|--|------------------------------|-------------------------|------------------------------|-------------------------|
| | Potential liability £'000 | Provision made £'000 | Potential liability £'000 | Provision made £'000 |
| Corporation tax deferred by: | | | | |
| Capital allowances in excess of depreciation | 77 | 77 | 55 | - |
| | <u>77</u> | <u>77</u> | <u>55</u> | <u>-</u> |

Company:

| | 1997 | | 1996 | |
|--|------------------------------|-------------------------|------------------------------|-------------------------|
| | Potential liability £'000 | Provision made £'000 | Potential liability £'000 | Provision made £'000 |
| Corporation tax deferred by: | | | | |
| Capital allowances in excess of depreciation | 77 | 77 | 55 | - |
| | <u>77</u> | <u>77</u> | <u>55</u> | <u>-</u> |

The potential liability and provision are based on a corporation tax rate of 31% (1996 33%).

14 Called up share capital

| | 1997 | | 1996 | |
|--|------------------|----------------|------------------|----------------|
| | Number of shares | £ | Number of shares | £ |
| Authorised | | | | |
| Ordinary shares of £1 each | <u>5000000</u> | <u>5000000</u> | <u>5000000</u> | <u>5000000</u> |
| Allotted called up and fully paid | | | | |
| Ordinary shares of £1 each | <u>5000000</u> | <u>5000000</u> | <u>5000000</u> | <u>5000000</u> |
| | | <u>5000000</u> | | <u>5000000</u> |

15 Profit and loss account

| | Group 1997 £'000 | Company 1997 £'000 |
|--|------------------------|--------------------------|
| 1st January 1997 | 9478 | 10705 |
| Retained profit for the year | 2165 | 2686 |
| Exchange difference on foreign subsidiary investment | (4) | - |
| 31st December 1997 | <u>11639</u> | <u>13391</u> |

NUMATIC INTERNATIONAL LIMITED

NOTES ON FINANCIAL STATEMENTS

31st December 1997

16 Notes to the cash flow statement

Reconciliation of operating profit
to operating cash flows

| | 1997 £'000 | 1996 £'000 |
|--|---------------|---------------|
| Operating profit | 3543 | 3675 |
| Depreciation charges | 540 | 322 |
| Exchange differences arising on consolidation | (4) | (24) |
| Loss/(profit) on sale of fixed assets | (12) | 24 |
| Decrease/(Increase) in stocks | 34 | (342) |
| (Increase) in debtors | (275) | (953) |
| Increase in creditors | 1107 | (239) |
| Net cash inflow/(outflow) from operating activities | 4933 | 2463 |

Analysis of changes in net debt

| | At start of year £'000 | Cash flows £'000 | At end of year £'000 |
|-----------------------|------------------------------|------------------------|----------------------------|
| Cash in hand, at bank | 110 | 799 | 909 |
| Overdrafts | (1742) | 1370 | (372) |
| Total | (1632) | 2169 | 537 |

17 Guarantees and other financial commitments

Financial commitments under non-cancellable operating leases will result in payments falling due in the following year as follows.

| | 1997 Land and Buildings £'000 | 1997 Plant & Other £'000 | 1996 Land and Buildings £'000 | 1996 Plant & Other £'000 |
|--------------------------|--|-----------------------------------|--|-----------------------------------|
| Group | | | | |
| Expiring | | | | |
| Within one year | - | 64 | - | 28 |
| Within two to five years | 38 | 274 | 38 | 209 |
| After five years | 72 | - | 40 | - |
| | <u>110</u> | <u>338</u> | <u>78</u> | <u>237</u> |
| Company | | | | |
| Expiring | | | | |
| Within one year | - | 57 | - | 28 |
| Within two to five years | - | 198 | - | 170 |
| After five years | - | - | - | - |
| | <u>-</u> | <u>255</u> | <u>-</u> | <u>198</u> |

NUMATIC INTERNATIONAL LIMITED

NOTES ON FINANCIAL STATEMENTS

31st December 1997

18 Profit of the parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's profit for the financial year after tax amounted to £2686000 (1996 £3133000).

19 Related party transactions

Mr and Mrs Duncan are the trustees and sole beneficiaries of a pension scheme known as the Numatic Executive scheme. The company rents factory premises from the scheme at commercially negotiated rentals which amounted to £113250 in the year. The scheme lent the company £1m in September 1995 bearing interest at 1.5% over base. This was for a term of 5 years although the company is entitled to repay this sum earlier provided it gives the scheme 6 months written notice of its intent to do so. The company is wholly owned by Mr and Mrs Duncan and details of their shareholdings are given in the directors report.