



**PROCESS SCIENTIFIC INNOVATIONS
LIMITED**

Report and Financial Statements

30 April 1998

**Deloitte & Touche
Gainsborough House
34-40 Grey Street
Newcastle upon Tyne
NE1 6AE**



**REPORT AND FINANCIAL STATEMENTS 1998**

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Auditors' report	5
Profit and loss account	6
Balance sheet	7
Cash flow statement	8
Notes to the accounts	9



REPORT AND FINANCIAL STATEMENTS 1998

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P C Kerr (Chairman)
S P Hunter (Managing Director)
J S Hunter
A G Hunter
D S Hunter
K Richardson
R Theodoulou

SECRETARY

S Hall

REGISTERED OFFICE

Bowburn
Durham
DH6 5AD

HEAD OFFICE

Bowburn
Durham
DH6 5AD

BANKERS

Barclays Bank plc
PO Box 245
27-31 High Row
Darlington
Co Durham

SOLICITORS

Osborne Clarke
Hillgate House
26 Old Bailey
London
EC4M 7HJ

AUDITORS

Deloitte & Touche
Chartered Accountants
Gainsborough House
34-40 Grey Street
Newcastle upon Tyne
NE1 6AE

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 April 1998.

ACTIVITIES

The principal activity of the company is the development and manufacture of filtration products.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

During the year the company has increased the level of production which has however been adversely effected by the strength of the pound.

The directors consider the results to be a fair reflection of the year's trading and expect further improvement in efficiencies during the next year.

DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not recommend the payment of a dividend for the year (1997 : £nil).

The profit for the year after taxation and dividends was £17,640 (1997 - £25,480) and the directors propose that this be transferred to reserves.

FIXED ASSETS

The movements in intangible and tangible fixed assets during the year are set out in notes 7 and 8 to the accounts.

YEAR 2000

The directors have considered the risks and uncertainties associated with the Year 2000 issue. As a result of this, the company has upgraded its computer system. Further, the Board are currently undertaking a review of other areas including major customers and suppliers.

DIRECTORS AND THEIR INTERESTS

The present membership of the board is set out on page 1. All directors served throughout the year.

None of the directors had a material interest in any contract of significance to which the company was a party during the financial year. The directors' interests in the Ordinary shares of the company at 30 April 1998 and 1 May 1997 were:

	Ordinary shares of £1 each	
	1998 No.	1997 No.
P C Kerr	-	-
S P Hunter	184,700	184,700
J S Hunter	21,200	21,200
A G Hunter	21,200	21,200
D S Hunter	21,200	21,200
K Richardson	-	-
R Theodoulou	1,590	1,590



DIRECTORS' REPORT (continued)

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Island Nominees Limited, a company wholly owned by the company's auditors, Peter Vanderpump, a partner in Deloitte & Touche, and Mr A B K Taylor, an employee of the firm, act as trustees for trusts which own 41% of the issued ordinary share capital of the company.

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

Secretary

9 September 1998

**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;
- 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.



Chartered Accountants

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Newcastle upon Tyne NE1 6AE

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AUDITORS' REPORT TO THE MEMBERS OF

PROCESS SCIENTIFIC INNOVATIONS LIMITED

We have audited the financial statements on pages 6 to 17 which have been prepared under the accounting policies set out on page 9.

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 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 April 1998 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

Date: 21 September 1998.


PROFIT AND LOSS ACCOUNT
Year ended 30 April 1998

	Note	1998 £	1997 £
TURNOVER	2	3,008,906	2,859,084
Changes in stocks of finished goods and work in progress		(16,469)	26,765
		<u>2,992,437</u>	<u>2,885,849</u>
Staff costs	5	(1,012,895)	(971,506)
Raw materials and consumables		(931,380)	(871,132)
Depreciation and other amounts written off tangible and intangible fixed assets		(242,803)	(233,240)
Other operating charges		<u>(748,425)</u>	<u>(752,729)</u>
OPERATING PROFIT		56,934	57,242
Interest payable and similar charges	3	<u>(42,178)</u>	<u>(29,255)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	14,756	27,987
Tax on profit on ordinary activities	6	<u>2,884</u>	<u>(2,507)</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES	15	<u>17,640</u>	<u>25,480</u>

All activities derive from continuing operations.

There are no recognised gains and losses for the current financial year and the preceding financial year other than as stated in the profit and loss account.


BALANCE SHEET
30 April 1998

	Note	£	1998 £	£	1997 £
FIXED ASSETS					
Intangible assets	7		121,853		132,893
Tangible assets	8		619,567		657,862
			<u>741,420</u>		<u>790,755</u>
CURRENT ASSETS					
Stocks	9	230,706		241,665	
Debtors	10	632,542		587,060	
Cash at bank and in hand		27,922		95,052	
		<u>891,170</u>		<u>923,777</u>	
CREDITORS: amounts falling due within one year	11	<u>(614,300)</u>		<u>(711,129)</u>	
NET CURRENT ASSETS			276,870		212,648
			1,018,290		1,003,403
CREDITORS: amounts falling due after more than one year	12		(59,786)		(59,386)
PROVISIONS FOR LIABILITIES AND CHARGES	13		<u>(69,606)</u>		<u>(72,759)</u>
			<u>888,898</u>		<u>871,258</u>
CAPITAL AND RESERVES					
Called up share capital	14		414,590		414,590
Share premium account	15		100,790		100,790
Capital redemption reserve	15		3,500		3,500
Profit and loss account	15		370,018		352,378
TOTAL EQUITY SHAREHOLDERS' FUNDS			<u>888,898</u>		<u>871,258</u>

 These financial statements were approved by the Board of Directors on 9 September 1998

Signed on behalf of the Board of Directors

Director



CASH FLOW STATEMENT

Year ended 30 April 1998

	Note	1998 £	1997 £
Cash inflow from operating activities	20	424,764	218,073
Returns on investments and servicing of finance	21	(42,178)	(29,255)
Taxation		(3,420)	(4,368)
Capital expenditure and financial investment	21	<u>(131,351)</u>	<u>(88,509)</u>
Cash inflow before financing		247,815	95,941
Financing	22	<u>(50,333)</u>	<u>(32,564)</u>
Increase in cash in the year	23	<u><u>197,482</u></u>	<u><u>63,377</u></u>

**NOTES TO THE ACCOUNTS****Year ended 30 April 1998****1. ACCOUNTING POLICIES**

The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Intangible fixed assets

Patents are depreciated on a straight line basis over 10 years.

Tangible fixed assets

Tangible fixed assets are shown at cost.

Depreciation of fixed assets is on a straight line basis calculated at annual rates estimated to write off each asset over the term of its useful life.

The rates generally in use are as follows:

Plant and machinery	10% - 33 1/3%
Fixtures and fittings	10% - 33 1/3%
Motor vehicles	25%

Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost, where appropriate, includes materials, direct labour and production overheads appropriate to the relevant stage of production.

Grants

Grants of a revenue nature are credited to the profit and loss account in line with the expenditure to which they relate.

Turnover

Turnover represents the invoiced value of sales, excluding trade discounts and value added tax.

Foreign exchange

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

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

Leases

Assets held under finance leases and related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the leases.

Pension costs

The company operates two internally administered defined contribution schemes for all eligible employees. Pension costs are charged to the profit and loss account as they fall due.


NOTES TO THE ACCOUNTS
Year ended 30 April 1998
2. TURNOVER

The geographical analysis of the company's turnover is as follows:

	1998 £	1997 £
United Kingdom	612,989	573,840
Europe	1,838,968	1,829,100
North America	582,340	433,080
Other	30,650	23,064
	<u>3,064,947</u>	<u>2,859,084</u>

The turnover is attributable to one activity, the development and manufacture of filtration products.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £	1997 £
Finance lease and similar hire purchase charges	16,696	5,574
Bank overdraft and other borrowings repayable within 5 years	25,482	23,681
	<u>42,178</u>	<u>29,255</u>

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is after charging/(crediting):	1998 £	1997 £
Loss on foreign exchange trading differences	21,583	26,829
Depreciation and other amounts written off tangible and intangible fixed assets:		
Own tangible assets	183,340	197,141
Assets held under finance leases	32,301	10,673
Intangible assets	27,162	25,426
Grants released	(30,585)	(8,900)
Rentals under operating leases:		
Hire of plant and machinery	6,864	7,430
Other operating lease rentals	79,172	104,205
Auditors' remuneration	7,500	8,100
Profit on sale of fixed assets	(311)	(2,030)


NOTES TO THE ACCOUNTS
Year ended 30 April 1998
5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1998 £	1997 £
Directors' emoluments:		
Emoluments	171,933	175,478
Pension contributions	14,979	14,598
	<u>186,912</u>	<u>190,076</u>
Five directors are members of the pension scheme		
Employee costs:		
Wages and salaries	919,454	885,460
Social security costs	65,952	58,006
Other pension costs (note 19)	27,489	28,040
	<u>1,012,895</u>	<u>971,506</u>
Average number of persons employed	No.	No.
Production	67	67
Research and development	7	7
Administration	13	13
	<u>87</u>	<u>87</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998 £	1997 £
The tax (credit)/charge is made up as follows:		
United Kingdom corporation tax at 21% (1997 - 23.9%) based on profit for the year	13,948	20,881
Deferred taxation	(18,579)	(18,649)
	(4,631)	2,232
Adjustment in respect of prior years:		
Corporation tax	(1,733)	5,239
Deferred taxation	3,480	(4,964)
	<u>(2,884)</u>	<u>2,507</u>

The taxation charge does not bear a normal relationship to profit on ordinary activities due to the effect of the reduction in the rate of corporation tax on deferred tax balances.


NOTES TO THE ACCOUNTS
Year ended 30 April 1998
7. INTANGIBLE FIXED ASSETS

	Patents £
Cost	
At 1 May 1997	340,959
Capitalised in year	16,122
Disposals	(99,965)
At 30 April 1998	<u>257,116</u>
Accumulated depreciation	
At 1 May 1997	208,066
Charge for the year	27,162
Disposals	(99,965)
At 30 April 1998	<u>135,263</u>
Net book value	
At 30 April 1998	<u>121,853</u>
At 30 April 1997	<u>132,893</u>

8. TANGIBLE FIXED ASSETS

	Motor vehicles £	Plant and machinery £	Fixtures and fittings £	Total £
Cost				
At 1 May 1997	47,958	2,227,891	220,765	2,496,614
Additions	15,495	174,201	5,705	195,401
Disposals	(30,620)	(329,525)	(184,233)	(544,378)
At 30 April 1998	<u>32,833</u>	<u>2,072,567</u>	<u>42,237</u>	<u>2,147,637</u>
Accumulated depreciation				
At 1 May 1997	10,602	1,629,461	198,689	1,838,752
Provision for the year	11,673	195,052	8,916	215,641
Disposals	(13,465)	(328,625)	(184,233)	(526,323)
At 30 April 1998	<u>8,810</u>	<u>1,495,888</u>	<u>23,372</u>	<u>1,528,070</u>
Net book value				
At 30 April 1998	<u>24,023</u>	<u>576,679</u>	<u>18,865</u>	<u>619,567</u>
At 30 April 1997	<u>37,356</u>	<u>598,430</u>	<u>22,076</u>	<u>657,862</u>



NOTES TO THE ACCOUNTS

Year ended 30 April 1998

8. TANGIBLE FIXED ASSETS (continued)

Assets held under finance leases and similar hire purchase agreements are as follows:

	Motor vehicles		Plant and machinery	
	1998	1997	1998	1997
	£	£	£	£
Cost	32,833	35,058	164,826	130,473
Accumulated depreciation	8,448	2,282	30,650	15,155
Net book value	<u>24,385</u>	<u>32,776</u>	<u>134,176</u>	<u>115,318</u>

9. STOCKS

	1998	1997
	£	£
Raw materials	188,650	183,140
Work in progress	18,795	29,422
Finished goods for resale	23,261	29,103
	<u>230,706</u>	<u>241,665</u>

10. DEBTORS

	1998	1997
	£	£
Trade debtors	541,462	499,119
Other debtors	31,005	23,652
Prepayments	60,075	64,289
	<u>632,542</u>	<u>587,060</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998	1997
	£	£
Bank overdraft	51,524	316,136
Obligations under finance leases and hire purchase contracts	53,992	42,919
Trade creditors	302,836	247,816
Other creditors	60,759	21,784
Taxation and social security	18,536	17,874
Corporation tax	269	3,420
Accruals and deferred income	126,384	61,180
	<u>614,300</u>	<u>711,129</u>

The bank overdraft is secured by a debenture/mortgage agreement including a fixed and floating charge over the assets of the business.

Included within other creditors is a balance owed to Griffin Factors of £59,456 (1997 - £Nil). The balance is secured over the trade debtors of the company.



NOTES TO THE ACCOUNTS

Year ended 30 April 1998

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

	1998 £	1997 £
Obligations under finance leases and hire purchase contracts	59,786	59,386

The future minimum lease and hire purchase payments to which the company is committed as at 30 April 1998 under finance leases and hire purchase contracts are as follows:

	1998 £	1997 £
Amounts due within 5 years	129,372	123,759
Less: Finance charges allocated to future periods	(15,594)	(21,454)
	113,778	102,305
Less: Amounts repayable within one year	53,992	42,919
Amounts repayable after more than one year	59,786	59,386

Obligations under finance leases are secured by the related leased assets.

13. PROVISIONS FOR LIABILITIES AND CHARGES

	£
Deferred taxation movement in the year:	
Balance at 1 May 1997	72,759
Current year credit	(18,579)
ACT recoverable	11,946
Adjustment in respect of prior year	3,480
Balance at 30 April 1998	69,606

The actual and full potential liability for deferred tax in the accounts is as follows:

	1998 £	1997 £
Capital allowances in excess of depreciation	75,470	92,629
Short term timing differences	(2,847)	(4,907)
Less: ACT recoverable	(3,017)	(14,963)
	69,606	72,759

14. CALLED UP SHARE CAPITAL

	1998 £	1997 £
Authorised		
500,000 ordinary shares of £1 each	500,000	500,000
Called up, allotted and fully paid		
414,590 ordinary shares of £1 each	414,590	414,590

NOTES TO THE ACCOUNTS

Year ended 30 April 1998

15. MOVEMENT ON RESERVES

	Share premium account	Capital redemption reserve £	Profit and loss account £	Total £
Balance at 1 May 1997	100,790	3,500	352,378	456,668
Profit for the year	-	-	17,640	17,640
Balance at 30 April 1998	<u>100,790</u>	<u>3,500</u>	<u>370,018</u>	<u>474,308</u>

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £	1997 £
Profit for the financial year	17,640	25,480
Opening shareholders' funds	<u>871,258</u>	<u>845,778</u>
Closing shareholders' funds	<u>888,898</u>	<u>871,258</u>

17. CAPITAL COMMITMENTS

	1998 £	1997 £
Expenditure contracted for but not provided for in these financial statements	<u>10,245</u>	<u>30,000</u>

18. OPERATING LEASE COMMITMENTS

As at 30 April the company was committed to making the following payments during the next year in respect of operating leases:

	1998		1997	
	Land and buildings £	Other £	Land and buildings £	Other £
Leases which expire:				
Within one year	75,000	5,018	-	300
Within two to five years	-	1,682	75,308	4,718
After five years	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE ACCOUNTS

Year ended 30 April 1998

19. PENSION COSTS

The company operated two defined contribution schemes for all eligible employees. Pension costs for the year were £27,489 (1997: £28,040).

20. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH INFLOWS

	1998 £	1997 £
Operating profit	56,934	57,242
Amortisation of patents	27,162	25,426
Patents written off	-	14,749
Depreciation	215,641	207,814
Decrease/ in stocks	10,959	72,208
Increase in debtors	(45,482)	(68,801)
Increase/(decrease) in creditors	159,861	(79,635)
Grant release	-	(8,900)
Profit on sale of fixed assets	(311)	(2,030)
Net cash inflow from operating activities	424,764	218,073

21. GROSS CASH FLOWS

	1998 £	1997 £
Returns on investments and servicing of finance		
Interest paid	(42,178)	(29,255)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(133,595)	(70,879)
Purchase of intangible fixed assets	(16,122)	(37,625)
Sale of tangible fixed assets	18,366	19,995
	(131,351)	(88,509)
Financing		
Capital repayment of finance leases and hire purchase agreements	(50,333)	(32,564)


NOTES TO THE ACCOUNTS
Year ended 30 April 1998
22. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	£	1998 £	£	1997 £
Increase in cash	197,482		63,377	
Cash inflow from Factoring arrangement	(59,456)		-	
Cash outflow from reduction in lease financing	50,333		32,564	
Change in net debt resulting from cash flows		188,359		95,941
New finance leases		(61,806)		(107,021)
Movement in net debt in the year		126,553		(11,080)
Net debt at 1 May		(323,389)		(312,309)
Net debt at 30 April		(196,836)		(323,389)

23. ANALYSIS OF NET DEBT

	At 1 May 1997 £	Cash flow £	Other non-cash changes £	At 30 April 1998 £
Cash at bank and in hand	95,052	(67,130)		27,922
Bank overdraft	(316,136)	264,612		(51,524)
		197,482		
Factoring arrangement	-	(59,456)		(59,456)
Finance leases	(102,305)	50,333	(61,806)	(113,778)
	(323,389)	188,359	(61,806)	(196,836)

24. MAJOR NON-CASH TRANSACTIONS

During the year the company entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £61,806 (1997 - £107,021).