



**MATCON GROUP PLC
AND ITS SUBSIDIARY
UNDERTAKINGS**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 1997

Company Number: 2939693

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

FINANCIAL STATEMENTS

For the year ended 31 December 1997

Company registered number

2939693

Registered office:

Matcon House
London Road
Moreton-in-Marsh
Gloucestershire
GL56 0HJ

Directors:

Sir John Aird
C Lee
P Cooper
J Thompson
D A M Drew
D J Dugdale (Non-executive)
N J Weaver (Non-executive)
I Semenenko (Non-executive)

Secretary:

H A Newell

Bankers:

Lloyds Bank plc
130 High Street
Cheltenham
Gloucestershire
GL50 1EU

Solicitors:

T S Barks and Son
Oxford Road
Moreton-in-Marsh
Gloucestershire
GL56 0LB

Auditors:

Grant Thornton
Registered Auditors
Chartered Accountants
The Quadrangle
Imperial Square
Cheltenham
Gloucestershire
GL50 1PZ

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

FINANCIAL STATEMENTS

For the year ended 31 December 1997

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MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

REPORT OF THE DIRECTORS

The directors present their report together with financial statements for the year ended 31 December 1997.

Principal activities

The principal activity of the company is the provision of management services.

The principal activity of the group is the design, engineering, and commissioning of powder handling systems.

Review of the business

There was a profit for the year after taxation amounting to £723,804 (1996: £483,466). The directors recommend dividends absorbing £302,393 (1996: £230,000).

During the year Charles Lee, the company's Engineering Director, was appointed Chief Executive in place of Ivan Semenenko, the company's founder. The directors would like to pay tribute to Ivan Semenenko's achievement in creating the company and are confident of the continuing growth and development of the company under Charles Lee's leadership.

Although group turnover was down from £13,742,415 in the previous year to £11,108,097 profit before tax was substantially higher at £1,007,715 (9.1%) compared with £713,475 (5.2%). This reflects how Matcon has strengthened its capability of efficiently and profitably executing the larger and more complex contracts which it now undertakes.

Matcon further extended its capability of the Matcon technology particularly in the field of containment and system integration. A new joint venture was also started in Holland to service the Benelux countries.

Directors

The present membership of the Board is set out below. All directors served throughout the year apart from D A M Drew who was appointed to the board on 29 September 1997.

The interests of the directors in the share capital of the company as at 1 January 1997 or later date of appointment and 31 December 1997 were as follows:

	Ordinary shares		Preference shares	
	31 December 1997 Number	1 January 1997 Number	31 December 1997 Number	1 January 1997 Number
Sir John Aird	367,927	367,927	484,659	478,659
C Lee	48,100	12,000	-	-
P Cooper	19,600	12,000	2,841	8,841
J Thompson	23,400	12,000	-	-
D A M Drew	16,560	12,000	-	-
D J Dugdale	50,000	50,000	25,000	25,000
I Semenenko	367,927	367,927	478,659	478,659
N J Weaver	-	-	-	-

No director had an interest in the shares of the company's subsidiary undertakings at 31 December 1997 or 1 January 1997.

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

REPORT OF THE DIRECTORS

Directors' responsibilities for the financial statements

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 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;
- 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 a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records, for safeguarding the assets of the company and the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Payment policy

The company and the group have a policy whereby terms with key suppliers are agreed before commencement of trade. For other suppliers the group policy is to pay within 60 days. It is the group's policy to abide by these terms.

Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD


H A Newell
Secretary

Date: 21 May 1998

REPORT OF THE AUDITORS TO THE MEMBERS OF
MATCON GROUP PLC

We have audited the financial statements on pages 4 to 24 which have been prepared under the accounting policies set out on pages 4 to 6.

Respective responsibilities of directors and auditors

As described on page 2 the 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 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 affairs of the company and the group at 31 December 1997 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS**

CHELTENHAM

Date: 21.05.98

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

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

The principal accounting policies of the group are set out below.

BASIS OF CONSOLIDATION

The group financial statements consolidate those of the company and of its subsidiary undertakings drawn up to 31 December 1997. Profits or losses on intra-group transactions are eliminated in full.

The company is entitled to the merger relief offered by Section 131 of the Companies Act 1985 in respect of the consideration received in excess of the nominal value of the equity shares issued in connection with the acquisition of Matcon (Reconstruction) 1995 PLC.

ASSOCIATED UNDERTAKINGS

Undertakings other than subsidiary undertakings, in which the group has an investment representing at least 20% of the voting rights and over which it exerts significant influence, are treated as associated undertakings.

The group's share of the profits of the associated undertaking is included in the group profit and loss account.

The group balance sheet includes the investment in the associated undertaking at the group's share of net assets.

INCOME FROM INVESTMENTS

Investment income comprises dividends declared during the accounting period on unlisted investments.

TURNOVER

Turnover is the total amount receivable by the group for goods supplied and for services provided, excluding VAT and trade discounts.

In the case of long term contracts, turnover reflects the contract activity during the period, and represents the proportion of total contract value which costs incurred to date bear to total expected contract costs.

DEPRECIATION

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful lives.

The rates applicable are:

Freehold land	Nil
Freehold buildings	39 years
Leasehold property	Period of lease
Motor vehicles	25% on cost
Plant and equipment	10% and 25% on cost
Fixtures and fittings	25% on cost

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

PRINCIPAL ACCOUNTING POLICIES

PATENTS

Expenditure for the registration and renewal of patents is written off in the period in which it is incurred.

LONG-TERM CONTRACTS

The attributable profit on long-term contracts is recognised once their outcome can be assessed with reasonable certainty. The profit recognised reflects the proportion of work completed to date on the project.

Costs associated with long-term contracts are included in stock to the extent that they cannot be matched with contract work accounted for as turnover. Long-term contract balances included in stocks are stated at cost, after provision has been made for any foreseeable losses and the deduction of applicable payments on account.

Full provision is made for losses on all contracts in the year in which a loss is first foreseen.

STOCKS AND SHORT TERM WORK IN PROGRESS

Stocks and short term work in progress are stated at the lower of cost and net realisable value.

DEFERRED TAXATION

Deferred tax is provided for using the tax rates estimated to arise when the timing differences reverse, and is accounted for to the extent that it is probable that a liability or asset will crystallise.

LEASED ASSETS

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding, and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases, and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

FOREIGN CURRENCIES

Transactions in foreign currencies are either translated at the exchange rate ruling at the date of the transaction or where rates do not fluctuate significantly, an average rate for the period is used. Monetary assets and liabilities in foreign currency are translated at rates of exchange ruling at the balance sheet date. The financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising from the retranslation of the opening net investment in subsidiaries and associates are taken to reserves. All other exchange differences are dealt with through the profit and loss account.

CONTRIBUTIONS TO PENSION FUNDS

Defined Contribution Scheme

The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

PRINCIPAL ACCOUNTING POLICIES

RESEARCH AND DEVELOPMENT

Research and development expenditure is charged to profits in the period in which it is incurred.

INVESTMENTS

Investments are included at cost.

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 1997

	Note	1997 £	1996 £
Turnover: group and share of joint venture		11,142,622	13,742,415
Less: share of joint venture's turnover		(34,525)	-
Group turnover	1	<u>11,108,097</u>	<u>13,742,415</u>
Cost of sales		(5,469,826)	(8,370,629)
Gross profit		<u>5,638,271</u>	<u>5,371,786</u>
Other operating charges		(4,657,620)	(4,680,338)
Share of operating profits/(losses) in:			
Joint venture	8	(23,299)	-
Associated undertaking	8	12,000	45,900
Operating profit		<u>969,352</u>	<u>737,348</u>
Income from other fixed asset investments		45,706	-
Net interest	2	(7,357)	(23,873)
Profit on ordinary activities before taxation	1	<u>1,007,701</u>	<u>713,475</u>
Tax on profit on ordinary activities		(283,897)	(230,009)
Profit for the financial year		<u>723,804</u>	<u>483,466</u>
Dividends			
Equity	6	(210,000)	(140,000)
Non-equity	6	(92,393)	(90,000)
Transfer to reserves	17	<u>£421,411</u>	<u>£253,466</u>

There were no recognised gains or losses other than the profit for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 1997

	Note	£	1997 £	£	1996 £
Fixed assets					
Tangible assets	7		758,386		755,250
Investments	8		80,612		182,912
			<u>838,998</u>		<u>938,162</u>
Current assets					
Stocks	9	198,751		264,432	
Debtors	10	3,574,273		3,264,337	
Cash at bank and in hand		798,981		146,948	
		<u>4,572,005</u>		<u>3,675,717</u>	
Creditors: amounts falling due within one year	11	(3,345,120)		(2,850,154)	
Net current assets			<u>1,226,885</u>		<u>825,563</u>
Total assets less current liabilities			<u>2,065,883</u>		<u>1,763,725</u>
Creditors: amounts falling due after more than one year	12		(162,102)		(180,428)
Provisions for liabilities and charges					
Investment in joint venture:					
Share of gross assets		25,963		-	
Share of gross liabilities		(33,246)		-	
	14	<u>(7,283)</u>		<u>-</u>	
Other provisions	14	(356,453)		(466,122)	
			<u>(363,736)</u>		<u>(466,122)</u>
			<u>£1,540,045</u>		<u>£1,117,175</u>
Capital and reserves					
Called up share capital	16	2,000,000		2,000,000	
Other reserves	17	(1,961,224)		(1,961,224)	
Profit and loss account	17	1,501,269		1,078,399	
			<u>£1,540,045</u>		<u>£1,117,175</u>
Shareholders' funds					
Equity shareholders' funds	18	540,045		117,175	
Non-equity shareholders' funds	18	1,000,000		1,000,000	
			<u>£1,540,045</u>		<u>£1,117,175</u>

The financial statements were approved by the Board of Directors on

John Aird

Sir John Aird
Director

C Lee
C Lee
Director

21st May 1998

The accompanying accounting policies and notes form an integral part of these financial statements.

MATCON GROUP PLC

BALANCE SHEET AT 31 DECEMBER 1997

	Note	£	1997 £	£	1996 £
Fixed assets					
Investments	8		2,015,291		2,109,073
Current assets					
Debtors	10	1,125,418		607,320	
Cash at bank		83,927		-	
		<u>1,209,345</u>		<u>607,320</u>	
Creditors: amounts falling due within one year	11	(620,758)		(366,284)	
		<u></u>		<u></u>	
Net current assets			588,587		241,036
			<u>£2,603,878</u>		<u>£2,350,109</u>
			<u></u>		<u></u>
Capital and reserves					
Called up share capital	16	2,000,000		2,000,000	
Profit and loss account	17	603,878		350,109	
		<u>£2,603,878</u>		<u>£2,350,109</u>	
		<u></u>		<u></u>	
Shareholders' funds					
Equity shareholders' funds		1,603,878		1,350,109	
Non-equity shareholders' funds		1,000,000		1,000,000	
		<u>£2,603,878</u>		<u>£2,350,109</u>	
		<u></u>		<u></u>	

The financial statements were approved by the board of directors on 21 May 1998



Sir John Aird
Director



C Lee
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 1997

	Note	£	1997 £	£	1996 £
Net cash inflow from operating activities	19		1,145,611		560,875
Returns on investments and servicing of finance					
Interest received		21,139		13,145	
Interest paid		(25,014)		(34,586)	
Hire purchase interest paid		(3,482)		(2,432)	
Non-equity dividends paid		(92,393)		(90,000)	
Dividends received		15,270		-	
Net cash outflow from returns on investments and servicing of finance			(84,480)		(113,873)
Taxation			(63,767)		(450,075)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(199,361)		(303,005)	
Disposal of tangible fixed assets		-		7,933	
Sale of investments		133,000		-	
Purchase of investments		(12,600)		-	
Net cash outflow from capital expenditure and financial investment			(78,961)		(295,072)
Acquisitions and disposals					
Disposal of fixed asset investment		-		(41,278)	
Purchase of shares in associated undertaking		(16,016)		(27,939)	
Net cash outflow from acquisitions and disposals			(16,016)		(69,217)
Equity dividends paid			-		(140,000)
Financing					
Receipts from borrowings		-		165,888	
Repayment of bank loans		(5,463)		-	
Capital element of finance leases		(18,652)		(2,465)	
Net cash inflow from financing	20		(24,115)		163,423
Increase/(decrease) in cash	20		<u>£878,272</u>		<u>£(343,939)</u>

The accompanying accounting policies and notes form an integral part of these financial statements.

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

1 TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Turnover and profit on ordinary activities before taxation are attributable to the group's principal activity, being the design, engineering, and commissioning of powder handling systems.

An analysis of turnover by geographical market is given below:

	1997 £	1996 £
UK	1,747,010	3,545,329
European Community	4,568,905	3,252,351
USA	3,884,724	5,722,542
Rest of the world	907,458	1,222,193
	<u>£11,108,097</u>	<u>£13,742,415</u>

The profit on ordinary activities is stated after charging:

	1997 £	1996 £
Research and development:		
Current year expenditure	194,765	272,018
Auditors' remuneration		
Audit	37,090	35,725
Non-audit services	44,980	39,100
Depreciation		
Tangible fixed assets, owned	167,920	178,486
Tangible fixed assets, held under finance leases and hire purchase contracts	10,121	14,351
Hire of plant and machinery	7,696	17,796
Other operating lease rentals	85,000	57,500
	<u></u>	<u></u>

2 NET INTEREST

	1997 £	1996 £
On bank loans and overdrafts	24,452	31,306
Finance charges in respect of finance leases and similar hire purchase contracts	3,482	2,432
Other interest payable and similar charges	562	3,280
	<u>28,496</u>	<u>37,018</u>
Interest receivable and similar income	(21,139)	(13,145)
	<u>£7,357</u>	<u>£23,873</u>

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

3 DIRECTORS AND EMPLOYEES

	1997 £	1996 £
Staff costs during the year were as follows:		
Wages and salaries	1,921,175	1,951,320
Social security costs	212,699	207,610
Pension costs	102,303	114,114
	<u>£2,236,178</u>	<u>£2,273,044</u>

The average number of employees of the group during the year was 98 (1996: 100).

	1997 Number	1996 Number
Management	14	14
Sales and marketing	21	22
Projects	34	34
Manufacturing	19	19
Administration and accounts	10	11
	<u>98</u>	<u>100</u>

Remuneration in respect of directors was as follows:

	1997 £	1996 £
Emoluments	331,400	255,594
Pension contributions to money purchase schemes	18,631	17,901
	<u>350,031</u>	<u>273,495</u>
Compensation for loss of office	120,820	-
	<u>£470,851</u>	<u>£273,495</u>

During the year 6 (1996: 4) directors participated in money purchase pension schemes.

The amounts set out above include remuneration in respect of the highest paid director as follows:-

	1997 £	1996 £
Emoluments	70,477	108,175
Pension contributions to money purchase schemes	6,081	2,877
	<u></u>	<u></u>

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 1997

4 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge represents:

	1997 £	1996 £
UK Corporation Tax at 31.5% (1996: 33%)	211,500	218,500
ACT previously written off	(12,078)	(11,971)
Tax on franked investment income	3,818	-
Overseas taxation	77,229	9,269
Withholding tax	9,634	9,073
	<u>290,103</u>	<u>224,871</u>
Adjustments in respect of prior years:		
Corporation tax	(6,206)	5,138
	<u>£283,897</u>	<u>£230,009</u>

5 PROFIT ATTRIBUTABLE TO MATCON GROUP PLC

The parent company has taken advantage of Section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The group profit for the financial year includes a profit of £556,162 (1996: £572,068) which is dealt with in the financial statements of the company.

6 DIVIDENDS

	1997 £	1996 £
Equity dividends:		
Ordinary shares - final proposed dividend 21p (1996: 14p) per share	210,000	140,000
Non-equity dividends:		
Preference dividends paid in 4 equal instalments: 31 March 1997, 30 June 1997, 30 September 1997 and 31 December 1997		
478,659 @ 9% for 6 months	21,540	-
478,659 @ 10% for 6 months	23,933	-
521,341 (1996: 1,000,000) @ 9% for 12 months	46,920	90,000
	<u>£302,393</u>	<u>£230,000</u>

There was a change in the preference calculation during the year (see note 16).

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

7 TANGIBLE FIXED ASSETS

The group	Freehold property £	Leasehold property £	Motor vehicles £	Plant & equipment £	Fixtures & fittings £	Total £
Cost						
At 1 January 1997	272,533	118,405	18,641	319,036	985,519	1,714,134
Additions	8,257	2,847	-	118,583	69,674	199,361
Disposals	-	-	-	-	(22,054)	(22,054)
Exchange movement in year	3,246	-	-	835	1,880	5,961
At 31 December 1997	<u>284,036</u>	<u>121,252</u>	<u>18,641</u>	<u>438,454</u>	<u>1,035,019</u>	<u>1,897,402</u>
Depreciation						
At 1 January 1997	37,566	72,106	15,546	224,799	608,867	958,884
Provided in the year	15,061	11,014	1,236	44,261	106,469	178,041
Exchange movement in year	454	-	-	596	1,041	2,091
At 31 December 1997	<u>53,081</u>	<u>83,120</u>	<u>16,782</u>	<u>269,656</u>	<u>716,377</u>	<u>1,139,016</u>
Net book amount at 31 December 1997	<u>£230,955</u>	<u>£38,132</u>	<u>£1,859</u>	<u>£168,798</u>	<u>£318,642</u>	<u>£758,386</u>
Net book amount at 31 December 1996	<u>£234,967</u>	<u>£46,299</u>	<u>£3,095</u>	<u>£94,237</u>	<u>£376,652</u>	<u>£755,250</u>

The figures stated above include assets held under finance leases and similar hire purchase contracts, as follows:

	Fixtures & fittings
Net book amount at 31 December 1997	<u>£20,057</u>
Net book amount at 31 December 1996	<u>£40,782</u>
Depreciation provided in the year	<u>£10,121</u>

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

8 FIXED ASSET INVESTMENTS

The group

Total fixed asset investments comprise:

	Note	1997 £	1996 £
Interests in associated undertaking	(a)	65,321	73,839
Interests in joint venture	(b)	-	-
Interests in own shares	(c)	15,291	109,073
		<u>£80,612</u>	<u>£182,912</u>

(a) Interests in associated undertaking

At 31 December 1997 the group held 50% of the ordinary share capital of Matcon Sarl, a company incorporated in France. The associated undertaking's principal activity is that of design, engineering and commissioning of powder handling systems.

	Share of net assets £
At 1 January 1997	73,839
Share of profits of associated undertaking	12,000
Dividends received	(20,518)
At 31 December 1997	<u>£65,321</u>

The group's share of retained profits of the associated undertaking at 31 December 1997 is £37,382 (1996: £45,900). If the investment in the associated undertaking had been included at cost, it would have been included at £27,939.

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

8 FIXED ASSET INVESTMENTS (CONTINUED)

(b) Interests in joint venture

At 31 December 1997 the group held 50% of the ordinary share capital of Material Control BV, a company incorporated in Holland. The joint venture's principal activity is that of design, engineering and commissioning of powder handling systems.

	Share of net liabilities £
At 1 January 1997	-
Acquisition	16,016
Share of losses of associated undertaking	(23,299)
Transfer to provisions	7,283
At 31 December 1997	£nil

The group's share of retained losses of the joint venture at 31 December 1997 is £23,299. If the investment in the joint venture had been included at cost, it would have been included at £16,016. The group's share of net liabilities is disclosed within provisions for liabilities and charges.

(c) Own shares

The group has an investment in its own shares through its wholly owned subsidiary, Matcon (Trustee Company) Limited. Matcon (Trustee Company) Limited was incorporated to act as trustee to the Matcon Limited Employee Share Ownership Trust, set up within the meaning of S743 of the Companies Act 1985. Costs associated with the management of the Trust are dealt with in this company's profit and loss account.

At the year end, the following shares in the Company were owned by the Trust.

14,673 Ordinary shares of £1 each	£15,291
	=====
	Shares at cost £
At 1 January 1997	109,073
Additions	12,600
Disposals	(106,382)
At 31 December 1997	£15,291
	=====

The Trustee has absolute discretion, acting within the terms of the Trust Deed, to dispose of the shares owned by the Trust.

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

8 FIXED ASSET INVESTMENTS (CONTINUED)

The company

	Shares in Group undertakings £	Own shares £	Total £
Cost			
At 1 January 1997	2,000,000	109,073	2,109,073
Additions	-	12,600	12,600
Disposals	-	(106,382)	(106,382)
At 31 December 1997	<u>£2,000,000</u>	<u>£15,291</u>	<u>£2,015,291</u>

At 31 December 1997 the company held 100% of the allotted share capital of the following undertakings:

Subsidiary undertaking Directly held:	Country of registration/ incorporation and operation	Class of share capital held	Nature of business
Matcon (Reconstruction) 1995 plc	Great Britain	Ordinary	Provision of management services
Matcon (Trustee Company) Limited	Great Britain	Ordinary	Employee share ownership scheme
Indirectly held:			
Matcon (R&D) Limited	Great Britain	Ordinary	Management of licences, royalties, patents and research and development
Matcon Limited	Great Britain	Ordinary and preference	Design, engineering, and commissioning of powder handling systems
Matcon Overseas Limited	Great Britain	Ordinary	Holding company
Matcon Inc.	USA	Common stock	Design, engineering, and commissioning of powder handling systems

All of the subsidiary undertakings have been consolidated in the group financial statements.

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

9 STOCKS

	1997 £	The group 1996 £
Raw materials and components	74,505	49,534
Work in progress	124,246	214,898
	<u>£198,751</u>	<u>£264,432</u>

10 DEBTORS

	1997 £	The group 1996 £	1997 £	The company 1996 £
Trade debtors	2,816,870	2,441,152	-	-
Amounts owed by group undertakings	-	-	1,049,720	549,720
Amounts owed by associated undertaking	40,620	210,663	-	-
Amounts recoverable on contracts	431,368	302,310	-	-
ACT recoverable	75,598	178,490	75,598	57,500
Other debtors	28,263	117,610	100	100
Prepayments	181,554	14,112	-	-
	<u>£3,574,273</u>	<u>£3,264,337</u>	<u>£1,125,418</u>	<u>£607,320</u>

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1997 £	The group 1996 £	1997 £	The company 1996 £
Bank loans and overdrafts	8,883	236,032	-	230,348
Payments on account	1,050,837	828,404	-	-
Trade creditors	1,092,597	1,151,095	-	-
Amounts owed to group undertakings	-	-	322,392	93,543
Corporation tax	437,878	325,422	86,598	40,625
Social security and other taxes	110,333	44,237	-	-
Other creditors	73,354	76,156	1,768	1,768
Proposed dividends	210,000	-	210,000	-
Accruals	347,839	171,012	-	-
Amounts due under hire purchase contracts	13,399	17,796	-	-
	<u>£3,345,120</u>	<u>£2,850,154</u>	<u>£620,758</u>	<u>£366,284</u>

The group bank loans and overdrafts are secured by composite guarantees and debentures giving charges over the assets of some of the subsidiary undertakings.

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

12 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1997 £	The group 1996 £	1997 £	The company 1996 £
Bank loans	156,133	160,204	-	-
Amounts due under hire purchase contracts	5,969	20,224	-	-
	<u>£162,102</u>	<u>£180,428</u>	<u>£-</u>	<u>£-</u>

13 BORROWINGS

Borrowings are repayable as follows:

	1997 £	The group 1996 £	1997 £	The company 1996 £
Within one year				
Bank loans and overdrafts	8,883	236,032	-	230,348
Hire purchase contracts	13,399	17,796	-	-
After one and within two years				
Bank loans	156,133	160,204	-	-
Hire purchase contracts	5,969	20,224	-	-
	<u>£184,384</u>	<u>£434,256</u>	<u>£-</u>	<u>£230,348</u>

14 PROVISIONS FOR LIABILITIES AND CHARGES

The group

	Investment in Material Control BV £	Other provisions £	Total £
At 1 January 1997	-	466,122	466,122
Charge/(released) during year	-	(112,883)	(112,883)
Exchange movement in the year	-	3,214	3,214
Acquired	7,283	-	7,283
At 31 December 1997	<u>£7,283</u>	<u>£356,453</u>	<u>£363,736</u>

Other provisions relate to warranty provisions and provisions for remedial work.

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

15 DEFERRED TAXATION

Deferred taxation is fully provided for in these financial statements and is set out below:

	1997 £	The group 1996 £	1997 £	The company 1996 £
Accelerated capital allowances	35,000	26,000	-	-
Other timing differences	(35,000)	(26,000)	-	-
	<u>£-</u>	<u>£-</u>	<u>£-</u>	<u>£-</u>

16 SHARE CAPITAL

	1997 £	1996 £
Authorised		
1,000,000 ordinary shares of £1 each	1,000,000	1,000,000
1,000,000 9% preference shares of £1 each	1,000,000	1,000,000
	<u>£2,000,000</u>	<u>£2,000,000</u>
Allotted, called up and fully paid		
365,573 'A' ordinary shares of £1 each	363,573	363,573
317,927 'B' ordinary shares of £1 each	317,927	317,927
268,500 'C' ordinary shares of £1 each	268,500	268,500
50,000 'D' ordinary shares of £1 each	50,000	50,000
521,341 (1996: 1,000,000) 9% preference shares of £1 each	521,341	1,000,000
478,659 (1996: nil) 10% preference shares of £1 each	478,659	-
	<u>£2,000,000</u>	<u>£2,000,000</u>

During the year, as part of a clause for compensation for termination of contract, the owner of 478,659 preference shares became entitled to a preference dividend calculated at 10% instead of 9% from the date of termination.

The preference shares are non-equity shares which carry an entitlement to a dividend at the rates of 10p (net) and 9p (net) per share per annum. Holders of preference shares have one vote for every share held but only on a resolution for the winding up of the company or on a resolution affecting the rights attached to their shares. Preference shareholders have a right on winding-up to receive, in priority to any other class of shares, the sum of £1 per share together with any arrears of dividend.

Each class of ordinary share carries equal rights except that prior to a Listing of the company any distribution of profits shall be made first to the holders of 'A' shares then to holders of 'B' and 'C' shares equally and finally to holders of 'D' shares.

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

17 RESERVES

The group	Profit and loss account £	Other Reserves £	Total £
At 1 January 1997	1,078,399	(1,961,224)	(882,825)
Retained profit for the year	421,411	-	421,411
Exchange difference arising on consolidation	1,459	-	1,459
At 31 December 1997	<u>£1,501,269</u>	<u>£(1,961,224)</u>	<u>£(459,955)</u>

Other reserves comprise goodwill arising on consolidation.

The company	Profit and loss account £
At 1 January 1997	350,109
Profit for the financial year	253,769
At 31 December 1997	<u>£603,878</u>

18 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

The group	1997 £	1996 £
Profit for the financial period	723,804	483,466
Dividends	(302,393)	(230,000)
	<u>421,411</u>	<u>253,466</u>
Exchange difference arising on consolidation	1,459	(9,594)
Increase in shareholders' funds	<u>422,870</u>	<u>243,872</u>
Shareholders' funds at 1 January 1997	1,117,175	873,303
Shareholders' funds at 31 December 1997	<u>£1,540,045</u>	<u>£1,117,175</u>

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 1997

19 NET CASH INFLOW FROM OPERATING ACTIVITIES**The group**

	1997	1996
	£	£
Operating profit	969,352	737,348
Share of profits of associated undertaking	(12,000)	(45,900)
Share of losses of joint venture	23,299	-
Dividends from associated undertaking	20,518	-
Depreciation and amortisation	178,041	192,837
Loss on disposal of interest in subsidiary undertaking	-	1,711
Decrease in stocks	66,487	466,633
(Increase)/Decrease in debtors	(405,990)	619,516
Increase/(Decrease) in creditors	422,699	(1,561,110)
(Decrease)/Increase in provisions	(112,883)	132,986
Effect of foreign exchange rate changes	(3,912)	16,854
Net cash inflow from operating activities	<u>£1,145,611</u>	<u>£560,875</u>

20 RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET DEBT**The group**

	1997	1996
	£	£
Increase/(decrease) in cash in the year	878,272	(343,939)
Cash outflow/(inflow) from financing	5,463	(165,888)
Cash outflow from hire purchase contracts	18,652	2,465
Change in net debt resulting from cash flows	<u>902,387</u>	<u>(507,362)</u>
Inception of hire purchase contracts	-	(40,485)
Effect of foreign exchange changes	(482)	(6,212)
Disposal of subsidiary undertaking	-	(62,763)
Movement in net debt in the year	<u>901,905</u>	<u>(616,822)</u>
Net debt at 1 January 1997	(287,308)	329,514
At 31 December 1997	<u>£614,597</u>	<u>£(287,308)</u>

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 1997

21 ANALYSIS OF CASH AND CASH EQUIVALENTS**The group**

	At 1 January 1997 £	Cash flow £	Exchange movement £	At 31 December 1997 £
Cash at bank and in hand	146,948	650,539	1,494	798,981
Bank overdraft	(230,348)	227,733	-	(2,615)
	<u>(83,400)</u>	<u>878,272</u>	<u>1,494</u>	<u>796,366</u>
Debt	(165,888)	5,463	(1,976)	(162,401)
Hire purchase contracts	(38,020)	18,652	-	(19,368)
	<u>£(287,308)</u>	<u>£902,387</u>	<u>£(482)</u>	<u>£614,597</u>

22 MAJOR NON-CASH TRANSACTIONS

During the year the group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £nil (1996: £40,485).

23 CAPITAL COMMITMENTS

The group is committed to buying capital equipment for £5,500 and exhibition equipment for £19,816 at 31 December 1997 (1996: £nil).

24 CONTINGENT LIABILITIES

There were group contingent liabilities in respect of bank bonds and indemnities, all with recourse, amounting to £433,956 at 31 December 1997 (1996: £663,506).

The company had no contingent liabilities at 31 December 1997 or at 31 December 1996.

MATCON GROUP PLC AND ITS SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1997

25 LEASING COMMITMENTS

Operating lease payments of the group of £160,033 (1996: £82,040) are due within one year. The leases to which these amounts relate expire as follows:

The group

	1997 Land & buildings £	1996 Land & buildings £
Between one and five years	69,533	24,540
In five years or more	90,500	57,500
	<u>£160,033</u>	<u>£82,040</u>

The company had no operating lease payment commitments.

26 PENSIONS

Defined contribution scheme

The group operates a defined contribution pension scheme for the benefit of the employees. The assets of the scheme are administered by trustees in a fund independent from those of the group.

27. TRANSACTIONS WITH RELATED PARTIES

At the 31 December 1997 the company was owed £4,126 (1996: £210,663) from Matcon Sarl, an associated undertaking, and £36,494 from Material Control BV, a joint venture.

Nigel Weaver, a director of this company, is a director of GMP (Banbury) Limited one of the company's suppliers. At 31 December 1997 the company owed GMP (Banbury) Limited £16,935 and during the year had purchased goods of £719,861 from that entity.