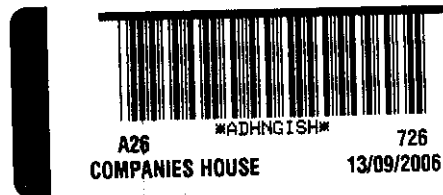


Company Registration No. 2939693 (England and Wales)

MATCON GROUP LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005



MATCON GROUP LIMITED

DIRECTORS AND ADVISERS

Directors	Sir John Aird C Lee J Thompson P Cooper D Drew D Dugdale P Slee-Smith
Secretary	J Thompson
Company number	2939693
Registered office	Matcon House, London Road Moreton-in-Marsh Glos GL56 0HJ
Registered auditors	Hazlewoods LLP Windsor House Barnett Way Barnwood Gloucester GL4 3RT
Bankers	Lloyds Bank Plc Ley Court, Barnett Way Gloucester GL4 3RT
Solicitors	Charles Russell Compass House Lypiatt Road Cheltenham GL50 2QJ

MATCON GROUP LIMITED

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MATCON GROUP LIMITED

DIRECTORS' REPORT

for the year ended 31 December 2005

The directors present their report and financial statements for the year ended 31 December 2005.

Directors

The following directors have held office since 1 January 2005:

Sir John Aird

C Lee

J Thompson

P Cooper

D Drew

D Dugdale

P Slee-Smith

P G Austen

(Resigned 5 August 2005)

Principal activities and review of the business

The principal activity of the company continued to be that of a holding company.

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

During the year, for reasons associated with their investment life-cycle, the Third Private Equity Fund decided to sell their shares and realise their investment. We are delighted to advise that all of the shares involved have been acquired by a group of Directors and Management of the Company.

2005 was a difficult year for the Group owing to the sustained low level of capital project expenditure by the major Pharmaceutical companies due to the background of drug withdrawals, mega-mergers, over capacity and cutbacks in that sector of the market. Consequently we saw a drop in overall level of business. Turnover was reduced from just over £13.1 million to just over £12.5 million.

The Company's drive into "systems" business has been very successful with significant "turnkey" projects won in the food and metal powders sectors. These projects will be completed and brought on line during 2006 and will provide excellent references for future similar business. We have also established some very good partnerships with market leading organizations in their own right, which provide our customers with "best of breed" integrated solutions.

The Company also continued our Research, Development and Test programmes and as a result have several exciting new developments coming on line during 2006 that will keep us at the forefront of the market.

We continue to serve the market through our own subsidiaries in USA, Europe, Japan and Australia. During 2006 the Group will expand into China and India, both exciting emerging markets.

The Directors continue to focus on the Gross Margin achieved rather than turnover or Gross Margin percentage because different types of work command different gross margins. The absolute gross margin achieved in 2005 declined because of lower volume and the Gross Margin percentage also declined because of two very large jobs with a substantial bought in content which commanded a lower gross margin percentage but this still represents a good performance in a difficult market.

The Company's administrative expenses reduced by just over £250,000 as a result of careful management of overheads, improved efficiency and value for money from goods and service providers, however this was not sufficient to offset the reduction in turnover and the result for the year was a loss of £151,372.

MATCON GROUP LIMITED

DIRECTORS' REPORT (CONTINUED) for the year ended 31 December 2005

Review of the business (continued)

The Directors recognize the "peaks and troughs" profile of our "project" business and are encouraged by the strong underlying performance of the Company. Continuing healthy order intake, recent new key appointments and good prospects in all market sectors means the Company is confidently forecasting a return to profitability in 2006.

Group research and development activities

The group continues to develop its product range through its subsidiary undertaking, Matcon (R&D) Limited. During the year, the group has continued to make excellent improvements to expand its product range.

Directors' interests

The directors' beneficial interests in the shares of the company were as stated below:

Matcon Group Limited

	Ordinary shares of £ 1 each	
	31 December 2005	1 January 2005
Sir John Aird	381,865	347,385
C Lee	109,865	50,000
J Thompson	53,333	23,400
P Cooper	35,564	19,600
D Drew	38,515	18,560
D Dugdale	71,100	71,100
P Slee-Smith	19,955	-

	Preference shares of £ 1 each	
	31 December 2005	1 January 2005
Sir John Aird	484,659	484,659
C Lee	-	-
J Thompson	-	-
P Cooper	-	-
D Drew	-	-
D Dugdale	-	-
P Slee-Smith	-	-

Each of the following directors have been granted options in respect of 10,000 ordinary shares each :

C Lee
P Cooper
J Thompson
D Drew

The options are exercisable at a price of £4.10 and can be exercised at any time between 1 January 2001 and 27 November 2008. No options were exercised during the year.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Hazlewoods LLP be reappointed as auditors of the company will be put to the Annual General Meeting.

MATCON GROUP LIMITED

DIRECTORS' REPORT (CONTINUED) for the year ended 31 December 2005

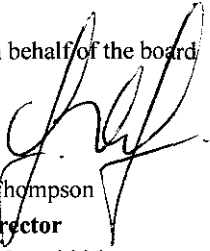
Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of 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 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 company and the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board



J Thompson

Director

21 June 2006

MATCON GROUP LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MATCON GROUP LIMITED

We have audited the financial statements of Matcon Group Limited on pages 5 to 27 for the year ended 31 December 2005. These financial statements have been prepared under the historical cost convention and the accounting policies set out herein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed. We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and 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 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's and the group's affairs as at 31 December 2005 and of the group's loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.



Hazlewoods LLP

Chartered Accountants

Registered Auditor

21 June 2006

Windsor House
Barnett Way
Barnwood
Gloucester
GL4 3RT

MATCON GROUP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 December 2005

		2005	2004
			as restated
			(see note 3)
	Notes	£	£
Turnover	2	12,519,534	13,172,838
Cost of sales		(7,539,256)	(7,552,918)
Gross profit		4,980,278	5,619,920
Administrative expenses		(5,125,297)	(5,378,000)
Other operating income		-	22,299
Operating (loss)/profit	3	(145,019)	264,219
Other interest receivable and similar income		4,883	4,312
Interest payable and similar charges	4	(37,924)	(69,635)
(Loss)/profit on ordinary activities before taxation		(178,060)	198,896
Tax on (loss)/profit on ordinary activities	6	26,688	(101,989)
(Loss)/profit on ordinary activities after taxation		(151,372)	96,907
Dividends	8	(43,620)	(43,620)
Retained (loss)/profit for the year	19	(194,992)	53,287

The profit and loss account has been prepared on the basis that all operations are continuing operations.

MATCON GROUP LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 December 2005

	2005	2004
	£	£
(Loss)/profit for the financial year	(151,372)	96,907
Currency translation differences on foreign currency net investments	35,374	(12,487)
Total recognised gains and losses relating to the year	<u>(115,998)</u>	<u>84,420</u>

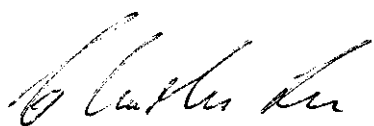
MATCON GROUP LIMITED

BALANCE SHEETS

as at 31 December 2005

		Group		Company	
		2005	2004	2005	2004
	Notes	£	£	£	£
Fixed assets					
Intangible assets	9	514,934	597,254	-	-
Tangible assets	10	628,294	602,986	-	-
Investments	11	-	-	2,000,000	2,000,000
		<u>1,143,228</u>	<u>1,200,240</u>	<u>2,000,000</u>	<u>2,000,000</u>
Current assets					
Stocks and work in progress	12	480,732	633,001	-	-
Debtors	13	2,999,277	2,947,917	588,692	588,675
Cash at bank and in hand		291,138	261,940	105	-
		<u>3,771,147</u>	<u>3,842,858</u>	<u>588,797</u>	<u>588,675</u>
Creditors: amounts falling due within one year	14	(3,252,971)	(3,198,451)	(213,492)	(169,750)
Net current assets		<u>518,176</u>	<u>644,407</u>	<u>375,305</u>	<u>418,925</u>
Total assets less current liabilities		<u>1,661,404</u>	<u>1,844,647</u>	<u>2,375,305</u>	<u>2,418,925</u>
Creditors: amounts falling due after more than one year	15	(96,733)	(96,618)	-	-
Provisions for liabilities and charges	16	(176,573)	(192,813)	-	-
		<u>1,388,098</u>	<u>1,555,216</u>	<u>2,375,305</u>	<u>2,418,925</u>
Capital and reserves					
Called up share capital	18	1,484,659	1,484,659	1,484,659	1,484,659
Capital redemption reserve	19	515,341	515,341	515,341	515,341
Interest in own shares	19	(315,579)	(308,079)	-	-
Profit and loss account	19	(296,323)	(136,705)	375,305	418,925
Shareholders' funds - equity interests	20	<u>1,388,098</u>	<u>1,555,216</u>	<u>2,375,305</u>	<u>2,418,925</u>

The financial statements were approved by the board on 21 June 2006



C Lee
Director



Sir John Aird
Director

MATCON GROUP LIMITED

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 December 2005

	2005 £	2004 £
Net cash inflow from operating activities	527,495	858,908
Returns on investments and servicing of finance		
Interest received	4,883	4,312
Interest paid	(30,854)	(64,624)
Interest element of hire purchase payments	(7,070)	(5,011)
Net cash outflow for returns on investments and servicing of finance	(33,041)	(65,323)
Taxation	(102,748)	9,923
Capital expenditure		
Payments to acquire intangible assets	(24,721)	(30,517)
Payments to acquire tangible assets	(164,676)	(151,955)
Receipts from sales of tangible assets	450	1,912
Net cash outflow for capital expenditure and financial investment	(188,947)	(180,560)
Dividends	(43,620)	(43,620)
Net cash inflow before financing	159,139	579,328
Financing		
Shares purchased by Employee Benefit Trust	(7,500)	(4,600)
Repayment of long term bank loan	(10,825)	(10,665)
Capital element of finance lease contracts	(27,441)	(22,681)
Net cash outflow from financing	(45,766)	(37,946)
Increase in cash in the year	113,373	541,382

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 December 2005

1	Reconciliation of operating (loss)/profit to net cash inflow from operating activities	2005	2004
		£	£
	Operating (loss)/profit	(145,019)	264,219
	Depreciation of tangible assets	203,537	214,210
	Amortisation of intangible assets	109,913	123,927
	Loss/(profit) on disposal of tangible assets	954	(94)
	Decrease in stocks	108,097	183,989
	Decrease in debtors	147,295	859,312
	Increase/(decrease) in creditors and provisions	102,718	(786,655)
	Net cash inflow from operating activities	527,495	858,908

2	Analysis of net debt	1 January 2005	Cash flow	Other non-cash changes	31 December 2005
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	261,940	19,904	9,294	291,138
	Bank overdrafts	(332,430)	93,469	-	(238,961)
		(70,490)	113,373	9,294	52,177
	Debt:				
	Finance leases	(40,246)	27,441	(35,582)	(48,387)
	Bank loans	(85,970)	10,825	(9,421)	(84,566)
		(126,216)	38,266	(45,003)	(132,953)
	Net debt	(196,706)	151,639	(35,709)	(80,776)

Non-cash changes relate to foreign exchange differences and new finance leases.

3	Reconciliation of net cash flow to movement in net debt	2005	2004
		£	£
	Increase in cash in the year	113,373	541,382
	Cash outflow from decrease in debt	38,266	33,346
	Net effect of foreign exchange differences	(464)	(12,646)
	New finance leases	(35,245)	(16,862)
	Movement in net debt in the year	115,930	545,220
	Opening net debt	(196,706)	(741,926)
	Closing net debt	(80,776)	(196,706)

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS for the year ended 31 December 2005

1 Accounting policies

1.1 Accounting convention

The financial statements have been prepared under the historical cost convention, adopting the following principal accounting policies all of which are in accordance with applicable Accounting Standards.

The group has control of the Matcon Group Limited Employee Benefit Trust. The assets and liabilities of the Trust are included within the consolidated financial statements in accordance with Urgent Issues Task Force Abstract Number 38.

1.2 Basis of consolidation

The group financial statements consolidate those of the company and its subsidiary undertakings drawn up to 31 December 2005. Profits or losses on intra-group transactions are eliminated in full.

As a matter of accounting policy, goodwill arising on consolidation first accounted for in accounting periods ending before 23 December 1998, the implementation date of Financial Reporting Standard Number 10, was written off to reserves on acquisition. Such goodwill will be charged or credited to the profit and loss account on the subsequent disposal of the business to which it relates.

Goodwill arising on consolidation in respect of periods after that noted above, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, has been capitalised and amortised on a straight line basis over its estimated useful life. Any future acquisitions arising will be treated in the same way.

1.3 Turnover

On jobs not considered to be long-term contracts, turnover represents the amounts excluding value added tax receivable during the year for goods and services supplied.

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs to date bear to total expected costs for that contract.

1.4 Goodwill

Purchased goodwill, including that attributable to the acquisition of subsidiary and associated undertakings, is capitalised and written off over a period of 20 years. This period is considered by the directors to be its useful economic life.

1.5 Patents

Patents are valued at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal annual instalments over their estimated useful lives of 10 years.

1.6 Research and development

Expenditure on research and development is written off in the year in which it is incurred.

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2005

1 Accounting policies

(continued)

1.7 Tangible fixed assets and depreciation

Depreciation is calculated to write off the cost less estimated residual value of tangible assets over their estimated useful lives at the following rates:

Freehold buildings	Over 39 years
Leasehold buildings	Over the period of the lease
Plant and machinery	10% to 25% of cost per annum
Fixtures, fittings & equipment	25% of cost per annum
Motor vehicles	25% of cost per annum

1.8 Leasing

Assets acquired under hire purchase and finance leases are recorded in the balance sheet as tangible fixed assets at their equivalent capital value. The corresponding liability is included under creditors due within or after one year. The interest element is charged to profit and loss account and represents a constant proportion of the balance of capital repayments outstanding.

The cost of and income from operating leases is respectively charged and credited to the profit and loss account on a straight line basis over the lease term.

1.9 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

1.10 Stock and work in progress

Stock and work in progress are valued at the lower of cost and net realisable value. Cost is represented by direct materials and labour together with attributable amounts of fixed and variable overheads incurred in bringing each product to its present location and condition. Net realisable value is estimated selling price less further costs to completion and disposal.

1.11 Long term contracts

Profit from long term contracts is taken to the profit and loss account as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated to reflect the proportion of the work carried out at the year end by recording turnover and related costs as contract activity progresses.

Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen. Long term contract work in progress is shown at net cost after deducting foreseeable losses and payments on account.

1.12 Pensions

The group operates defined contribution pension schemes. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the schemes.

1.13 Deferred taxation

In accordance with Financial Reporting Standard (FRS) 19 Deferred Tax, full provision is made for deferred tax arising from timing differences between the differing treatment of certain items for taxation and accounting purposes. The provision is calculated at the rates of taxation at which it is estimated the liability will arise and is not discounted. No provision is made in respect of timing differences arising from the sale or revaluation of fixed assets unless there is a commitment to the disposal of the assets at the balance sheet date. Deferred tax assets are recognised only to the extent that the directors consider there to be suitable taxable profits from which the underlying timing differences can be deducted.

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2005

1 Accounting policies

(continued)

1.14 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date, or if appropriate at the forward contract rate. Non-monetary assets denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of acquisition of the assets. Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction, or at the contracted rate if the transaction is covered by a forward exchange contract. All revaluation differences and realised foreign exchange differences are taken to the profit and loss account.

The financial statements of consolidated overseas subsidiary undertakings are translated using the rate of exchange ruling at the balance sheet date for balance sheet items, and the average exchange rate in the year for profit and loss account items. The exchange difference arising from the translation of the profit and loss account at average rate rather than closing rate is taken to reserves. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves. All other translation differences are taken to the profit and loss account.

2 Turnover

The total turnover of the group for the year has been derived from its principal activity.

Segmental analysis by geographical area

The analysis by geographical area of the group's turnover is set out as below:

	2005	2004
	£	£
Geographical segment		
UK	3,027,220	1,563,620
European Union	3,347,123	4,588,680
USA	1,601,985	2,007,406
Rest of the World	4,543,206	5,013,132
	<u>12,519,534</u>	<u>13,172,838</u>

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2005

3	Operating (loss)/profit	2005 £	2004 £
	Operating (loss)/profit is stated after charging:		
	Depreciation of intangible assets	109,913	123,927
	Depreciation of tangible assets	203,537	214,210
	Research and development	212,772	208,894
	Operating lease rentals		
	- Other assets	43,564	71,348
	- Land and buildings	155,736	154,913
	Auditors' remuneration (company £1,500; 2004 : £1,500)	34,045	32,046
	Remuneration of auditors for non-audit work	40,896	30,538

During the year, the directors reviewed the allocation of certain expenses included within administrative expenses and decided that, in order to show a more true and fair view of gross profit, certain expenses should be shown in cost of sales. The comparatives have therefore been restated, with the result being an increase in cost of sales of £997,281 and a reduction in administrative expenses of the same amount.

4	Interest payable	2005 £	2004 £
	On bank loans and overdrafts	30,854	63,616
	Lease finance charges	7,070	5,011
	Other interest	-	1,008
		37,924	69,635

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2005

5	Directors and employees	2005 £	2004 £
	Directors' emoluments		
	Emoluments for qualifying services	440,687	447,295
	Pension contributions to defined contribution schemes	35,278	39,058
		<u>475,965</u>	<u>486,353</u>

The number of directors for whom retirement benefits are accruing under defined contribution pension schemes amounted to 5 (2004- 5).

Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	95,769	98,431
Pension contributions to defined contribution schemes	9,476	9,246
	<u>95,769</u>	<u>98,431</u>

Number of employees

The average monthly number of employees (including directors) during the year was:

	2005 Number	2004 Number
Production and sales	74	81
Office and management	41	48
	<u>115</u>	<u>129</u>

Employment costs

	£	£
Wages and salaries	3,526,165	3,669,129
Social security costs	344,413	391,466
Other pension costs	181,691	189,646
	<u>4,052,269</u>	<u>4,250,240</u>

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2005

6 Taxation

	£	£
Domestic current year tax		
U.K. corporation tax	8,771	59,627
Adjustment for prior years	(312)	14,098
	<u>8,459</u>	<u>73,725</u>
Foreign corporation tax		
Foreign corporation tax	9,529	22,082
Adjustment for prior years	-	8,075
	<u>9,529</u>	<u>30,157</u>
Current tax charge	<u>17,988</u>	<u>103,882</u>
Deferred tax		
Current year deferred tax credit	(44,676)	(1,893)
	<u>(26,688)</u>	<u>101,989</u>
Factors affecting the tax charge for the year		
(Loss)/profit on ordinary activities before taxation	<u>(178,060)</u>	<u>198,896</u>
(Loss)/profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2004: 30.00%)	<u>(53,418)</u>	<u>59,669</u>
Effects of:		
Non deductible expenses	8,530	15,263
Excess of depreciation over capital allowances	32,777	45,071
Withholding tax suffered on overseas royalties	15,343	-
Tax losses utilised	(6,854)	(28,243)
Tax losses carried forward to future periods	46,090	21,204
Adjustments to previous periods	(312)	22,173
Adjustment for profits taxed at different rates	(507)	1,253
ACT set off	-	(1,720)
Short term timing differences	5,973	-
Other tax adjustments	(29,634)	(30,788)
	<u>71,406</u>	<u>44,213</u>
Current tax charge	<u>17,988</u>	<u>103,882</u>

Other tax adjustments above relate to enhanced credits for research and development costs.

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2005

7 Profit for the financial year

As permitted by section 230 of the Companies Act 1985, the company's profit and loss account has not been included in these financial statements. The group profit for the financial year includes a profit before dividends of £Nil (2004 : £Nil) dealt with in the profit and loss account of the company.

8 Dividends	2005 £	2004 £
Dividends paid on preference shares	43,620	43,620

9 Intangible fixed assets Group

	Patents £	Goodwill £	Total £
Cost			
At 1 January 2005	1,292,706	198,397	1,491,103
Exchange differences	-	4,031	4,031
Additions	24,721	-	24,721
At 31 December 2005	1,317,427	202,428	1,519,855
Amortisation			
At 1 January 2005	848,313	45,536	893,849
Exchange differences	-	1,159	1,159
Charge for the year	99,791	10,122	109,913
At 31 December 2005	948,104	56,817	1,004,921
Net book value			
At 31 December 2005	369,323	145,611	514,934
At 31 December 2004	444,393	152,861	597,254

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2005

10 Tangible fixed assets Group

	Freehold land and buildings	Short leasehold land and buildings	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£	£	£
Cost						
At 1 January 2005	262,354	206,832	1,007,909	1,242,581	94,411	2,814,087
Exchange differences	30,696	-	25,036	29,891	983	86,606
Additions	-	-	145,883	18,793	35,245	199,921
Disposals	-	-	(64,718)	(135,254)	(7,750)	(207,722)
At 31 December 2005	293,050	206,832	1,114,110	1,156,011	122,889	2,892,892
Depreciation						
At 1 January 2005	62,397	204,473	786,571	1,095,095	62,564	2,211,100
Exchange differences	7,301	-	25,451	23,165	362	56,279
On disposals	-	-	(64,718)	(133,850)	(7,750)	(206,318)
Charge for the year	7,445	1,224	128,424	48,022	18,422	203,537
At 31 December 2005	77,143	205,697	875,728	1,032,432	73,598	2,264,598
Net book value						
At 31 December 2005	215,907	1,135	238,382	123,579	49,291	628,294
At 31 December 2004	199,957	2,358	221,338	147,486	31,847	602,986

Included above are assets held under finance leases or hire purchase contracts as follows:

	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£
Net book values				
At 31 December 2005	-	21,330	37,044	58,374
At 31 December 2004	-	32,668	13,447	46,115
Depreciation charge for the year				
31 December 2005	-	13,101	7,113	20,214
31 December 2004	-	8,528	7,078	15,606

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2005

11 Fixed asset investments

Company

Shares in
subsidiary
undertakings
£

Cost

At 1 January 2005 & at 31 December 2005

2,000,000

In the opinion of the directors, the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies:

Company	Country of registration or incorporation	Shares held	
		Class	%
Subsidiary undertakings			
Matcon (Reconstruction) 1995 Limited	England and Wales	Ordinary	100
Matcon (Trustee Company) Limited	England and Wales	Ordinary	100
Matcon (R&D) Limited	England and Wales	Ordinary	100
Matcon Limited	England and Wales	Ordinary/preference	100
Matcon Overseas Limited	England and Wales	Ordinary	100
Matcon USA Inc	USA	Common stock	100
Material Control BV	Netherlands	Ordinary	100
Matcon Pacific Pty Limited	Australia	Ordinary	100
Matcon GmbH	Germany	Ordinary	100
Matcon Sarl	France	Ordinary	100
Matcon Japan KK	Japan	Ordinary	100

The principal activity of these undertakings for the last relevant financial year was as follows:

	Principal activity
Matcon (Reconstruction) 1995 Limited	Provision of management services
Matcon (Trustee Company) Limited	Trustee of Employee share ownership trust
Matcon (R&D) Limited	Management of patents and royalties, research and development
Matcon Limited	Design, engineering and supply of powder handling systems
Matcon Overseas Limited	Holding company
Matcon USA Inc	Design, engineering and supply of powder handling systems
Material Control BV	Sale of powder handling systems
Matcon Pacific Pty Limited	Design, engineering and supply of powder handling systems
Matcon GmbH	Sale of powder handling systems
Matcon Sarl	Sale of powder handling systems
Matcon Japan KK	Sale of powder handling systems

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2005

12 Stocks and work in progress

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Raw materials and consumables	241,275	286,935	-	-
Work in progress	574,449	422,042	-	-
Less : payments on account	(334,992)	(75,976)	-	-
	<u>480,732</u>	<u>633,001</u>	<u>-</u>	<u>-</u>

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2005

13 Debtors

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Trade debtors	2,213,305	2,272,804	-	-
Amounts recoverable on long term contracts	191,279	114,764	-	-
Amounts owed by group undertakings	-	-	588,562	588,575
Corporation tax	58,215	21,533	-	-
Other debtors	325,920	332,034	130	100
Prepayments and accrued income	158,068	203,253	-	-
Deferred tax asset	52,490	3,529	-	-
	<u>2,999,277</u>	<u>2,947,917</u>	<u>588,692</u>	<u>588,675</u>

Deferred tax

	Group	Company
	2005	2005
	£	£
Balance at 1 January 2005	3,529	-
Exchange differences	4,285	-
Profit and loss account	44,676	-
Balance at 31 December 2005	<u>52,490</u>	<u>-</u>

Deferred taxation provided in the financial statements is as follows:

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Accelerated capital allowances	(36,112)	(55,614)	-	-
Other timing differences	55,225	41,538	-	-
Tax losses available	33,377	17,605	-	-
	<u>52,490</u>	<u>3,529</u>	<u>-</u>	<u>-</u>

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2005

14 Creditors : amounts falling due within one year

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Bank loans and overdrafts	250,320	342,599	-	10,059
Payments received on account	554,617	583,792	-	-
Net obligations under finance lease and hire purchase contracts	24,861	19,429	-	-
Trade creditors	1,364,576	1,412,937	-	-
Amounts owed to group undertakings	-	-	209,980	156,179
Corporation tax	13,125	76,547	-	-
Taxes and social security costs	169,785	143,527	-	-
Other creditors	26,867	33,341	3,512	3,512
Accruals and deferred income	848,820	586,279	-	-
	<u>3,252,971</u>	<u>3,198,451</u>	<u>213,492</u>	<u>169,750</u>

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

Bank guarantees have been given by the group in respect of certain payments billed on account, which represents advance payments by customers against orders placed. The directors are of the opinion that the contracts will be satisfactorily completed, and that the amounts will not become repayable.

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2005

15 Creditors : amounts falling due after more than one year

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Bank loans	73,207	75,801	-	-
Net obligations under finance leases and hire purchase agreements	23,526	20,817	-	-
	<u>96,733</u>	<u>96,618</u>	<u>-</u>	<u>-</u>
Analysis of loans				
Not wholly repayable within five years by instalments:				
Bank loan	84,566	85,970	-	-
Included in current liabilities	(11,359)	(10,169)	-	-
	<u>73,207</u>	<u>75,801</u>	<u>-</u>	<u>-</u>
Instalments not due within five years	<u>27,773</u>	<u>35,127</u>	<u>-</u>	<u>-</u>
Loan maturity analysis				
In more than one year but not more than two years	11,359	10,169	-	-
In more than two years but not more than five years	34,076	30,505	-	-
In more than five years	<u>27,773</u>	<u>35,127</u>	<u>-</u>	<u>-</u>
Net obligations under finance leases and hire purchase contracts				
Repayable within one year	24,861	19,429	-	-
Repayable between one and five years	23,526	20,817	-	-
	<u>48,387</u>	<u>40,246</u>	<u>-</u>	<u>-</u>
Included in liabilities falling due within one year	(24,861)	(19,429)	-	-
	<u>23,526</u>	<u>20,817</u>	<u>-</u>	<u>-</u>

The bank loan is repayable in 60 monthly instalments of \$2,853 (£1,660 at year end rate of exchange) and 120 additional instalments payable at 1.5% above the bank's prime interest rate. The bank reserves the right to recall the loan on 30 May 2006.

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2005

16 Provisions for liabilities and charges

Group

	Warranty provision £
Balance at 1 January 2005	192,813
Profit and loss account	(19,867)
Exchange difference	3,627
	<hr/>
Balance at 31 December 2005	176,573
	<hr/>

17 Pension costs

The group operates defined contribution pension schemes. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The total amounts of contributions in the year can be found in note 5.

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2005

18 Share capital	2005 £	2004 £
Authorised		
1,000,000 Ordinary shares of £1 each	1,000,000	1,000,000
1,000,000 Preference shares of each	1,000,000	1,000,000
	<u>2,000,000</u>	<u>2,000,000</u>
Allotted, called up and fully paid		
1,000,000 Ordinary shares of £1 each	1,000,000	1,000,000
484,659 Preference shares of each	484,659	484,659
	<u>1,484,659</u>	<u>1,484,659</u>

The ordinary shares are classified as follows :

'A' ordinary shares - 363,573

'B' ordinary shares - 317,927

'C' ordinary shares - 268,500

'D' ordinary shares - 50,000

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

The preference shares carry entitlement to a dividend at the rate of 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 the 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 dividends.

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2005

19 Statement of movements on reserves Group

	Interest in own shares	Capital redemption reserve	Profit and loss account
	£	£	£
Balance at 1 January 2005	(308,079)	515,341	(136,705)
Retained loss for the year	-	-	(194,992)
Foreign currency translation differences	-	-	35,374
Shares purchased by Employee Benefit Trust	(7,500)	-	-
Balance at 31 December 2005	<u>(315,579)</u>	<u>515,341</u>	<u>(296,323)</u>

Employee Benefit Trust

The employee share scheme set up under the trust holds sufficient ordinary shares in Matcon Group Limited to meet potential obligations under the scheme. Shares are held in a trust until such time as they may be transferred to employees in accordance with the terms of the scheme. Surplus shares may be held to satisfy future awards. At 31 December 2005 the trust held a total of 98,048 (2004 : 95,548) shares. The total amount deducted from reserves relating to the shares in the Company held by the trust is £315,579 (2004 : £308,079).

Company

	Capital redemption reserve	Profit and loss account
	£	£
Balance at 1 January 2005	515,341	418,925
Retained loss for the year	-	(43,620)
Balance at 31 December 2005	<u>515,341</u>	<u>375,305</u>

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2005

20 Reconciliation of movements in shareholders' funds	2005	2004
Group	£	£
(Loss)/Profit for the financial year	(151,372)	96,907
Dividends	(43,620)	(43,620)
	(194,992)	53,287
Foreign currency translation differences	35,374	(12,487)
Shares purchased by Employee Benefit Trust	(7,500)	(4,600)
	(167,118)	36,200
Net (depletion in)/addition to shareholders' funds	(167,118)	36,200
Opening shareholders' funds	1,555,216	1,519,016
Closing shareholders' funds	1,388,098	1,555,216
	2005	2004
Company	£	£
Loss for the financial year	-	-
Dividends	(43,620)	(43,620)
	(43,620)	(43,620)
Net depletion in shareholders' funds	(43,620)	(43,620)
Opening shareholders' funds	2,418,925	2,462,545
Closing shareholders' funds	2,375,305	2,418,925

21 Financial commitments

At 31 December 2005 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2005	2004	2005	2004
	£	£	£	£
Expiry date:				
Within one year	-	-	12,774	31,021
Between two and five years	119,748	119,748	27,683	50,525
	119,748	119,748	40,457	81,546

22 Control

Both the group and the company are controlled by the directors as noted on page 1 of the financial statements.

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) **for the year ended 31 December 2005**

23 Related party transactions

Group

During the year the Group paid rent of £63,500 (2004 : £63,500) in respect of Matcon House. The landlord of the property is a pension fund in which Sir John Aird is the sole member.