

**MATCON GROUP LIMITED AND ITS  
SUBSIDIARY UNDERTAKINGS  
(FORMERLY MATCON GROUP PLC)**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**31 DECEMBER 1999**



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Company no 2939693

**MATCON GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS  
(FORMERLY MATCON GROUP PLC)**

**FINANCIAL STATEMENTS**

For the year ended 31 December 1999

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Company registration number: 2939693

Registered office: Matcon House  
London Road  
Moreton-in-Marsh  
Gloucestershire  
GL56 0JH

Directors: Sir John Aird  
C Lee  
P Cooper  
M Bailey  
J Thompson  
D A M Drew  
D J Dugdale (Non-Executive)

Secretary: J Thompson

Bankers: Lloyds TSB plc  
130 High Street  
Cheltenham  
Gloucestershire  
GL50 1EU

Solicitors: Charles Russell  
Killowen House  
Bayshill Road  
Cheltenham  
GL50 3AW

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

**MATCON GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS  
(FORMERLY MATCON GROUP PLC)**

**FINANCIAL STATEMENTS**

For the year ended 31 December 1999

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# **MATCON GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS (FORMERLY MATCON GROUP PLC)**

## **REPORT OF THE DIRECTORS**

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The directors present their report together with financial statements for the year ended 31 December 1999.

### **Principal activities**

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

The principal activity of the Group is the design, engineering, manufacturing and supply of powder handling systems.

### **Business review**

The year saw the Group make solid progress with a substantial increase in turnover from £12.5 million to £16.6 million. Despite problems encountered during the year with the group's systems, procedures and policies in respect of accounting for long-term contracts, which has resulted in the restatement of the prior year results, the Group Gross Profit increased from £5.1 million to £6.2 million. However, the growth has been at a cost in percentage gross margin which fell from 40.8% to 37.1%. Management is focussed on improving the gross margin earned on the Group's worldwide contracts but also recognise that this will take time to have an effect on the bottom line. As a consequence of the overstatement of past years' results the directors are not able to recommend payment of a dividend on the ordinary share capital.

The newly recruited additional management established themselves and have begun to make a significant contribution. The overseas offices have built up their staff and won substantial orders. The Pharmaceutical sector had become a significant part of the Group's business with a number of substantial orders being secured during the year. During the year the joint venture operation in The Netherlands, Material Control BV, was brought 100% into the Group as a subsidiary company. In Australia, the former licensee company, Matcon Pacific Pty Ltd., was established as a 100% subsidiary of the Group. These small operations are expected to grow and contribute to the Group's earnings in future years.

The year saw an increase in overheads which primarily was an investment in good quality staff who are essential for the long-term development of the business. There has been a heavy demand for use of the test plant facilities in the UK and USA which were upgraded during the year. This investment is essential to securing future business.

The Board looks forward to making further progress in 2000.

There was a profit for the year after taxation amounting to £369,810 (1998: profit £549,240, as restated). The directors recommend preference dividends absorbing £60,463 and no payment of ordinary dividends (1998: preference dividends £84,636 and ordinary dividends £225,000), leaving £309,347 retained (1998: £239,604 retained, as restated).

### **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 the 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 group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**MATCON GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS  
(FORMERLY MATCON GROUP PLC)**

**REPORT OF THE DIRECTORS**

**Directors**

The present membership of the Board is set out below. All directors served throughout the year apart from M Bailey, who was appointed to the Board on 4 February 1999.

The interests of the directors in the shares of the Company as at 1 January 1999 and 31 December 1999, were as follows:

	Number of ordinary shares		Number of preference shares	
	31 December 1999	1 January 1999	31 December 1999	1 January 1999
Sir John Aird	347,385	347,385	435,543	435,543
C Lee	50,000	50,000	-	-
P Cooper	19,600	19,600	-	2,841
M Bailey	-	-	-	-
J Thompson	23,400	23,400	-	-
D A M Drew	18,560	18,560	-	-
D J Dugdale (Non-Executive)	71,100	71,100	-	25,000

The following directors have also been granted options in respect of ordinary shares:

	Number of ordinary shares	
	31 December 1999	1 January 1999
C Lee	10,000	-
P Cooper	10,000	-
M Bailey	10,000	-
J Thompson	10,000	-
D A M Drew	10,000	-

None of the directors had an interest in the shares of the Company's subsidiary undertakings at 31 December 1999 or 1 January 1999.

**Substantial shareholdings**

At 31 December 1999 Albemarle Private Equity Limited's holding represented 26.8% of the equity share capital of the Company.

**Acquisition of company's own shares**

276,011 preference shares of £1 each, representing 15.7% of the Company's called up share capital, were redeemed during the year for a total consideration of £276,011.

**MATCON GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS  
(FORMERLY MATCON GROUP PLC)**

**REPORT OF THE DIRECTORS**

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**Payment policy and practice**

It is the Company's and Group's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and abide by them. At 31 December 1999 the Company had no trade creditors.

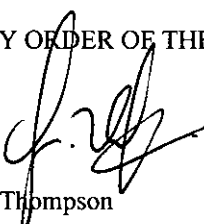
**Research and development**

The Group continues to develop its product range through its subsidiary undertaking Matcon (R&D) Limited. During the year there have been some excellent improvements and expansion of the Group's product range.

**Auditors**

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

BY ORDER OF THE BOARD



J Thompson  
Secretary  
26 October 2000

## **REPORT OF THE AUDITORS TO THE MEMBERS OF**

### **MATCON GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS (FORMERLY MATCON GROUP PLC)**

We have audited the financial statements on pages 5 to 29 which have been prepared under the accounting policies set out on pages 5 to 7.

#### **Respective responsibilities of the directors and auditors**

As described on page 1 the directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. 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 United Kingdom 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 the affairs of the company and the group as at 31 December 1999 and 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  
26 October 2000

# **MATCON GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS (FORMERLY MATCON GROUP PLC)**

## **PRINCIPAL ACCOUNTING POLICIES**

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### **BASIS OF PREPARATION**

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

Except for the policy relating to patents, the principal accounting policies of the group have remained unchanged from the previous year and are set out below. The reason for the change is set out below.

### **BASIS OF CONSOLIDATION**

The group financial statements consolidate those of the company and of its subsidiary undertakings (see note 11) drawn up to 31 December 1999. 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 No 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 future acquisitions, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, will be capitalised and amortised on a straight line basis over its estimated useful life.

### **ASSOCIATES AND JOINT VENTURES**

Undertakings other than subsidiary undertakings and joint ventures, 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 associates.

Entities in which the group holds an interest on a long-term basis, and which are jointly controlled by the group and other parties, are treated as joint ventures. Where arrangements exist with other parties under which the group carries on its own business, the group's own assets, liabilities and cash flows are included in the financial statements of the group and of the group company which is party to the arrangement.

The group's share of the profits and other recognised gains and losses of the associate and joint venture are included in the group profit and loss account.

The group balance sheet includes the investment in the associate and joint venture at the group's share of net assets and the premium paid less any discount on the acquisition of the interest in so far as it has not already been written off or amortised.

### **TURNOVER**

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

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

### **INCOME FROM INVESTMENTS**

Investment income comprises dividends declared during the accounting period.



# **MATCON GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS (FORMERLY MATCON GROUP PLC)**

## **PRINCIPAL ACCOUNTING POLICIES**

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### **DEPRECIATION**

Depreciation is calculated to write down the cost or valuation less estimated residual value of all tangible fixed assets other than freehold land by equal annual instalments over their expected useful lives. The rates/periods generally applicable are:

Freehold buildings	39 years
Short leasehold buildings	Period of lease
Plant and machinery	10-25% per annum on cost
Fixtures and fittings	25% per annum on cost

### **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 less amounts written off.

### **INTANGIBLE FIXED ASSETS AND GOODWILL**

The direct costs associated with the registration and renewal of patents are capitalised and written off over their estimated useful lives of 10 years. This is a change in accounting policy as previously all such costs were charged directly to the profit and loss account in the year in which those costs were incurred. The directors consider that the adoption of this policy is preferable to the one it replaces because it will give a fairer presentation of the result and of the financial position of the company.

Goodwill is amortised on a straight-line basis over its estimated useful economic life of 20 years as shown in note 9.

### **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 the loss is first foreseen.

### **STOCKS**

Stocks 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. Unprovided deferred tax is disclosed as a contingent liability.

**MATCON GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS  
(FORMERLY MATCON GROUP PLC)**

**PRINCIPAL ACCOUNTING POLICIES**

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**FOREIGN CURRENCIES**

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. The financial statements of foreign subsidiaries and associates 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 directly 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.

**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.

**MATCON GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS**  
**(FORMERLY MATCON GROUP PLC)**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

For the year ended 31 December 1999

	Note	1999 £	1999 £	1998 as restated £	1998 as restated £
<b>Turnover</b>	1				
Continuing operations		16,046,642		12,762,171	
Acquisitions		596,114		-	
		<u>16,642,756</u>		<u>12,762,171</u>	
Less: share of joint venture's turnover		-		(257,957)	
			<u>16,642,756</u>		<u>12,504,214</u>
Cost of sales			(10,472,163)		(7,396,575)
Gross profit			<u>6,170,593</u>		<u>5,107,639</u>
Operating charges			<u>(5,625,592)</u>		<u>(4,475,769)</u>
<b>Operating profit</b>					
Continuing operations		539,457		631,870	
Acquisitions		5,544		-	
			<u>545,001</u>		<u>631,870</u>
Share of operating profits of:					
Joint venture		-		47,901	
Associate		26,053		69,000	
			<u>26,053</u>		<u>116,901</u>
Income from fixed asset investments	2		16,717		3,852
Net interest	3		(53,169)		(5,199)
<b>Profit on ordinary activities before taxation</b>	1		<u>534,602</u>		<u>747,424</u>
Tax on profit on ordinary activities	4		<u>(164,792)</u>		<u>(198,184)</u>
<b>Profit for the financial year</b>	21		<u>369,810</u>		<u>549,240</u>
Dividends	8				
Equity		-		(225,000)	
Non-equity		(60,463)		(84,636)	
			<u>(60,463)</u>		<u>(309,636)</u>
<b>Profit transferred to reserves</b>	20		<u>309,347</u>		<u>239,604</u>

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

**MATCON GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS  
(FORMERLY MATCON GROUP PLC)**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 1999

	Note	1999 £	1999 £	1998 as restated £	1998 as restated £
<b>Fixed assets</b>					
Intangible assets	9		604,765		447,248
Tangible assets	10		842,192		777,914
Investments					
Joint Ventures:					
Share of gross assets		-		122,802	
Share of gross liabilities		-		(94,681)	
		-		28,121	
Associates		135,654		130,237	
Other investments		260,778		260,778	
	11		396,432		419,136
			1,843,389		1,644,298
<b>Current assets</b>					
Stock	12	508,867		307,843	
Debtors	13	4,930,538		3,820,840	
Cash at bank and in hand		297,140		680,931	
		5,736,545		4,809,614	
<b>Creditors: amounts falling due within one year</b>	14	(5,459,206)		(4,246,686)	
<b>Net current assets</b>			277,339		562,928
<b>Total assets less current liabilities</b>			2,120,728		2,207,226
<b>Creditors: amounts falling due after more than one year</b>	15		(154,450)		(164,182)
<b>Provision for liabilities and charges</b>	17		(275,942)		(381,788)
			1,690,336		1,661,256
<b>Capital and reserves</b>					
Called up share capital	19		1,484,659		1,760,670
Other reserves	20		515,341		239,330
Profit and loss account	20		(309,664)		(338,744)
<b>Shareholders' funds</b>	21		1,690,336		1,661,256
Equity shareholders' funds			1,205,677		900,586
Non-equity shareholders' funds			484,659		760,670
			1,690,336		1,661,256

The financial statements were approved by the Board of Directors on 26 October 2000



Sir John Aird

Director

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

# MATCON GROUP PLC

## COMPANY BALANCE SHEET AT 31 DECEMBER 1999

	Note	1999 £	1998 £
<b>Fixed assets</b>			
Investments	11	2,260,778	2,260,778
<b>Current assets</b>			
Debtors	13	1,960,620	1,406,070
Creditors: amounts falling due within one year	14	(1,528,311)	(1,282,293)
<b>Net current assets</b>		<u>432,309</u>	<u>123,777</u>
<b>Total assets less current liabilities</b>		<u>2,693,087</u>	<u>2,384,555</u>
		<u>2,693,087</u>	<u>2,384,555</u>
<b>Capital and reserves</b>			
Called up share capital	19	1,484,659	1,760,670
Capital redemption reserve	20	515,341	239,330
Profit and loss account	20	693,087	384,555
<b>Shareholders' funds</b>		<u>2,693,087</u>	<u>2,384,555</u>
Equity shareholders' funds		2,208,428	1,623,885
Non-equity shareholders' funds		484,659	760,670
		<u>2,693,087</u>	<u>2,384,555</u>

The financial statements were approved by the Board of Directors on 26 October 2000



Sir John Aird

Director

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

**MATCON GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS  
(FORMERLY MATCON GROUP PLC)**

**CONSOLIDATED CASH FLOW STATEMENT**

For the year ended 31 December 1999

	Note	1999 £	1998 £
<b>Net cash inflow from operating activities</b>	22	<b>142,311</b>	<b>1,279,003</b>
<b>Dividends received from associates and own shares</b>		<b>16,717</b>	<b>7,936</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		21,167	25,863
Interest paid		(71,965)	(30,858)
Finance lease interest paid		(2,371)	(204)
Non equity dividends paid		(60,463)	(84,636)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(113,632)</b>	<b>(89,835)</b>
<b>Taxation</b>		<b>(279,778)</b>	<b>(423,264)</b>
<b>Capital expenditure and financial investment</b>			
Purchase of intangible fixed assets		(188,933)	(122,550)
Purchase of tangible fixed assets		(290,233)	(195,640)
Purchase of own shares		-	(245,487)
Sale of tangible fixed assets		1,100	-
<b>Net cash outflow from capital expenditure and financial investment</b>		<b>(478,066)</b>	<b>(563,677)</b>
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertaking		(78,789)	-
Net cash acquired with subsidiary		172,290	-
<b>Net cash inflow from acquisitions and disposals</b>		<b>93,501</b>	<b>-</b>
<b>Equity dividends paid</b>		<b>(225,000)</b>	<b>(210,000)</b>
<b>Financing</b>			
Repayment of borrowings		(6,248)	(6,201)
Purchase of own shares		(276,011)	(239,330)
Capital element of finance lease rentals		(14,463)	(17,560)
<b>Net cash outflow from financing</b>		<b>(296,722)</b>	<b>(263,091)</b>
<b>Decrease in cash</b>	24	<b>(1,140,669)</b>	<b>(262,928)</b>

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

**MATCON GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS  
(FORMERLY MATCON GROUP PLC)**

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

For the year ended 31 December 1999

	1999 £	1998 as restated £
<b>Profit for the financial year</b>	<b>369,810</b>	<b>549,240</b>
Exchange differences on translation of foreign subsidiary undertakings	(4,256)	(4,411)
<b>Total recognised gains and losses for the year</b>	<b>365,554</b>	<b>544,829</b>
Prior year adjustments (see note 6)	(85,241)	125,348
<b>Total gains and losses recognised since last financial statements</b>	<b>280,313</b>	<b>670,177</b>

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

**MATCON GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS  
(FORMERLY MATCON GROUP PLC)**

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 1999

**1 TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

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

An analysis of turnover by geographical market is given below:

	1999	1998 as restated
	£	£
UK	1,950,759	2,567,194
European Union	6,200,271	4,306,467
USA	6,413,803	3,997,245
Rest of the world	2,077,923	1,633,308
	<u>16,642,756</u>	<u>12,504,214</u>

The profit on ordinary activities is stated after:

	1999	1998 as restated
	£	£
Research and development:		
Current year expenditure	209,758	302,801
Auditors' remuneration:		
Audit services	52,165	48,536
Non-audit services	44,158	30,820
Depreciation and amortisation:		
Goodwill	4,819	-
Other intangible fixed assets - patents	77,756	67,157
Tangible fixed assets, owned	234,697	195,431
Tangible fixed assets, held under finance leases and hire purchase contracts	7,385	5,642
Other operating lease rentals	95,232	90,500
	<u>95,232</u>	<u>90,500</u>

**2 INCOME FROM FIXED ASSET INVESTMENTS**

	1999 Unlisted	1998 Unlisted
	£	£
Dividends received from own shares	<u>16,717</u>	<u>3,852</u>



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

For the year ended 31 December 1999

**3 NET INTEREST**

	1999 £	1998 £
On bank loans and overdrafts	41,494	11,071
Finance charges in respect of finance leases	2,371	204
Other interest payable and similar charges	30,471	19,787
	<u>74,336</u>	<u>31,062</u>
Other interest receivable and similar income	(21,167)	(25,863)
	<u>53,169</u>	<u>5,199</u>

**4 TAX ON PROFIT ON ORDINARY ACTIVITIES**

The tax charge represents:

	1999 £	1998 as restated £
UK Corporation tax at 31% (1998: 31.5%)	162,840	87,370
Deferred taxation	(10,000)	16,000
Tax attributable to franked investment income	-	771
Tax attributable to associate undertakings and joint ventures	1,397	12,497
	<u>154,237</u>	<u>116,638</u>
Advance corporation tax previously written off	(1,173)	(12,317)
Overseas taxation including withholding taxes	15,797	108,329
Double tax relief	(6,300)	(16,600)
	<u>162,561</u>	<u>196,050</u>
Adjustments in respect of prior periods:		
Corporation tax	2,231	2,134
	<u>164,792</u>	<u>198,184</u>

The tax charge for 1998 has been reduced and restated by £102,000 to reflect the tax effect of the prior year adjustments referred to in note 6.

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

For the year ended 31 December 1999

**5 DIRECTORS AND EMPLOYEES**

Staff costs, including directors, during the year were as follows:

	1999 £	1998 £
Wages and salaries	3,099,068	2,095,688
Social security costs	326,865	236,539
Pension costs	162,348	117,043
	<u>3,588,281</u>	<u>2,449,270</u>

The average number of employees of the group during the year were as follows:

	1999 Number	1998 Number
Administration	22	19
Management	26	25
Engineering	24	18
Manufacturing	22	18
Selling and distribution	24	20
	<u>118</u>	<u>100</u>

Remuneration in respect of directors was as follows:

	1999 £	1998 £
Emoluments	481,876	274,608
Pension contributions to money purchase pension schemes	38,781	17,903
	<u>520,657</u>	<u>292,511</u>

During the year 6 directors (1998: 6) participated in money purchase pension schemes.

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

	1999 £	1998 £
Emoluments	116,520	59,484
Pension contributions to money purchase pension schemes	10,860	3,500

**MATCON GROUP LIMITED AND ITS SUBSIDIARY UNDERTAKINGS  
(FORMERLY MATCON GROUP PLC)**

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 1999

**6 PRIOR YEAR ADJUSTMENTS**

**Patents**

The direct costs associated with the registration and renewal of patents are capitalised and written off over their estimated useful lives of 10 years. This is a change in accounting policy as previously all such costs were charged directly to the profit and loss account in the year in which those costs were incurred. The directors consider that the adoption of this policy is preferable to the one it replaces because it will give a fairer presentation of the result and of the financial position of the company. Accordingly the amounts for the current and corresponding periods have been restated to reflect the new policy.

**Revenue recognition**

Turnover and attributable profit on long term contracts is recognised by the company by reflecting the contract activity during the year and represents the proportion of total contract value which costs incurred to date bear to total expected contract costs.

Errors in the company's contract costing records, which are not integrated with the company's financial records, had led to an overstatement of recorded costs incurred and an understatement of total expected costs, resulting in attributable profits on long term contracts being recognised too early in prior years. Consequently both turnover and profit for the year ended 31 December 1998 and prior years were overstated.

The directors consider the effect of these errors to be of such significance as to affect the true and fair view of the financial statements and that the adjustments have no bearing on the results of the current period. The comparative profit and loss and balance sheet figures for the year ended 31 December 1998, as previously reported, have been restated as summarised below.

The cumulative effect of these adjustments has been to reduce previously reported profits and reserves by £85,241.

	1998 as restated	1998 as previously reported	Increase / (decrease) in reported profits
	£	£	£
<b>PROFIT AND LOSS ACCOUNT</b>			
Turnover	12,504,214	12,869,764	(365,550)
Cost of sales	(7,396,575)	(7,394,143)	(2,432)
Gross profit	5,107,639	5,475,621	(367,982)
Operating charges and income	(4,360,215)	(4,415,608)	(55,393)
Profit on ordinary activities before taxation	747,424	1,060,013	(312,589)
Tax on profit on ordinary activities	(198,184)	(300,184)	102,000
Profit for the financial year	549,240	759,829	(210,589)
Effect on prior years	-	-	<u>125,348</u>
<b>Prior year adjustment</b>	-	-	<u>(85,241)</u>

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**6 PRIOR YEAR ADJUSTMENTS (Continued)**

	1998 as restated	1998 as previously reported	(Decrease) / increase in reported shareholders' funds
	£	£	£
<b>CONSOLIDATED BALANCE SHEET</b>			
Fixed assets:	-	-	-
Intangible fixed assets	447,248	-	447,248
Tangible fixed assets	777,914	777,914	-
Investments	419,136	419,136	-
	<u>1,644,298</u>	<u>1,197,050</u>	<u>447,248</u>
Current assets	4,809,614	5,040,471	(230,857)
Creditors: amounts falling due within one year	(4,246,686)	(4,079,054)	(167,632)
Creditors: amounts falling due after more than one year	(164,182)	(164,182)	-
Provisions for liabilities and charges	(381,788)	(247,788)	(134,000)
	<u>1,661,256</u>	<u>1,746,497</u>	<u>(85,241)</u>

**7 PROFIT FOR THE FINANCIAL YEAR**

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 year includes £584,543 (1998 : £20,007) which is dealt with in the financial statements of the company.

**8 DIVIDENDS**

	1999 £	1998 £
Equity dividends:		
Ordinary shares - proposed final dividend (1998: 22.50p per share, paid 3 June 1999)	-	225,000
Non-equity dividends:		
Preference dividend of 10p per share	13,961	37,715
Preference dividend of 9p per share	46,502	46,921
	<u>60,463</u>	<u>309,636</u>

The preference dividends were paid in 4 instalments 25 March, 25 June, 30 September and 30 December.

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**9 INTANGIBLE FIXED ASSETS**

Group	Patents and trademarks	Purchased goodwill	Goodwill on consolidation	Total
	£	£	£	£
Cost				
At 1 January 1999, as restated	671,574	-	-	671,574
Additions	105,993	82,940	51,159	240,092
At 31 December 1999	777,567	82,940	51,159	911,666
Amortisation				
At 1 January 1999, as restated	224,326	-	-	224,326
Charge for the year	77,756	3,110	1,709	82,575
At 31 December 1999	302,082	3,110	1,709	306,901
Net book amount at 31 December 1999	475,485	79,830	49,450	604,765
Net book amount at 31 December 1998, as restated	447,248	-	-	447,248

Purchased goodwill and goodwill on consolidation included above relates to the following:

	Date of acquisition	Period of amortisation	Group £	Company £
Acquired during the year:				
Matcon Pacific Pty Limited	3 June 1999	20 years	82,940	n/a
Material Control BV	1 January 1999	20 years	51,159	n/a

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**10 TANGIBLE FIXED ASSETS**

Group	Freehold land and buildings	Short leasehold land and buildings	Plant and machinery	Fixtures fittings and equipment	Total
	£	£	£	£	£
Cost					
At 1 January 1999	301,432	151,390	480,693	1,178,589	2,112,104
Exchange adjustment	15,356	-	4,349	9,147	28,852
Additions	-	37,606	145,040	107,587	290,233
Acquisition of subsidiary undertaking	-	-	-	3,009	3,009
	316,788	188,996	630,082	1,298,332	2,434,198
Disposals	-	-	(1,500)	(1,500)	(3,000)
At 31 December 1999	316,788	188,996	628,582	1,296,832	2,431,198
Depreciation					
At 1 January 1999	68,603	95,551	322,624	847,412	1,334,190
Exchange adjustment	3,495	-	3,176	7,049	13,720
Charge for the year	17,026	14,120	37,316	173,620	242,082
Acquisition of subsidiary undertaking	-	-	-	2,014	2,014
	89,124	109,671	363,116	1,030,095	1,592,006
Eliminated on disposals	-	-	(1,500)	(1,500)	(3,000)
At 31 December 1999	89,124	109,671	361,616	1,028,595	1,589,006
Net book amount at 31 December 1999	227,664	79,325	266,966	268,237	842,192
Net book amount at 31 December 1998	232,829	55,839	158,069	331,177	777,914

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

Group	Fixtures and fittings £
Net book amount at 31 December 1999	18,462
Net book amount at 31 December 1998	41,123
Depreciation provided in the year	7,385

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**11 FIXED ASSETS INVESTMENTS**

Total fixed asset investments comprise:

	1999 £	1998 £
<b>Group</b>		
Interest in associated undertaking (note 11a)	135,654	130,237
Interest in joint venture (note 11b)	-	28,121
Interest in own shares (note 11c)	260,778	260,778
	<u>396,432</u>	<u>419,136</u>

**11a Interest in associated undertaking**

<b>Group</b>	<b>Share of net assets £</b>
At 1 January 1999	130,237
Exchange adjustment	(19,239)
Share of profits and losses	24,656
At 31 December 1999	<u>135,654</u>
Net book amount at 31 December 1999	<u>135,654</u>
Net book amount at 31 December 1998	<u>130,237</u>

At 31 December 1998 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, manufacturing and supply of powder handling systems.

The group's share of retained profits of the associated undertaking at 31 December 1999 is £102,298 (1998: £37,382). If the investment in the associated undertaking had been included at cost, it would have been included at £27,939 (1998: £27,939).

**11b Interest in joint venture**

<b>Group</b>	<b>Share of net assets £</b>
At 1 January 1999	28,121
Transfer on acquisition as a full subsidiary	(28,121)
At 31 December 1999	<u>-</u>

At 31 December 1998 the group held 50% of the ordinary share capital of Material Control BV, a company incorporated in Holland. With effect from 1 January 1999 the group, through its subsidiary, Matcon Overseas Limited, acquired the remaining 50% of the ordinary share capital of Material Control BV. The investment is now accounted for as a subsidiary undertaking.

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**11c Interest in 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 Trust held 74,298 (1999: 74,298) shares in the Company at a cost of £260,778 (1999: £260,778).

**11d Investments**

Company	Shares in group undertakings	Own shares	Company Total
	£	£	£
Cost			
At 1 January 1999 and at 31 December 1999	2,000,000	260,778	2,260,778

At 31 December 1999 the group and company held more than 20% of a class of the allotted equity share capital of the following:

Name of subsidiary undertaking	Country of registration and incorporation	Class of share capital held	Proportion held		Nature of business
			By the Parent company	By the Group	
Matcon (Reconstruction) 1995 Limited	Great Britain	Ordinary	100	-	Provision of management services
Matcon (Trustee Company) Limited	Great Britain	Ordinary	100	-	Employee share ownership trust
Matcon (R&D) Limited	Great Britain	Ordinary	-	100	Management of licences, royalties, patents and research and development
Matcon Limited	Great Britain	Ordinary and preference	-	100	Design, engineering, manufacturing and supply of powder handling systems
Matcon Overseas Limited	Great Britain	Ordinary	-	100	Holding company
Matcon Inc.	USA	Common stock	-	100	Design, engineering, manufacturing and supply of powder handling systems
Material Control BV	The Netherlands	Ordinary	-	100	Sale of powder handling systems
Matcon Pacific Pty Limited	Australia	Ordinary	-	100	Design, engineering, manufacturing and supply of powder handling systems

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



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**12 STOCKS**

	<b>1999</b>	<b>Group 1998 as restated</b>
	<b>£</b>	<b>£</b>
Long-term contract balances:		
Cost less provision for foreseeable losses	<b>98,932</b>	65,972
Raw materials and consumable stores	<b>133,594</b>	77,081
Short-term work in progress	<b>276,341</b>	164,790
	<b>508,867</b>	307,843

**13 DEBTORS**

	<b>1999</b>	<b>Group 1998 as restated</b>	<b>1999</b>	<b>Company 1998</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Trade debtors	<b>3,661,423</b>	2,630,492	-	-
Amounts owed by group undertakings	-	-	<b>1,960,520</b>	1,349,720
Amounts owed by associated undertaking	<b>74,785</b>	4,930	-	-
Amounts owed by joint venture	-	120,209	-	-
Amounts recoverable on contracts	<b>683,072</b>	682,294	-	-
Other debtors	<b>307,993</b>	186,400	<b>100</b>	100
Taxation recoverable	<b>47,670</b>	125,659	-	56,250
Prepayments and accrued income	<b>155,595</b>	70,856	-	-
	<b>4,930,538</b>	3,820,840	<b>1,960,620</b>	1,406,070

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**14 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	1999	Group 1998 as restated	1999	Company 1998
	£	£	£	£
Bank loans and overdrafts	928,689	157,336	113,958	148,885
Payments billed on account	1,240,317	1,231,485	-	-
Trade creditors	2,803,174	2,176,519	-	-
Amounts owed to group undertakings	-	-	1,407,816	741,593
Corporation tax	(10)	174,362	3,000	164,007
Social security and other taxes	83,614	57,940	-	-
Proposed dividends	-	225,000	-	225,000
Other creditors	65,490	50,366	3,512	2,808
Accruals	328,085	159,561	25	-
Amounts due under finance leases	9,847	14,117	-	-
	<b>5,459,206</b>	<b>4,246,686</b>	<b>1,528,311</b>	<b>1,282,293</b>

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 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.

**15 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	1999	Group 1998
	£	£
Bank loans and overdrafts	147,412	146,951
Amounts due under finance leases	7,038	17,231
	<b>154,450</b>	<b>164,182</b>

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**16 BORROWINGS**

Borrowings are repayable as follows:

	1999 £	Group 1998 £
Within one year		
Bank loans and overdrafts	928,689	157,336
Finance leases	9,847	14,117
After one and within two years		
Bank loan	8,633	7,405
Finance leases	7,038	9,846
After two and within five years		
Bank loan	31,158	26,725
Finance leases	-	7,385
After five years		
Bank loan	107,621	112,821
	<u>1,092,986</u>	<u>335,635</u>

The bank loan is repayable in 60 monthly instalments of \$2,853 (at year end rate equals £1,794) 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 2001 or 2006.

**17 PROVISIONS FOR LIABILITIES AND CHARGES**

Group	Deferred Tax £	Other provisions £	Total £
At 1 January 1999, as restated	134,000	247,788	381,788
Provided/(released) in the year	(10,000)	150,432	140,432
Utilised during the year	-	(246,278)	(246,278)
At 31 December 1999	<u>124,000</u>	<u>151,942</u>	<u>275,942</u>

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

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**18 DEFERRED TAXATION**

Deferred taxation is fully provided for in the financial statements and is set out below.

Group	Amount provided	
	1999	1998 as restated
	£	£
Accelerated capital allowances	156,000	161,000
Other timing differences	(32,000)	(27,000)
	<u>124,000</u>	<u>134,000</u>

**19 SHARE CAPITAL**

	1999	1998
	£	£
Authorised		
1,000,000 ordinary shares of £1 each	1,000,000	1,000,000
1,000,000 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		
1,000,000 ordinary shares of £1 each	1,000,000	1,000,000
9% preference shares of £1 each	484,659	521,341
10% preference shares of £1 each	-	239,329
	<u>1,484,659</u>	<u>1,760,670</u>

**Ordinary shares**

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 the 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.

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**19 SHARE CAPITAL (Continued)**

**Preference shares**

During the year ended 31 December 1997, 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. During the year ended 31 December 1998 239,330 of these shares were redeemed by the company at par and the remaining 239,329 shares were redeemed at par during the year ended 31 December 1999.

During the year ended 31 December 1999 a total of 36,682 shares of the remaining 9% preference shares were also redeemed at par.

The preference shares are non-equity shares which 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.

**20 RESERVES**

<b>Group</b>	<b>Capital redemption reserve £</b>	<b>Profit and loss account £</b>
At 1 January 1999	239,330	(253,503)
Prior year adjustment (see note 6)	-	(85,241)
Retained reserves at 1 January 1999, as restated	239,330	(338,744)
Retained profit for the year	-	309,347
Exchange difference arising on consolidation	-	(4,256)
Transfer on redemption of preference shares	276,011	(276,011)
At 31 December 1999	<b>515,341</b>	<b>(309,664)</b>

Cumulative goodwill arising on consolidation amounting to £1,961,224 (1998: £1,961,224) has been written off to the profit and loss account.

<b>Company</b>	<b>Capital redemption reserve £</b>	<b>Profit and loss account £</b>
At 1 January 1999	239,330	384,555
Retained profit for the year	-	584,543
Transfer on redemption of preference shares	276,011	(276,011)
At 31 December 1999	<b>515,341</b>	<b>693,087</b>

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**21 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	1999 £	1998 as restated £
Profit for the financial year	369,810	549,240
Dividends	(60,463)	(309,636)
	<u>309,347</u>	<u>239,604</u>
Redemption of preference shares	(276,011)	(239,330)
Exchange difference arising on consolidation	(4,256)	(4,411)
	<u>29,080</u>	<u>(4,137)</u>
Net increase/(decrease) in shareholders' funds		
Shareholders' funds at 1 January 1999	1,661,256	1,665,393
	<u>1,690,336</u>	<u>1,661,256</u>

**22 NET CASH INFLOW FROM OPERATING ACTIVITIES**

	1999 £	1998 £
Operating profit	545,001	631,870
Depreciation	324,657	268,230
Profit on sale of tangible fixed assets	(1,100)	-
Increase in stocks	(200,950)	(109,092)
Increase in debtors	(1,116,435)	(340,271)
Increase in creditors	591,138	828,266
	<u>142,311</u>	<u>1,279,003</u>

**23 ANALYSIS OF CHANGES IN NET DEBT**

	At 1 January 1999 £	Cashflow £	Exchange movement £	At 31 December 1999 £
Cash in hand and at bank	680,931	(370,437)	(13,354)	297,140
Overdrafts	(150,575)	(770,232)	-	(920,807)
Debt	(153,712)	6,248	(7,830)	(155,294)
Finance leases	(31,348)	14,463	-	(16,885)
	<u>345,296</u>	<u>(1,119,958)</u>	<u>(21,184)</u>	<u>(795,846)</u>

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**24 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT**

	1999 £	1998 £
Decrease in cash in the year	(1,140,669)	(262,928)
Cash outflow from financing in the year	6,248	6,201
Cash outflow from finance leases in the year	14,463	17,560
Change in net debt resulting from cashflows	(1,119,958)	(239,167)
Inception of finance leases	-	(29,540)
Effect of foreign exchange movements	(21,184)	(594)
Movement in net debt in the year	(1,141,142)	(269,301)
Net funds at 1 January 1999	345,296	614,597
Net debt at 31 December 1999	(795,846)	345,296

**25 CAPITAL COMMITMENTS**

	1999 £	Group 1998 £	1999 £	Company 1998 £
Contracted for but not provided in these financial statements	60,890	10,382	-	-

**26 CONTINGENT LIABILITIES**

There were group contingent liabilities in respect of bank bonds and indemnities, all with recourse, amounting to £1,017,081 at 31 December 1999 (1998: £615,135) and foreign exchange contracts with a value of £425,000 (1998: £940,038).

The group had no other contingent liabilities at 31 December 1999 or 31 December 1998.

**27 LEASING COMMITMENTS**

Operating lease payments in respect of land and buildings amounting to £90,500 (1998: £90,500) are due within one year. The leases to which these amounts relate expire in five years or more. Rent reviews in respect of these commitments are due in the current year.

**28 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.

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**29 TRANSACTIONS WITH RELATED PARTIES**

During the year management services totalling £28,458 (1998: £22,000) were invoiced to Healthcare Development Services Limited, a company in which Sir John Aird is also a director. At 31 December 1999 Healthcare Development Services Limited owed the group £12,967 (1998: £11,853). During the year the group paid rent of £57,500 (1998: £57,500) in respect of Matcon House. The landlord of the property is a pension fund in which Sir John Aird is the sole member.

**30 ACQUISITION**

Material Control BV was acquired with effect from 1 January 1999, the beginning of the subsidiary's financial year. The profit after taxation for the year ended 31 December 1999 was £16,035 (1998: the subsidiary's prior year was £70,800).

The assets and liabilities of Material Control BV acquired were as follows:

	£
Tangible fixed assets	1,005
Stocks	74
Debtors	71,252
Bank and cash	172,290
<b>Total assets</b>	<b>244,621</b>
Trade creditors	186,765
Provisions:	
Other	2,596
<b>Total liabilities</b>	<b>189,361</b>
<b>Net assets</b>	<b>55,260</b>
	£
Fair value of assets acquired - 50% of the above asset value	27,630
Purchased goodwill capitalised	51,159
	<b>78,789</b>
Satisfied by:	
Cash	78,789