

Company Registration No. 2939693 (England and Wales)

MATCON GROUP LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001



MATCON GROUP LIMITED

DIRECTORS AND ADVISERS

Directors	Sir John Aird C Lee J Thompson P Cooper D Drew D Dugdale G L Barnes
Secretary	J Thompson
Company number	2939693
Registered office	Matcon House, London Road Moreton-in-Marsh Glos GL56 0HJ
Registered auditors	Hazlewoods 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 2001**

The directors present their report and financial statements for the year ended 31 December 2001.

Directors

The following directors have held office since 1 January 2001:

Sir John Aird

C Lee

J Thompson

P Cooper

D Drew

D Dugdale

M Bailey

(Resigned 31 May 2001)

G L Barnes

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.

The gross margin achieved on completed contracts improved greatly during the year as a result of the action taken during the previous year. We were also able to build on the experience gained from undertaking the major complex jobs for the pharmaceutical industry which had reduced our profitability last year.

Turnover was up to £16.6m compared with £15.5m in 2000 but much more importantly, gross profitability improved from £5.6m to £7.1m and the gross margin percentage increased from 36% to 43%.

We continued to put great emphasis on the standardisation of the product range which enabled us to reduce costs and delivery time.

The restructuring of the American subsidiary Matcon USA Inc and a major marketing programme, together with our extensive US Representative network, produced positive results in a generally depressed market. Other overseas subsidiaries also made progress in difficult market conditions, however Europe remains somewhat disappointing.

During the year our long established Japanese licensee went into administration. Over 10 years this license had produced good royalty revenue, but very small sales because the licensee used the Matcon Technology to help win orders for complete processing plants and did not make Matcon products available to the Japanese market as a whole. As a result the Japanese market sees Matcon as a very desirable but inaccessible technology. Since the year-end we have been able to form a new subsidiary, Matcon Japan, with some excellent experienced staff from the previous licensee and to form an association with a Japanese engineering company who will provide local commercial and engineering support. Matcon Japan is cash flow positive from the start.

We have also been successful in widening our supplier base which reduces our dependence on any one supplier and enables us to cope better with the concentrated nature of our supply requirements.

Although Matcon made a profit of £1,057,600 at the operating level, we decided to settle a long running and very complex legal case in the US involving a development contract undertaken in 1994. Although we did not believe we were at fault, we decided to settle in order to avoid the enormous cost and uncertainty of litigation in the United States. This has resulted in an exceptional charge of £896,746.

The current year is proceeding profitably even though orders are more difficult to win in the current economic environment.

Results and dividends

The consolidated profit and loss account for the year is set out on page 5.

MATCON GROUP LIMITED

DIRECTORS' REPORT (CONTINUED) for the year ended 31 December 2001

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 and expansion of 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 2001	1 January 2001
Sir John Aird	347,385	347,385
C Lee	50,000	50,000
J Thompson	23,400	23,400
P Cooper	19,600	19,600
D Drew	18,560	18,560
D Dugdale	71,100	71,100
G L Barnes	-	-

	9% preference shares of £ 1 each	
	31 December 2001	1 January 2001
Sir John Aird	435,543	435,543
C Lee	-	-
J Thompson	-	-
P Cooper	-	-
D Drew	-	-
D Dugdale	-	-
G L Barnes	-	-

Each of the following directors had also 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.

Charitable contributions

During the year the group made charitable donations of £500 (2000 : £203).

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Hazlewoods 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 2001

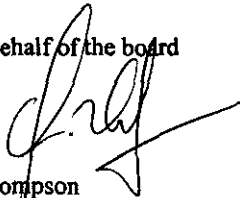
Directors' responsibilities

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

28 October 2002

MATCON GROUP LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MATCON GROUP LIMITED

We have audited the financial statements on pages 5 to 27 which have been prepared under the historical cost convention and the accounting policies set out on pages 10 to 12.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities on page 3 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 and other members of the group 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.

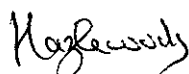
Basis of audit opinion

We conducted our audit in accordance with 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 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 of the state of affairs of the company and the group as at 31 December 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Hazelwoods

**Chartered Accountants
Registered Auditor**

28 October 2002

Windsor House
Barnett Way
Barnwood
Gloucester
GL4 3RT

MATCON GROUP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 December 2001

		2001	2000
	Notes	£	as restated £
Turnover		16,619,764	15,500,797
Cost of sales		(9,537,789)	(9,887,904)
Gross profit		7,081,975	5,612,893
Administrative expenses - normal		(6,024,375)	(6,169,306)
Operating profit/(loss) before exceptional items		1,057,600	(556,413)
Administrative expenses - exceptional	4	(971,410)	62,272
Operating profit/(loss) after exceptional items	4	86,190	(494,141)
Share of operating profit of associate		25,925	14,738
Other interest receivable and similar income		12,873	14,579
Interest payable and similar charges	5	(105,637)	(133,835)
Profit/(loss) on ordinary activities before taxation		19,351	(598,659)
Tax on profit/(loss) on ordinary activities	7	60,209	154,113
Profit/(loss) on ordinary activities after taxation		79,560	(444,546)
Dividends (in respect of non-equity shares)	9	(43,620)	(43,620)
Retained profit/(loss) for the year	20	35,940	(488,166)

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 2001

	Note	2001 £	2000 £
Profit/(loss) for the financial year		79,560	(444,546)
Currency translation differences on foreign currency net investments		9,616	29,646
Total recognised gains/(losses) relating to the year		89,176	(414,900)
Prior year adjustment	3	46,195	-
Total gains/(losses) recognised since last financial statements		135,371	(414,900)

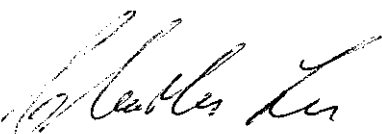
MATCON GROUP LIMITED

BALANCE SHEETS as at 31 December 2001

		Group		Company	
		2001	2000	2001	2000
			as restated		as restated
	Notes	£	£	£	£
Fixed assets					
Intangible assets	10	779,633	777,289	-	-
Tangible assets	11	711,584	786,745	-	-
Investments	12	417,253	368,304	2,000,000	2,000,000
		<u>1,908,470</u>	<u>1,932,338</u>	<u>2,000,000</u>	<u>2,000,000</u>
Current assets					
Stocks	13	811,791	623,493	-	-
Debtors	14	3,810,203	4,182,989	489,790	1,960,620
Cash at bank and in hand		345,107	273,055	-	-
		<u>4,967,101</u>	<u>5,079,537</u>	<u>489,790</u>	<u>1,960,620</u>
Creditors: amounts falling due within one year	15	(5,227,479)	(5,330,646)	(40,151)	(1,467,361)
Net current (liabilities)/assets		<u>(260,378)</u>	<u>(251,109)</u>	<u>449,639</u>	<u>493,259</u>
Total assets less current liabilities		<u>1,648,092</u>	<u>1,681,229</u>	<u>2,449,639</u>	<u>2,493,259</u>
Creditors: amounts falling due after more than one year	16	(139,116)	(159,761)	-	-
Provisions for liabilities and charges	17	(231,604)	(289,652)	-	-
		<u>1,277,372</u>	<u>1,231,816</u>	<u>2,449,639</u>	<u>2,493,259</u>
Capital and reserves					
Called up share capital	19	1,484,659	1,484,659	1,484,659	1,484,659
Other reserves	20	515,341	515,341	515,341	515,341
Profit and loss account	20	(722,628)	(768,184)	449,639	493,259
	21	<u>1,277,372</u>	<u>1,231,816</u>	<u>2,449,639</u>	<u>2,493,259</u>
Equity interests		<u>792,713</u>	<u>747,157</u>	<u>1,964,980</u>	<u>2,008,600</u>
Non-equity interests		<u>484,659</u>	<u>484,659</u>	<u>484,659</u>	<u>484,659</u>
		<u>1,277,372</u>	<u>1,231,816</u>	<u>2,449,639</u>	<u>2,493,259</u>

The financial statements were approved by the board on 28 October 2002

C Lee
Director



Sir John Aird
Director



MATCON GROUP LIMITED

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 December 2001

	2001 £	2000 £
Net cash inflow from operating activities	898,480	220,366
Returns on investments and servicing of finance		
Interest received	12,873	14,579
Interest paid	(101,405)	(130,458)
Interest element of finance lease rentals	(4,232)	(3,377)
Dividends received	-	38,112
Non equity dividends paid	(43,620)	(43,620)
Net cash outflow for returns on investments and servicing of finance	(136,384)	(124,764)
Taxation	176,010	(97,076)
Capital expenditure		
Payments to acquire intangible assets	(125,074)	(270,375)
Payments to acquire tangible assets	(155,638)	(113,073)
Payments to acquire investments	(23,701)	-
Receipts from sales of tangible assets	-	6,365
Net cash outflow for capital expenditure	(304,413)	(377,083)
Net cash inflow/(outflow) before financing	633,693	(378,557)
Financing		
Repayment of long term bank loan	(9,718)	(9,171)
Capital element of finance lease contracts	(4,896)	(16,770)
Net cash outflow from financing	(14,614)	(25,941)
Increase/(decrease) in cash in the year	619,079	(404,498)

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 December 2001

1	Reconciliation of operating profit/(loss) to net cash inflow from operating activities	2001	2000
		£	£
	Operating profit/(loss)	86,190	(494,141)
	Depreciation of tangible assets	238,441	211,644
	Amortisation of intangible assets	118,801	94,335
	Loss/(profit) on disposal of tangible assets	2,186	(105)
	Increase in stocks	(190,367)	(114,626)
	Decrease in debtors	391,732	920,085
	Increase/(decrease) in creditors and provisions	251,497	(396,826)
	Net cash inflow from operating activities	898,480	220,366

2	Analysis of net debt	1 January 2001	Cash flow	Other non-cash changes	31 December 2001
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	273,055	72,052	-	345,107
	Bank overdrafts	(1,298,152)	547,027	(1,077)	(752,202)
		<u>(1,025,097)</u>	<u>619,079</u>	<u>(1,077)</u>	<u>(407,095)</u>
	Debt:				
	Finance leases	(26,325)	4,896	-	(21,429)
	Bank loans	(156,924)	9,718	(4,129)	(151,335)
		<u>(183,249)</u>	<u>14,614</u>	<u>(4,129)</u>	<u>(172,764)</u>
	Net debt	(1,208,346)	633,693	(5,206)	(579,859)

The non-cash changes relate to the net effect of foreign exchange differences.

3	Reconciliation of net cash flow to movement in net debt	2001	2000
		£	£
	Increase/(decrease) in cash in the year	619,079	(404,498)
	Cash outflow from decrease in debt	14,614	25,941
	Net effect of foreign exchange differences	(5,206)	(7,733)
	New finance lease	-	(26,210)
	Movement in net debt in the year	628,487	(412,500)
	Opening net debt	(1,208,346)	(795,846)
	Closing net debt	(579,859)	(1,208,346)

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS for the year ended 31 December 2001

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. In previous years, the results of the Trust have been included within Matcon Group Limited. The directors have reviewed the position and, in accordance with Urgent Issues Task Force Abstract Number 13, consider that the Trust's results should be shown in the consolidated accounts, but not in those of the company. The comparative figures have been restated to reflect this change.

1.2 Basis of consolidation

The group financial statements consolidate those of the company and its subsidiary undertakings drawn up to 31 December 2001. 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 Associated undertakings and joint ventures

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 associates.

The group's share of the profits and other recognised gains and losses of the associate 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.

1.4 Turnover

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.

1.5 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.

1.6 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.

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2001

1 Accounting policies

(continued)

1.7 Research and development

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

1.8 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

1.9 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.

1.10 Investments

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

1.11 Stock

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.

1.12 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.

1.13 Pensions

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

1.14 Deferred taxation

The accounting policy in respect of deferred tax has been changed to reflect the requirements of FRS19 - Deferred tax. Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2001

1 Accounting policies

(continued)

1.15 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 at the rate of exchange ruling at the balance sheet date. 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:

	2001 £	2000 £
Geographical segment		
UK	4,030,334	2,578,868
European Union	5,806,747	6,523,235
USA	3,570,950	4,605,150
Rest of the World	3,211,733	1,793,544
	<u>16,619,764</u>	<u>15,500,797</u>

3 Prior year adjustment

Group

The adoption of Financial Reporting Standard Number 19 requires a prior year adjustment to be made to recognise the deferred tax asset which existed at the start of the financial year and which was not recognised under the old accounting policy. This has decreased the deferred tax liability and increased retained profits by £46,195.

Company

As shown in note 1, the company has restated its comparatives in order to comply with Urgent Issues Task Force Abstract Number 13. The effect of this is to decrease investments by £260,778, increase net current assets by £85,968 and decrease retained profits by £174,810.

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2001

4	Operating profit/(loss)	2001 £	2000 £
	Operating profit/(loss) is stated after charging:		
	Depreciation of intangible assets	118,801	94,335
	Depreciation of tangible assets	238,441	211,644
	Research and development	179,930	285,647
	Operating lease rentals		
	- Other assets	112,021	122,088
	- Land and buildings	90,500	90,500
	Auditors' remuneration (company £1,500; 2000 : £1,500)	36,481	44,974
	Remuneration of auditors for non-audit work	44,161	34,601

The exceptional administrative expense of £971,410 in 2001 is made up as follows :

£896,746 represents the costs of a legal settlement and related fees in respect of a dispute with a former customer arising from a contract entered into in 1994 by a previous management.

£74,664 represents amounts paid to a director on termination of office.

The exceptional administrative income of £62,272 in 2000 relates to an adjustment to depreciation charges on property held by Matcon USA Inc, resulting from over depreciation in previous years due to an accounting error that was identified in the year.

5	Interest payable	2001 £	2000 £
	On bank loans and overdrafts	101,405	130,458
	Lease finance charges	4,232	3,377
		<u>105,637</u>	<u>133,835</u>

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2001

6	Directors and employees	2001 £	2000 £
	Directors' emoluments		
	Emoluments for qualifying services	488,006	477,107
	Pension contributions to defined contribution schemes	43,587	41,852
	Compensation for loss of office	74,664	-
		<u>606,257</u>	<u>518,959</u>

The number of directors for whom retirement benefits are accruing under defined contribution pension schemes amounted to 5 (2000 - 6).

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

Emoluments for qualifying services	96,611	92,783
Pension contributions to defined contribution schemes	<u>8,820</u>	<u>8,754</u>

Number of employees

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

	2001 Number	2000 Number
Production and sales	72	88
Office and management	42	46
	<u>114</u>	<u>134</u>

Employment costs

	£	£
Wages and salaries	3,466,651	3,689,830
Social security costs	311,202	440,701
Other pension costs	247,432	277,586
	<u>4,025,285</u>	<u>4,408,117</u>

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2001

7	Taxation	2001 £	2000 £
	Domestic current year tax		
	U.K. corporation tax	173,103	-
	Adjustment for prior years	20,001	(27)
	Overseas taxation	41,206	(115,137)
	Share of tax charge of associate	677	1,195
	Current tax charge	234,987	(113,969)
	Deferred tax		
	Deferred tax credit	(295,196)	(40,144)
		(60,209)	(154,113)
	Factors affecting the tax charge for the year		
	Profit/(loss) on ordinary activities before taxation	19,351	(598,659)
	Profit/(loss) on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2000 : 30.00%)	5,805	(179,598)
	Effects of:		
	Non deductible expenses	12,539	10,732
	Excess of depreciation over capital allowances	13,768	54,584
	Tax losses utilised	(108,402)	(129,268)
	Foreign tax adjustments	723	-
	Adjustments to previous periods	20,001	(27)
	Tax losses carried forward to future periods	93,365	148,011
	Withholding tax suffered on royalties received	12,290	13,224
	Short term timing difference	202,766	-
	Other tax adjustments	(17,868)	(31,627)
		229,182	65,629
	Current tax charge	234,987	(113,969)

The short term timing difference above represents expenses disallowed in the current year which will be allowed in 2002. Other tax adjustments above relate to overseas subsidiaries.

8 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 loss of £Nil (2000 : £1,474) dealt with in the profit and loss account of the company.

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2001

9	Dividends	2001 £	2000 £
Dividends on non-equity shares:			
Preference dividend paid		43,620	43,620
		<u> </u>	<u> </u>
10	Intangible fixed assets Group		
		Patents £	Goodwill £
		Total £	
Cost			
At 1 January 2001		1,047,942	130,446
Exchange differences		-	(4,306)
Additions		125,074	-
		<u> </u>	<u> </u>
At 31 December 2001		1,173,016	126,140
		<u> </u>	<u> </u>
Amortisation			
At 1 January 2001		389,895	11,204
Exchange differences		-	(377)
Charge for the year		112,494	6,307
		<u> </u>	<u> </u>
At 31 December 2001		502,389	17,134
		<u> </u>	<u> </u>
Net book value			
At 31 December 2001		670,627	109,006
		<u> </u>	<u> </u>
At 31 December 2000		658,047	119,242
		<u> </u>	<u> </u>

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2001

11 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 2001	337,189	188,996	664,204	1,372,836	44,851	2,608,076
Exchange differences	8,873	-	4,607	5,787	-	19,267
Additions	-	8,286	105,050	34,552	7,750	155,638
Disposals	-	-	(3,518)	-	-	(3,518)
At 31 December 2001	346,062	197,282	770,343	1,413,175	52,601	2,779,463
Depreciation						
At 1 January 2001	49,617	127,213	429,620	1,191,464	23,417	1,821,331
Exchange differences	1,306	-	2,645	5,488	-	9,439
On disposals	-	-	(1,332)	-	-	(1,332)
Charge for the year	8,755	18,366	103,409	99,420	8,491	238,441
At 31 December 2001	59,678	145,579	534,342	1,296,372	31,908	2,067,879
Net book value						
At 31 December 2001	286,384	51,703	236,001	116,803	20,693	711,584
At 31 December 2000	287,572	61,783	234,584	181,372	21,434	786,745

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 2001	-	-	20,693	20,693
At 31 December 2000	-	11,077	21,434	32,511
Depreciation charge for the year				
31 December 2001	-	-	8,491	8,491
31 December 2000	-	7,385	4,776	12,161

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2001

12 Fixed asset investments Group

	Shares in associated undertaking	Interest in own shares	Total
	£	£	£
Cost			
At 1 January 2001	107,526	260,778	368,304
Additions	-	23,701	23,701
Share of profit for year of associate	25,248	-	25,248
At 31 December 2001	<u>132,774</u>	<u>284,479</u>	<u>417,253</u>

The group has an investment in its own shares through the Matcon Group Limited Employee Benefit Trust, set up within the meaning of s743 of the Companies Act 1985. Matcon (Trustee Company) Limited, a wholly owned subsidiary of the group, acts as trustee to the Trust.

During the year, the Trust acquired 9,750 shares in Matcon Group Limited at a total cost of £23,701. At the year end the Trust held 84,048 (2000 : 74,298) shares in the company at a cost of £284,479 (2000 : £260,778).

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2001

12 Fixed asset investments (continued)

Company

Shares in
subsidiary
undertakings
£

Cost

At 1 January 2001 & at 31 December 2001

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	Class	Shares held %
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
Participating interests			
Matcon Sarl	France	Ordinary	50

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, manufacture and supply of powder handling systems
Matcon Overseas Limited	Holding company
Matcon USA Inc	Design, engineering, manufacture and supply of powder handling systems
Material Control BV	Sale of powder handling systems
Matcon Pacific Pty Limited	Design, engineering, manufacture and supply of powder handling systems
Matcon GmbH	Sale of powder handling systems
Matcon Sarl	Design, engineering and commissioning of powder handling systems

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2001

13 Stocks and work in progress

	Group 2001 £	2000 £	Company 2001 £	2000 £
Raw materials and consumables	257,144	272,918	-	-
Work in progress	554,647	350,575	-	-
	<u>811,791</u>	<u>623,493</u>	<u>-</u>	<u>-</u>

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2001

14 Debtors

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
Trade debtors	3,175,918	2,981,956	-	-
Amounts recoverable on long term contracts	222,809	553,933	-	-
Amounts owed by group undertakings	-	-	489,690	1,960,520
Amounts owed by participating interests	-	140,528	-	-
Corporation tax	7,345	235,257	-	-
Other debtors	95,143	175,803	100	100
Prepayments and accrued income	97,648	95,512	-	-
Deferred tax asset	211,340	-	-	-
	<u>3,810,203</u>	<u>4,182,989</u>	<u>489,790</u>	<u>1,960,620</u>

Deferred taxation

	Group	Company
	2001	2001
	£	£
Balance at 1 January 2001 (as restated)	(83,856)	-
Profit and loss account	295,196	-
Balance at 31 December 2001	<u>211,340</u>	<u>-</u>

Deferred taxation provided in the financial statements is as follows:

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
Accelerated capital allowances	(65,610)	(83,856)	-	-
Short term timing differences	276,950	-	-	-
Provision for deferred taxation	<u>211,340</u>	<u>(83,856)</u>	<u>-</u>	<u>-</u>

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2001

15 Creditors : amounts falling due within one year

	Group		Company	
	2001	2000	2001	as restated 2000
	£	£	£	£
Bank loans and overdrafts	773,984	1,307,341	9,871	8,685
Payments received on account	1,134,920	1,481,137	-	-
Net obligations under finance lease and hire purchase contracts	11,866	14,299	-	-
Trade creditors	1,843,173	1,958,799	-	-
Amounts owed to group undertakings	-	-	26,744	1,455,139
Corporation tax	182,408	-	-	-
Taxes and social security costs	80,375	95,941	-	-
Other creditors	153,359	78,927	3,512	3,512
Accruals and deferred income	1,047,394	394,202	24	25
	<u>5,227,479</u>	<u>5,330,646</u>	<u>40,151</u>	<u>1,467,361</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 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 2001

16 Creditors : amounts falling due after more than one year

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
Bank loans	129,553	147,735	-	-
Net obligations under finance leases and hire purchase agreements	9,563	12,026	-	-
	<u>139,116</u>	<u>159,761</u>	<u>-</u>	<u>-</u>
Analysis of loans				
Not wholly repayable within five years by instalments:				
Bank loan	151,335	156,924	-	-
Included in current liabilities	(21,782)	(9,189)	-	-
	<u>129,553</u>	<u>147,735</u>	<u>-</u>	<u>-</u>
Loan maturity analysis				
In more than one year but not more than two years	23,078	10,065	-	-
In more than two years but not more than five years	77,798	36,325	-	-
In more than five years	28,677	101,345	-	-
	<u>129,553</u>	<u>147,735</u>	<u>-</u>	<u>-</u>
Net obligations under finance leases and hire purchase contracts				
Repayable within one year	11,866	14,299	-	-
Repayable between one and five years	9,563	12,026	-	-
	<u>21,429</u>	<u>26,325</u>	<u>-</u>	<u>-</u>

The bank loan is repayable in 60 monthly instalments of \$2,853 (£1,960 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 2001

17 Provisions for liabilities and charges Group

	Other provisions £	Deferred taxation £	Total £
Balance at 1 January 2001	205,796	83,856	289,652
Profit and loss account	25,808	(83,856)	(58,048)
Balance at 31 December 2001	231,604	-	231,604

Other provisions relate to warranty provisions and provisions for remedial work on sales made in the year. The relevant costs are expected to be incurred during the year ended 31 December 2002.

A deferred tax asset arises at 31 December 2001, which is included in debtors. This gave rise to a total credit to the profit and loss account for the year, including the release of the above provision, of £295,156 as shown in note 14.

18 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 scheme.

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2001

19 Share capital	2001 £	2000 £
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		
1,000,000 Ordinary shares of £ 1 each	1,000,000	1,000,000
484,659 9% preference shares of £ 1 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 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.

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2001

20 Statement of movements on reserves Group

	Other reserves	Profit and loss account
	£	£
Balance at 1 January 2001	515,341	(814,379)
Prior year adjustment	-	46,195
Balance at 1 January 2001 as restated	515,341	(768,184)
Retained profit for the year	-	35,940
Currency translation differences on foreign currency net investments	-	9,616
Balance at 31 December 2001	515,341	(722,628)

Cumulative goodwill arising on consolidation amounting to £1,961,224 (2000 : £1,961,224) has been written off directly to the profit and loss account.

21 Reconciliation of movements in shareholders' funds Group

	2001 £	2000 £
Profit/(Loss) for the financial year	79,560	(444,546)
Dividends	(43,620)	(43,620)
	35,940	(488,166)
Foreign currency translation differences	9,616	29,646
Net addition to/(depletion in) shareholders' funds	45,556	(458,520)
Opening shareholders' funds	1,231,816	1,690,336
Closing shareholders' funds	1,277,372	1,231,816

	2001 £	2000 £
Company		
Loss for the financial year	-	(1,474)
Dividends	(43,620)	(43,620)
Net depletion in shareholders' funds	(43,620)	(45,094)
Opening shareholders' funds	2,493,259	2,538,353
Closing shareholders' funds	2,449,639	2,493,259

MATCON GROUP LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2001

22 Financial commitments

At 31 December 2001 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2001	2000	2001	2000
	£	£	£	£
Expiry date:				
Within one year	-	-	66,071	19,420
Between two and five years	-	-	95,915	65,972
In over five years	102,250	102,250	-	-
	<u>102,250</u>	<u>102,250</u>	<u>161,986</u>	<u>85,392</u>

23 Control

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

24 Related party transactions

Group

The Group owns 50% of Matcon Sarl, a company registered in France. During the year, sales of £251,630 (2000 : £144,640) were made to Matcon Sarl by the Group, representing supplies for contracts and royalties. Also, purchases of £4,403 (2000 : £36,199) were made from Matcon Sarl by the Group, representing supplies for contracts. The Group also wrote off £18,889 (2000 : £Nil) of accrued royalty income during the year.

At the year end, the Group owed £52,453 (2000 : £176,859 owed to the Group) to Matcon Sarl.

During the year, management services of £24,684 (2000 : £24,684) were invoiced to Healthcare Development Services Limited, a company in which Sir John Aird is also a director. At 31 December 2001, Healthcare Development Services Limited owed the Group £4,834 (2000 : £7,251). During the year the Group paid rent of £57,500 (2000 : £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.