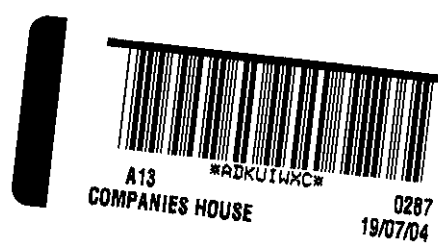


Company Registration No. 2939693 (England and Wales)

**MATCON GROUP LIMITED**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2003**



# **MATCON GROUP LIMITED**

## **DIRECTORS AND ADVISERS**

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**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

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# **MATCON GROUP LIMITED**

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# **MATCON GROUP LIMITED**

## **DIRECTORS' REPORT for the year ended 31 December 2003**

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The directors present their report and financial statements for the year ended 31 December 2003.

### **Directors**

The following directors have held office since 1 January 2003:

Sir John Aird  
C Lee  
J Thompson  
P Cooper  
D Drew  
D Dugdale  
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 global economic slowdown continued to create difficult market conditions for the Matcon Group in 2003. Despite this order intake was up in all markets other than the USA which was significantly down until the latter part of the year.

In 2003 turnover was increased from £13.2 million to £14.2 million.

During the year, the directors continued to concentrate on maintaining gross margin levels and this is reflected in the current level of gross margin shown in these accounts.

This produced a profit for the year before tax of £509,289 and a profit after tax and preference dividends of £474,330 . The directors recommend that this profit is retained in the company and that no dividend on ordinary shares is paid.

The Group continued its development of overseas markets, consolidating its position in the new offices opened in recent years.

In Europe, we completed a number substantial orders from the Food and Pharmaceutical Industries, which contributed to our operations in Europe becoming profitable during the year.

In Japan we continue to make slow but steady progress with an increase in spares and service work and orders won in conjunction with our engineering partnership, Nisshin Engineering Inc.

In South East Asia the business continued to perform well and in Australia we completed a number of significant projects for the Food and Pharmaceutical Industries, which enabled that operation to make a positive contribution to the Group's profits.

Results in the USA were disappointing with the low order intake throughout much of 2003 giving rise to a loss for the year. US business confidence and orders have improved in 2004 and the directors are pleased to note that the USA has again returned to profit and is expected to make a positive contribution to group results for the year.

Spares and service work continues to perform well, building on the strong installed base of Matcon equipment around the world. The dedicated team of service engineers and support staff has been strengthened by the appointment of an experienced Matcon Customer Service Manager to grow this business opportunity and improve the support and service offered to customers worldwide.

# MATCON GROUP LIMITED

## DIRECTORS' REPORT (CONTINUED) for the year ended 31 December 2003

### Review of the business (continued)

The Group continues to make significant investments in research and development and developing new products. 2003 saw a number of new products being sold and installed at customers sites around the world. A significant investment was also made during the year in test plant facilities and equipment. A new Test Plant facility was established at the Weil-am-Rhein office in Germany and upgrades made to the UK, USA and Japan facilities.

The commitment to improving Standards and Quality started in 2002 has continued throughout the year with particular emphasis being placed on the standardisation of products and technical drawings. This commitment to quality is considered essential in developing the order book and enabling margins to be maintained.

### 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 2003	1 January 2003
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 2003	1 January 2003
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 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 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 2003

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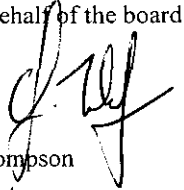
### Directors' responsibilities

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

1 June 2004

# **MATCON GROUP LIMITED**

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MATCON GROUP LIMITED**

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We have audited the financial statements of Matcon Group Limited on pages 5 to 28 for the year ended 31 December 2003. 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 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 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Hazlewoods

**Chartered Accountants  
Registered Auditor**

1 June 2004

Windsor House  
Barnett Way  
Barnwood  
Gloucester  
GL4 3RT

# MATCON GROUP LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 December 2003

	Notes	2003 £	2002 £
Turnover	2	14,241,633	13,234,315
Cost of sales		(7,317,629)	(6,420,075)
<b>Gross profit</b>		6,924,004	6,814,240
Administrative expenses		(6,353,097)	(6,239,507)
<b>Operating profit</b>	3	570,907	574,733
Share of operating loss of associate		-	(12,537)
Other interest receivable and similar income		544	21,793
Interest payable and similar charges	4	(62,162)	(73,296)
<b>Profit on ordinary activities before taxation</b>		509,289	510,693
Tax on profit on ordinary activities	6	8,661	(289,736)
<b>Profit on ordinary activities after taxation</b>		517,950	220,957
Dividends (in respect of non-equity shares)	8	(43,620)	(43,620)
<b>Retained profit for the year</b>	19	474,330	177,337

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 2003**

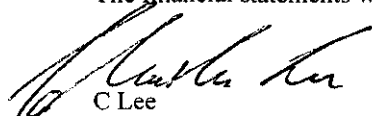
	<b>2003</b>	<b>2002</b>
	<b>£</b>	<b>£</b>
<b>Profit for the financial year</b>	517,950	220,957
Currency translation differences on foreign currency net investments	(66,440)	(40,104)
<b>Total recognised gains and losses relating to the year</b>	<u>451,510</u>	<u>180,853</u>

# MATCON GROUP LIMITED

## BALANCE SHEETS as at 31 December 2003

		Group		Company	
	Notes	2003	2002	2003	2002
		£	£	£	£
<b>Fixed assets</b>					
Intangible assets	9	692,814	764,113	-	-
Tangible assets	10	670,199	713,416	-	-
Investments	11	303,479	303,479	2,000,000	2,000,000
		<u>1,666,492</u>	<u>1,781,008</u>	<u>2,000,000</u>	<u>2,000,000</u>
<b>Current assets</b>					
Stocks and work in progress	12	836,111	494,240	-	-
Debtors	13	3,919,304	2,971,087	588,675	588,675
Cash at bank and in hand		616,498	447,431	-	-
		<u>5,371,913</u>	<u>3,912,758</u>	<u>588,675</u>	<u>588,675</u>
<b>Creditors: amounts falling due within one year</b>	14	<u>(4,957,552)</u>	<u>(3,969,343)</u>	<u>(126,130)</u>	<u>(82,510)</u>
<b>Net current assets/(liabilities)</b>		<u>414,361</u>	<u>(56,585)</u>	<u>462,545</u>	<u>506,165</u>
<b>Total assets less current liabilities</b>		<u>2,080,853</u>	<u>1,724,423</u>	<u>2,462,545</u>	<u>2,506,165</u>
<b>Creditors: amounts falling due after more than one year</b>	15	<u>(109,026)</u>	<u>(126,238)</u>	<u>-</u>	<u>-</u>
<b>Provisions for liabilities and charges</b>	16	<u>(149,332)</u>	<u>(183,580)</u>	<u>-</u>	<u>-</u>
		<u>1,822,495</u>	<u>1,414,605</u>	<u>2,462,545</u>	<u>2,506,165</u>
<b>Capital and reserves</b>					
Called up share capital	18	1,484,659	1,484,659	1,484,659	1,484,659
Other reserves	19	515,341	515,341	515,341	515,341
Profit and loss account	19	(177,505)	(585,395)	462,545	506,165
	20	<u>1,822,495</u>	<u>1,414,605</u>	<u>2,462,545</u>	<u>2,506,165</u>
Equity interests		1,337,836	929,946	1,977,886	2,021,506
Non-equity interests		484,659	484,659	484,659	484,659
		<u>1,822,495</u>	<u>1,414,605</u>	<u>2,462,545</u>	<u>2,506,165</u>

The financial statements were approved by the board on 1 June 2004

  
C Lee  
Director

  
Sir John Aird  
Director

# MATCON GROUP LIMITED

## CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 December 2003

	2003 £	2002 £
Net cash inflow from operating activities - normal	360,844	1,396,323
Cash outflow from operating activities - exceptional	-	(896,746)
<b>Net cash inflow from operating activities</b>	<b>360,844</b>	<b>499,577</b>
<b>Returns on investments and servicing of finance</b>		
Interest received	544	21,793
Interest paid	(58,128)	(69,374)
Interest element of hire purchase payments	(4,034)	(3,922)
Non equity dividends paid	(43,620)	(43,620)
<b>Net cash outflow for returns on investments and servicing of finance</b>	<b>(105,238)</b>	<b>(95,123)</b>
<b>Taxation</b>	<b>(97,311)</b>	<b>(139,823)</b>
<b>Capital expenditure and financial investment</b>		
Payments to acquire intangible assets	(42,112)	(47,061)
Payments to acquire tangible assets	(178,288)	(255,958)
Payments to acquire investments	-	(19,000)
Receipts from sales of tangible assets	-	4,500
<b>Net cash outflow for capital expenditure and financial investment</b>	<b>(220,400)</b>	<b>(317,519)</b>
<b>Acquisitions and disposals</b>		
Purchase of subsidiary undertakings (net of cash acquired)	(37,438)	(79,477)
Net cash acquired with subsidiary	-	129,662
<b>Net cash (outflow)/inflow for acquisitions and disposals</b>	<b>(37,438)</b>	<b>50,185</b>
<b>Net cash outflow before financing</b>	<b>(99,543)</b>	<b>(2,703)</b>
Repayment of long term bank loan	(9,805)	(11,295)
Capital element of finance lease contracts	(17,958)	(16,587)
<b>Net cash outflow from financing</b>	<b>(27,763)</b>	<b>(27,882)</b>
<b>Decrease in cash in the year</b>	<b>(127,306)</b>	<b>(30,585)</b>

The exceptional cash outflow from operating activities in 2002 relates to the costs of a legal settlement and related fees incurred in 2001.

# MATCON GROUP LIMITED

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 December 2003

1	Reconciliation of operating profit to net cash inflow from operating activities	2003 £	2002 £
	Operating profit	570,907	574,733
	Depreciation of tangible assets	231,157	235,714
	Amortisation of intangible assets	125,807	122,456
	Loss on disposal of tangible assets	6,571	1,175
	(Increase)/decrease in stocks	(328,911)	(62,761)
	(Increase)/decrease in debtors	(890,908)	680,075
	Increase/(decrease) in creditors and provisions - normal	626,221	(155,069)
	<b>Net cash inflow from operating activities - normal</b>	<b>360,844</b>	<b>1,396,323</b>
	Cash outflow from operating activities - exceptional	-	(896,746)
	<b>Net cash inflow from operating activities</b>	<b>360,844</b>	<b>499,577</b>

The exceptional cash outflow from operating activities in 2002 relates to the costs of a legal settlement and related fees incurred in 2001.

2	Analysis of net debt	1 January 2003 £	Cash flow £	Other non-cash changes £	31 December 2003 £
	Net cash:				
	Cash at bank and in hand	447,431	178,109	(9,042)	616,498
	Bank overdrafts	(902,922)	(305,415)	-	(1,208,337)
		<u>(455,491)</u>	<u>(127,306)</u>	<u>(9,042)</u>	<u>(591,839)</u>
	Debt:				
	Finance leases	(23,397)	17,958	(41,187)	(46,626)
	Bank loans	(125,560)	9,805	12,294	(103,461)
		<u>(148,957)</u>	<u>27,763</u>	<u>(28,893)</u>	<u>(150,087)</u>
	<b>Net debt</b>	<b>(604,448)</b>	<b>(99,543)</b>	<b>(37,935)</b>	<b>(741,926)</b>

The non-cash changes on cash at bank and in hand and on bank loans relate to foreign exchange movements. The non-cash change on finance leases relates to a new lease in the year.

# MATCON GROUP LIMITED

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED) for the year ended 31 December 2003

3	Reconciliation of net cash flow to movement in net debt	2003 £	2002 £
	Decrease in cash in the year	(127,306)	(30,585)
	Cash outflow from decrease in debt	27,763	27,882
	Net effect of foreign exchange differences	3,252	(3,331)
	New finance lease	(41,187)	(18,555)
	<b>Movement in net debt in the year</b>	<b>(137,478)</b>	<b>(24,589)</b>
	Opening net debt	(604,448)	(579,859)
	<b>Closing net debt</b>	<b>(741,926)</b>	<b>(604,448)</b>

# MATCON GROUP LIMITED

## NOTES TO THE CONSOLIDATED ACCOUNTS for the year ended 31 December 2003

---

### 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 13.

#### 1.2 Basis of consolidation

The group financial statements consolidate those of the company and its subsidiary undertakings drawn up to 31 December 2003. 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 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

# MATCON GROUP LIMITED

## NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2003

---

### 1 Accounting policies

(continued)

#### 1.7 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.

#### 1.8 Investments

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

#### 1.9 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.

#### 1.10 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.

#### 1.11 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.

#### 1.12 Deferred taxation

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.

#### 1.13 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.

# MATCON GROUP LIMITED

## NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2003

### 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:

	2003	2002
	£	£
<b>Geographical segment</b>		
UK	1,856,522	2,461,457
European Union	6,509,572	3,588,906
USA	2,256,637	4,298,071
Rest of the World	3,618,902	2,885,881
	<u>14,241,633</u>	<u>13,234,315</u>

### 3 Operating profit

	2003	2002
	£	£
Operating profit is stated after charging:		
Depreciation of intangible assets	125,807	122,456
Depreciation of tangible assets	231,157	235,714
Research and development	153,973	100,480
Operating lease rentals		
- Other assets	90,404	120,723
- Land and buildings	151,041	147,731
Auditors' remuneration (company £1,500; 2002 : £1,500)	32,834	32,567
Remuneration of auditors for non-audit work	29,531	52,794
	<u></u>	<u></u>

### 4 Interest payable

	2003	2002
	£	£
On bank loans and overdrafts	58,128	69,374
Lease finance charges	4,034	3,922
	<u>62,162</u>	<u>73,296</u>



# MATCON GROUP LIMITED

## NOTES TO THE CONSOLIDATED ACCOUNTS for the year ended 31 December 2003

5	Directors and employees	2003 £	2002 £
	<b>Directors' emoluments</b>		
	Emoluments for qualifying services	404,749	439,036
	Pension contributions to defined contribution schemes	35,166	37,959
		<u>439,915</u>	<u>476,995</u>

The number of directors for whom retirement benefits are accruing under defined contribution pension schemes amounted to 5 (2002 - 5 ).

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

Emoluments for qualifying services	102,708	104,116
Pension contributions to defined contribution schemes	9,200	8,994
	<u>111,908</u>	<u>113,110</u>

### Number of employees

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

	2003 Number	2002 Number
Production and sales	80	82
Office and management	49	43
	<u>129</u>	<u>125</u>
Wages and salaries	3,500,835	3,325,255
Social security costs	357,113	293,340
Other pension costs	220,280	187,351
	<u>4,078,228</u>	<u>3,805,946</u>

# MATCON GROUP LIMITED

## NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2003

6	Taxation	2003 £	2002 £
	<b>Domestic current year tax</b>		
	U.K. corporation tax	24,431	35,041
	Adjustment for prior years	9,000	-
	Share of prior year tax charge of associate (see below)	-	21,000
		<u>30,981</u>	<u>60,738</u>
	<b>Foreign corporation tax</b>		
	Foreign corporation tax	1,743	-
		<u>35,174</u>	<u>40,415</u>
	<b>Current tax charge</b>		
	<b>Deferred tax</b>		
	Deferred tax charge/(credit)	(43,835)	228,998
		<u>(8,661)</u>	<u>289,736</u>
	<b>Factors affecting the tax charge for the year</b>		
	Profit on ordinary activities before taxation	<u>509,289</u>	<u>510,693</u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00 % (2002 : 30.00 %)	<u>152,787</u>	<u>153,208</u>
	Effects of:		
	Non deductible expenses	7,305	17,915
	Excess of depreciation over capital allowances	27,975	31,779
	Tax losses utilised	(152,655)	(234,419)
	Foreign tax adjustments	35,798	105,509
	Adjustments to previous periods	9,000	21,000
	Tax losses carried forward to future periods	(2,228)	-
	Withholding tax (utilised)/suffered on royalties received	(4,659)	(12,660)
	Short term timing difference	-	(6,808)
	Other tax adjustments	(38,149)	(14,786)
		<u>(117,613)</u>	<u>(92,470)</u>
	<b>Current tax charge</b>	<u>35,174</u>	<u>60,738</u>

Other tax adjustments above relate to enhanced credits for research and development costs. The group share of associate tax of £21,000 in 2002 represents withholding tax not provided for in previous years in the group's former associated undertaking.

# MATCON GROUP LIMITED

## NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2003

### 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 (2002 : £100,146, £Nil after deducting dividends received from group undertakings) dealt with in the profit and loss account of the company.

8 Dividends	2003 £	2002 £
<b>Dividends on non-equity shares:</b>		
Preference dividend paid	43,620	43,620

### 9 Intangible fixed assets Group

	Patents £	Goodwill £	Total £
<b>Cost</b>			
At 1 January 2003	1,220,077	185,961	1,406,038
Exchange differences	-	15,256	15,256
Additions	42,112	-	42,112
At 31 December 2003	1,262,189	201,217	1,463,406
<b>Amortisation</b>			
At 1 January 2003	618,558	23,367	641,925
Exchange differences	-	2,860	2,860
Charge for the year	115,747	10,060	125,807
At 31 December 2003	734,305	36,287	770,592
<b>Net book value</b>			
At 31 December 2003	527,884	164,930	692,814
At 31 December 2002	601,519	162,594	764,113

# MATCON GROUP LIMITED

## NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2003

### 10 Tangible fixed assets

#### Group

	Freehold land and buildings	Short leasehold land and buildings	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£	£	£
<b>Cost</b>						
At 1 January 2003	312,951	206,831	917,801	1,493,778	82,973	3,014,334
Exchange differences	(30,643)	-	(14,109)	(19,780)	3,153	(61,379)
Additions	-	-	166,175	40,603	11,637	218,415
Disposals	-	-	(10,128)	(2,820)	(20,013)	(32,961)
At 31 December 2003	282,308	206,831	1,059,739	1,511,781	77,750	3,138,409
<b>Depreciation</b>						
At 1 January 2003	61,949	165,965	670,782	1,356,879	45,343	2,300,918
Exchange differences	(6,066)	-	(12,359)	(20,710)	1,660	(37,475)
On disposals	-	-	(4,024)	(2,353)	(20,013)	(26,390)
Charge for the year	4,088	19,254	131,710	57,224	18,881	231,157
At 31 December 2003	59,971	185,219	786,109	1,391,040	45,871	2,468,210
<b>Net book value</b>						
At 31 December 2003	222,337	21,612	273,630	120,741	31,879	670,199
At 31 December 2002	251,002	40,866	247,019	136,899	37,630	713,416

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

	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£
<b>Net book values</b>				
At 31 December 2003	-	13,385	22,461	35,846
At 31 December 2002	-	-	30,560	30,560
<b>Depreciation charge for the year</b>				
31 December 2003	-	6,290	13,630	19,920
31 December 2002	-	-	7,512	7,512

# MATCON GROUP LIMITED

## NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2003

### 11 Fixed asset investments Group

	Interest in own shares £
Cost	
At 1 January 2003 & at 31 December 2003	<u>303,479</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.

The Trust holds 93,548 (2002 : 93,548) shares in the company at a cost of £303,479 (2002 : £303,479).

# MATCON GROUP LIMITED

## NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2003

### 11 Fixed asset investments

(continued)

#### Company

Shares in  
subsidiary  
undertakings  
£

#### Cost

At 1 January 2003 & at 31 December 2003

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:

	<b>Principal activity</b>
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	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 2003

### 12 Stocks and work in progress

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Raw materials and consumables	309,244	253,265	-	-
Work in progress	1,814,177	614,926	-	-
Less : payments on account	(1,287,310)	(373,951)	-	-
	<u>836,111</u>	<u>494,240</u>	<u>-</u>	<u>-</u>

# MATCON GROUP LIMITED

## NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2003

### 13 Debtors

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Trade debtors	2,208,387	2,253,593	-	-
Amounts recoverable on long term contracts	1,123,124	385,201	-	-
Amounts owed by group undertakings	-	-	588,575	488,429
Corporation tax	47,440	11,168	-	-
Other debtors	277,282	211,501	100	100,246
Prepayments and accrued income	257,897	109,624	-	-
Deferred tax asset	5,174	-	-	-
	<u>3,919,304</u>	<u>2,971,087</u>	<u>588,675</u>	<u>588,675</u>

### Deferred tax

	Group	Company
	2003	2003
	£	£
Profit and loss account	5,174	-
Balance at 31 December 2003	<u>5,174</u>	<u>-</u>

The deferred tax balance was a provision in 2002. See note 16.

Deferred taxation provided in the financial statements is as follows:

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Accelerated capital allowances	(10,977)	-	-	-
Other timing differences	9,000	-	-	-
Tax losses available	7,151	-	-	-
	<u>5,174</u>	<u>-</u>	<u>-</u>	<u>-</u>



# MATCON GROUP LIMITED

## NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2003

### 14 Creditors : amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	2003	2002	2003	2002
	£	£	£	£
Bank loans and overdrafts	1,227,479	914,947	10,455	9,843
Payments received on account	837,321	588,114	-	-
Net obligations under finance lease and hire purchase contracts	21,919	10,694	-	-
Trade creditors	1,947,447	1,608,957	-	-
Amounts owed to group undertakings	-	-	112,136	69,129
Corporation tax	17,995	72,615	-	-
Taxes and social security costs	115,629	131,141	-	-
Other creditors	176,479	51,685	3,512	3,512
Accruals and deferred income	613,283	591,190	27	26
	<u>4,957,552</u>	<u>3,969,343</u>	<u>126,130</u>	<u>82,510</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 2003

### 15 Creditors : amounts falling due after more than one year

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Bank loans	84,319	113,535	-	-
Net obligations under finance leases and hire purchase agreements	24,707	12,703	-	-
	<u>109,026</u>	<u>126,238</u>	<u>-</u>	<u>-</u>
<b>Analysis of loans</b>				
Wholly repayable within five years	103,461	125,560	-	-
Included in current liabilities	(19,142)	(12,025)	-	-
	<u>84,319</u>	<u>113,535</u>	<u>-</u>	<u>-</u>
<b>Loan maturity analysis</b>				
In more than one year but not more than two years	20,221	12,734	-	-
In more than two years but not more than five years	64,098	42,895	-	-
In more than five years	-	57,906	-	-
	<u>-</u>	<u>57,906</u>	<u>-</u>	<u>-</u>
<b>Net obligations under finance leases and hire purchase contracts</b>				
Repayable within one year	21,919	10,694	-	-
Repayable between one and five years	24,707	12,703	-	-
	<u>46,626</u>	<u>23,397</u>	<u>-</u>	<u>-</u>
Included in liabilities falling due within one year	(21,919)	(10,694)	-	-
	<u>24,707</u>	<u>12,703</u>	<u>-</u>	<u>-</u>

The bank loan is repayable in 60 monthly instalments of \$2,853 (£1,599 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 2003

### 16 Provisions for liabilities and charges Group

	Warranty provision £	Deferred taxation £	Total £
Balance at 1 January 2003	152,391	31,189	183,580
Profit and loss account	(3,059)	(38,661)	(41,720)
Exchange difference	-	7,472	7,472
Balance at 31 December 2003	149,332	-	149,332

Deferred taxation provided in the financial statements is as follows:

	Group		Company	
	2003 £	2002 £	2003 £	2002 £
Accelerated capital allowances	-	40,189	-	-
Other timing differences	-	(9,000)	-	-
	-	31,189	-	-

The deferred tax balance is now an asset and is hence shown under debtors in note 13.

### 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 2003

18 Share capital	2003 £	2002 £
<b>Authorised</b>		
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>
<b>Allotted, called up and fully paid</b>		
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 2003

### 19 Statement of movements on reserves Group

	Other reserves	Profit and loss account
	£	£
Balance at 1 January 2003	515,341	(585,395)
Retained profit for the year	-	474,330
Foreign currency translation differences	-	(66,440)
	<u>515,341</u>	<u>(177,505)</u>
Balance at 31 December 2003	<u>515,341</u>	<u>(177,505)</u>

#### Other reserves

##### Capital redemption reserve

Balance at 1 January 2003 & at 31 December 2003

515,341

### Company

	Other reserves (see below)	Profit and loss account
	£	£
Balance at 1 January 2003	515,341	506,165
Retained loss for the year	-	(43,620)
	<u>515,341</u>	<u>462,545</u>
Balance at 31 December 2003	<u>515,341</u>	<u>462,545</u>

#### Other reserves

##### Capital redemption reserve

Balance at 1 January 2003 & at 31 December 2003

515,341

# MATCON GROUP LIMITED

## NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED) for the year ended 31 December 2003

20	Reconciliation of movements in shareholders' funds Group	2003	2002
		£	£
	Profit for the financial year	517,950	220,957
	Dividends	(43,620)	(43,620)
		<hr/>	<hr/>
		474,330	177,337
	Foreign currency translation differences	(66,440)	(40,104)
		<hr/>	<hr/>
	Net addition to shareholders' funds	407,890	137,233
	Opening shareholders' funds	1,414,605	1,277,372
		<hr/>	<hr/>
	Closing shareholders' funds	1,822,495	1,414,605
		<hr/>	<hr/>
	Company	2003	2002
		£	£
	(Loss)/Profit for the financial year	-	100,146
	Dividends	(43,620)	(43,620)
		<hr/>	<hr/>
	Net (depletion in)/addition to shareholders' funds	(43,620)	56,526
	Opening shareholders' funds	2,506,165	2,449,639
		<hr/>	<hr/>
	Closing shareholders' funds	2,462,545	2,506,165
		<hr/>	<hr/>

## 21 Financial commitments

At 31 December 2003 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2003	2002	2003	2002
	£	£	£	£
Expiry date:				
Within one year	18,942	-	39,499	57,370
Between two and five years	132,099	118,168	50,906	41,545
	<hr/>	<hr/>	<hr/>	<hr/>
	151,041	118,168	90,405	98,915
	<hr/>	<hr/>	<hr/>	<hr/>

## 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 2003**

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### **23 Related party transactions**

#### **Group**

During the year, management services of £2,057 (2002 : £24,684) were invoiced to Healthcare Development Services Limited, a company in which Sir John Aird is also a director. At 31 December 2003, Healthcare Development Services Limited owed the Group £Nil (2002 : £4,834). During the year the Group paid rent of £63,500 (2002 : £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.