Registered number: 124855

MOLINS

MOLINS PLC
Annual report and accounts 1997

MOLINS

International Specialist Engineers

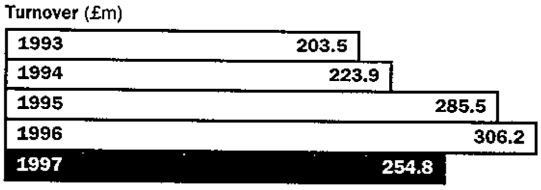
Annual report and accounts 1997

Contents

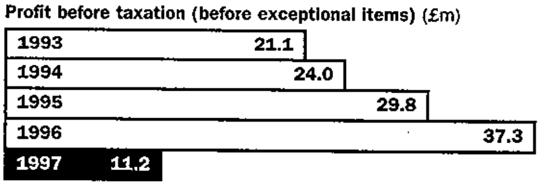
Financial highlights

For the year ended 31 December	1997 £m	1996 £m
Operations		
Turnover	**254.8**	306.2
Profit before taxation (before exceptional items)	**11.2**	37.3
(Loss)/profit before taxation	**(20.1)**	33.4
Shareholders' funds	**82.8**	105.9
Net borrowings	**(7.3)**	(11.7)
UK exports		
Exports from UK	**128.6**	170.7
Percentage of total UK turnover	**84%**	90%
Amount per ordinary share		
Earnings (before exceptional items)	**16.3p**	81.0p
(Loss)/earnings	**(58.9)p**	72.8p
Dividends	**15.0p**	22.0p
Net assets	**231p**	303p

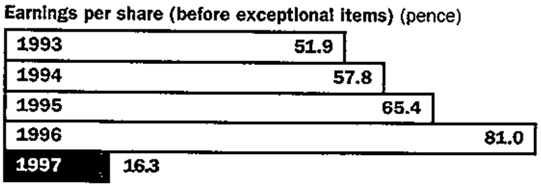
Turnover (£m)



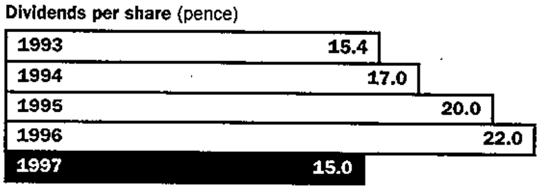
Profit before taxation (before exceptional items) (£m)



Earnings per share (before exceptional items) (pence)



Dividends per share (pence)



Group overview

Molins supplies innovative manufacturing and packaging machinery for the tobacco, corrugated board and fast moving consumer goods industries.

Tobacco machinery

Principal activities

Designs, manufactures, markets and services specialist machinery for the tobacco industry.

Operating units and locations

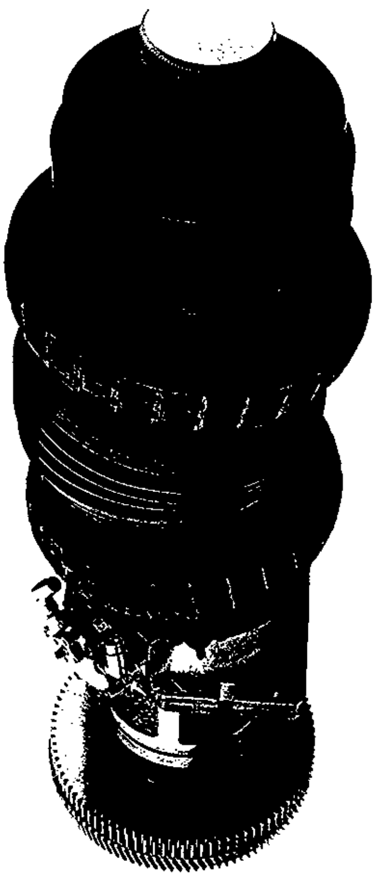
Original Equipment, Saunderton	UK
Spares, Peterborough	UK
Molmac Engineering, Milton Keynes	UK
Molins Richmond, Virginia	USA
Molins do Brasil, Curitiba	Brazil
Molins Far East	Singapore
Molins (Australia), West Heidelberg	Australia
Molins GmbH, Hamburg	Germany
AO Tabak, Moscow	Russia
Molins Kunming Service Centre, Kunming	China

£150.5m

Turnover

Conical separator drum, Passim plug assembler

See page 9



Corrugated board machinery

Principal activities

Designs, manufactures, markets and services specialist machinery for the corrugated board industry.

Operating units and locations

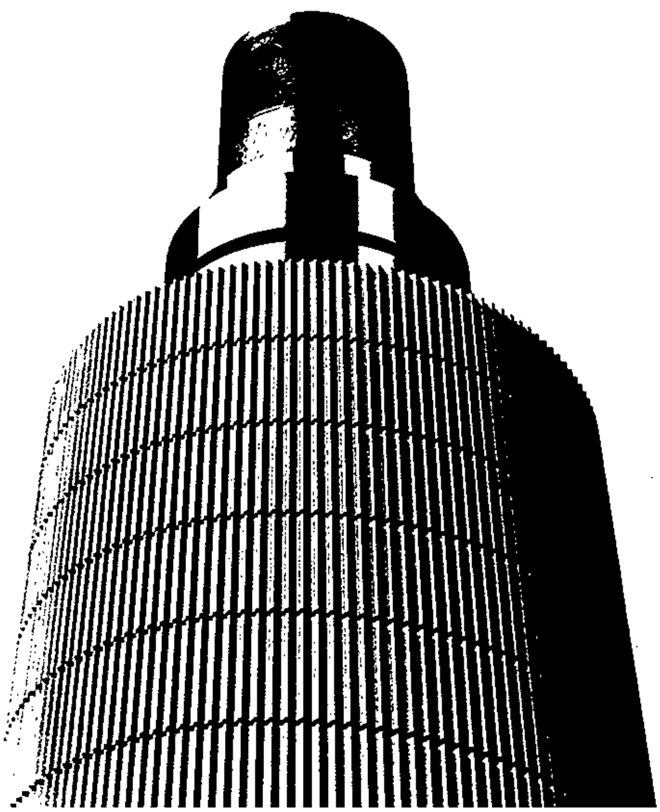
Langston, Cherry Hill	USA
Langston Europe, Bristol	UK
Molins (Australia), West Heidelberg	Australia
Langston (China), Xian	China
Molins Far East	Singapore

£70.3m

Turnover

Corrugating roll

See page 11



Packaging machinery

Principal activities

Designs, manufactures, markets and services specialist machinery for the fast moving consumer goods industries.

Operating units and locations

Sandiacre Packaging Machinery, Nottingham	UK
Molins Food Machinery, Coventry	UK
Langen Packaging, Ontario	Canada
Langen-Kyoto, Ontario	Canada
Langenpac, Wijchen	Holland
Molins Sandiacre, Richmond, Virginia	USA
Molins (Australia), West Heidelberg	Australia

£34.0m

Turnover

Former from vertical form, fill and seal bagging machine

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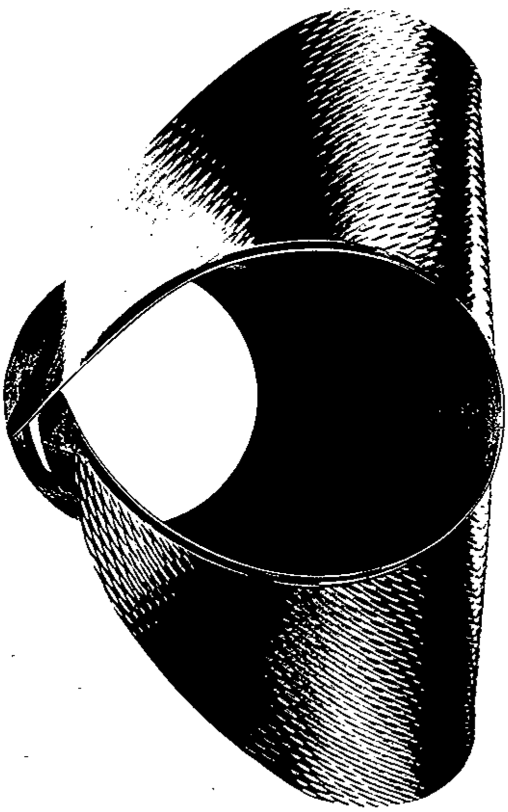

Research and development

Principal activities

Product and technology development.

Operating units and locations

Molins International Technology Centre, Coventry	UK
Original Equipment, Saunderton	UK
Molins Richmond, Virginia	USA
Langston, Cherry Hill	USA
Sandiacre Packaging Machinery, Nottingham	UK
Langen Packaging, Ontario	Canada
Langenpac, Wijchen	Holland

£9.3m

Net investment in research and development

Inner frame feeder, cigarette packer

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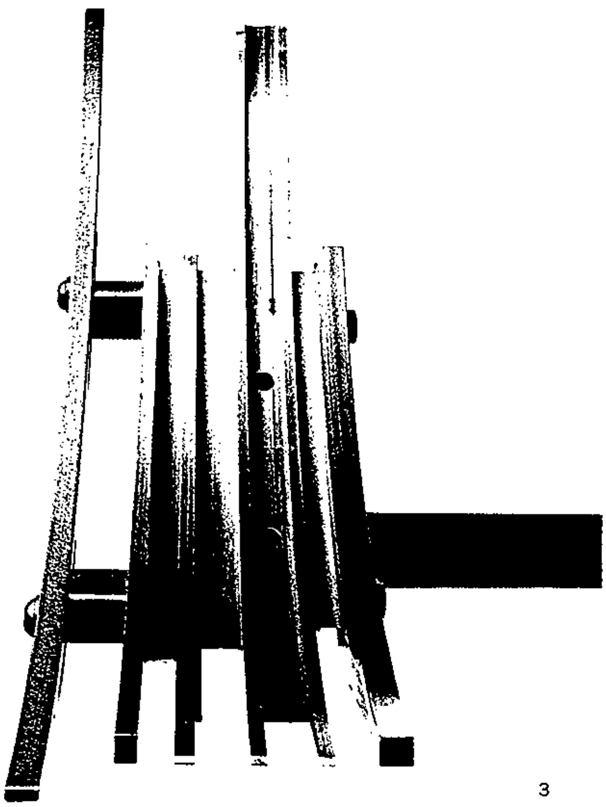


Chairman's statement

As foreshadowed, the Group's results for 1997 were very disappointing, reflecting in particular a sharp reduction in demand in the Tobacco Machinery division from the record level of sales last year and the consequent need to restructure its operations.

Results

On sales of £254.8m (1996: £306.2m), down 17%, the Group operating profit (before exceptional items) was £13.1m (1996: £38.3m). Exceptional charges totalled £31.3m (1996: £3.9m), comprising £17.9m for restructuring in the Tobacco Machinery division and £13.4m in respect of accounting irregularities at Langston. Accordingly, the Group loss before tax amounted to £20.1m (1996: profit £33.4m) and the loss after tax to £20.6m (1996: profit £24.9m). Earnings per share (before exceptional items) were 16.3p (1996: 81.0p) and the loss per share (after exceptional items) was 58.9p (1996: earnings of 72.8p).

Operations

During the year under review, the Tobacco Machinery division's results suffered from a sudden and unexpected fall in demand in its main market for original equipment in China and, to a lesser extent, from reduced spending by most multinationals pending the outcome of the continuing discussions in the USA on the proposed tobacco litigation settlement. Market prospects were further dampened by the weakness of south east Asian currencies and the continuing strength of sterling. Sales were down 18% to £150.5m (1996: £183.2m) and operating profits (before exceptional items) to £9.1m (1996: £28.4m). With no signs of improvement in prospect, the Board decided not to wait for the adverse factors in the market to unfold in their entirety but rather to take decisive action to restructure the division. Accordingly, the Group announced in November a restructuring programme involving the reduction of 25% of the division's workforce, which previously totalled some 2,000 people. Most of this reduction was implemented by the end of the year. In addition, sub-contract work was brought back in house wherever appropriate.

The market for corrugated board machinery remained weak for most of the year, although order intake picked up in the fourth quarter as conditions gradually improved. An investigation into certain accounting irregularities at Langston gave rise to a £13.4m exceptional charge. In summary, the investigation, which cost £1.2m, concluded that profits and net assets had been overstated at Langston over a number of years to the aggregate sum of US$20.8m (£12.2m) before tax and US$14.8m (£8.7m) after tax. On sales down 31% at £70.3m (1996: £101.6m), the division achieved a profit before exceptional items of £0.1m in 1997 against an overstated £6.6m reported last year.

The Packaging Machinery division achieved sales of £34.0m (1996: £21.4m) and an operating profit of £3.9m (1996: £3.3m), including a full year's contribution from Langen, acquired in November 1996. The division's performance reflects the weak order position of Langen at the start of the year together with the adverse effects of the strength of sterling on Sandiacre's profit margins. Langen's order book improved to a more normal position during the course of the year, albeit too late to achieve more than a small contribution to profits.

Financial position

Following the exceptional charges, which amounted to £26.3m net of tax, Group shareholders' funds at 31 December 1997 were £82.8m against £105.9m reported at 31 December 1996. Net assets per share were 231p (1996: 303p).

The Group's financial position remains strong. Net borrowings at the year end of £7.3m were £4.4m lower than the previous year. Net interest charges amounted to £1.9m (1996: £1.0m), reflecting the funding of the Langen acquisition.

Dividend

Taking account of the 1997 results and the outlook for 1998, a reduced final dividend of 8.5p per share (1996: 15.5p) is recommended, which, together with the interim dividend of 6.5p per share, would make a total for the year of 15.0p per share (1996: 22.0p), giving dividend cover of 1.1 times before exceptional items (1996: 3.6 times). If approved, the final dividend will be paid on 20 May 1998 to ordinary shareholders registered on 3 April 1998.

Board and management
Following Peter Harrisson's resignation from the Board in January 1998 after two years as Chief Executive, Peter Grant assumed the responsibilities of Chief Executive in addition to his existing responsibilities as Group Finance Director. He continues as Acting Chief Executive for the time being and a permanent appointment will be made as soon as alternative outside candidates have been considered. In the meantime, Clive Chapman, formerly Managing Director, Finance and Corporate Planning of Nestor Healthcare Group plc, has joined the Group on an interim basis as Director of Finance. He is taking on many of the duties of the Group Finance Director so as to allow Peter Grant to give more time to the Chief Executive's role. Bill Baugh, an executive director since 1987, also resigned from the Board at the end of December and we wish him well in the appointment which he has now taken up elsewhere.

Michael Wright, an executive director from 1985 to 1990 and a non-executive director since then, has decided not to stand for re-election at the Annual General Meeting as a result of increased commitments following his appointment as Vice-Chancellor of Aston University. His contribution to the Group's affairs throughout his term of office has been greatly appreciated by all his colleagues. The appointment of a further non-executive director is under consideration by the Nomination Committee.

Employees
This has been a difficult year for the Group. As always, employees have to cope with additional challenges in such circumstances and I should like to thank them on your behalf for facing up to the demands placed upon them.

Outlook
The pressures which have been felt by the Tobacco Machinery division throughout the year are affecting all its competitors similarly, with insufficient orders for original equipment to utilise the available productive capacity across the industry. Demand for tobacco machinery has fallen abruptly from the record levels of two years ago to the lowest level for many years. There is little reason to suppose that the order flow for original equipment will strengthen in the immediate future and, accordingly, a further reduction in the Group's capacity cannot be ruled out. However, subject to any exceptional costs arising from this, the continuing flow of revenues from the sale of spares, coupled with the actions already taken to reduce operating costs, should ensure that the division as a whole remains profitable.

Growth prospects in the remainder of the Group's business are better. The Corrugated Board Machinery division has benefited from the improving market conditions and the Packaging Machinery division is beginning to win further business internationally, albeit in markets which remain highly competitive.

With no signs of an early recovery in the tobacco machinery market in evidence, the Board has had to accept that the Group's capacity to earn profits is diminished and is likely to remain so for some time to come. Accordingly, despite the strength of the balance sheet, the Board has decided to recommend a reduction in the final dividend to 8.5p per share (1996: 15.5p). The reduced total of 15.0p per share (1996: 22.0p) compares with earnings per share before exceptional items of 16.3p (1996: 81.0p).

Substantial cost reductions have already been made in an effort to underpin profitability. Even so, with sterling remaining strong, we will do well to achieve improved operating results in the current year. We will continue to take whatever action is required to establish a sound base from which to move forward in future years.

J C Orr
Chairman
12 March 1998

Group operating review

After commencing the year with a cautious but positive outlook, 1997 was a year of adversity for much of the Group.

In April, the accounting irregularities discovered at Langston necessitated an extensive independent investigation. Immediate action was taken to replace certain senior management in the USA and the Group was fortunate to be able to get a new team in and operating effectively very quickly.

In the second half of the year it became increasingly apparent that demand for tobacco machinery had been adversely affected by three external factors.

First, demand from the important Chinese market all but stalled as the authorities sought to exert stronger central control. Their action affected production levels and reduced cash generation in a number of factories, compromising their ability to finance investment plans. Some orders expected in the first half were confirmed towards the end of the year, but at lower volumes and certain shipments were delayed temporarily, pending receipt of letters of credit.

Secondly, the continuing discussions in the USA on the proposed tobacco litigation settlement started to affect spending by most multinationals. The consequential increase in cigarette prices is expected to dampen demand in the USA and productive capacity looks set to be reduced accordingly. Furthermore, multinationals are contemplating moving production abroad. The effect has been to reduce orders in the USA for new machines, rebuilds and spare parts, especially in the fourth quarter of the year.

The third factor affecting the tobacco machinery market has been the collapse in currencies in many Asian countries, leading to a sharp fall in capital investment. Although this market has in recent years been less important for Molins than China and the USA, its weakness has had the effect of reducing worldwide demand and intensifying pressure on the industry as a whole.

The reorganisation of the Tobacco Machinery division, announced in November, led to a reduction in the division's workforce of about 500 people by the end of the year. The factory in São Paulo, Brazil, was closed, the building sold and Molins do Brasil reopened early in 1998 in much smaller and more suitable premises 300 miles south in Curitiba.

On a somewhat brighter note, the Packaging Machinery division saw a substantial improvement in order intake at both Langen operations in the second half. Sandiacre continued to show top line growth, notwithstanding the strength of sterling. Further deliveries of tea bag machinery were made by Molins Food Machinery.

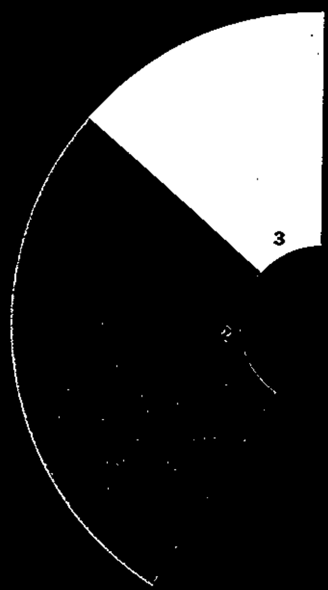
Group investment in new plant and equipment was reduced to £5.0m (1996: £10.0m) as the Tobacco Machinery division concentrated on retrenchment. However, a further investment of £0.8m was made in the joint venture in Kunming, which is scheduled to commence trading as a rebuild and parts supplier for the Chinese market in 1998.

The Group invested £9.3m (1996: £11.1m) in product development and all divisions introduced important enhancements to existing products as well as a number of new products.

At the end of the year net borrowings amounted to £7.3m (1996: £11.7m), representing gearing of 9% (1996: 11%). Cash outflows of £7.9m (1996: £1.8m) in respect of exceptional items were offset by inflows from customers' advance payments due to the improving order books at Langston and Langen. Despite the large exceptional charges the balance sheet remains strong and gives the Group the strength to take any further steps necessary to reshape the business for a resumption of growth.

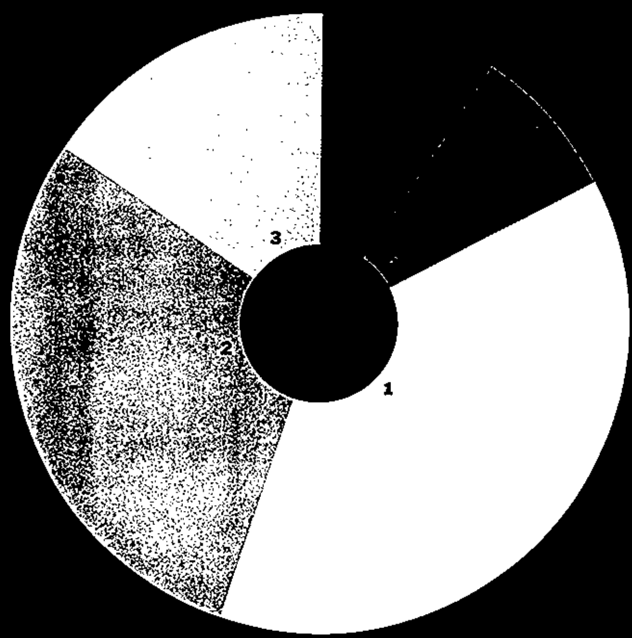
Turnover by division in 1997 (£m)

1	Tobacco machinery	150.5
2	Corrugated board machinery	70.3
3	Packaging machinery	34.0



Turnover by destination in 1997 (£m)

1	North America	96.4
2	Asia	74.8
3	Rest of the world	39.2
4	United Kingdom	24.0
5	Continental Europe	20.4

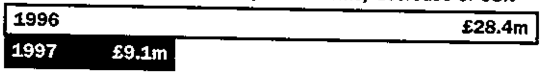


Tobacco machinery

The division implemented a major restructuring programme in response to a substantial fall off in demand from China and an anticipated reduction in demand in Asia and North America.

Sales decrease of 18%

Operating profit (before exceptional items) decrease of 68%



Principal activities
The Tobacco Machinery division designs and manufactures a wide range of specialist machines for the tobacco industry's secondary processes. The complete range of equipment and full after sales service is supplied from the Saunderton factory, machines are rebuilt at Molmac Engineering in Milton Keynes and the Peterborough factory is dedicated to the manufacture and distribution of spare parts.

Principal locations
UK, USA, Brazil, Singapore, Australia, Germany, Russia, China

The division had a difficult trading year, particularly in its new equipment and rebuild businesses as a result of the reduced demand, especially in China. Consequently, overall sales were down by 18% to £150.5m (1996: £183.2m) and operating profit before exceptional costs down by 68% to £9.1m (1996: £28.4m).

Having entered the year with a backlog that reflected a normal marketplace, it did not prove possible to maintain that position in the light of reduced demand. Action was taken to realign operations, resulting in a reduction of some 25% in the division's workforce.

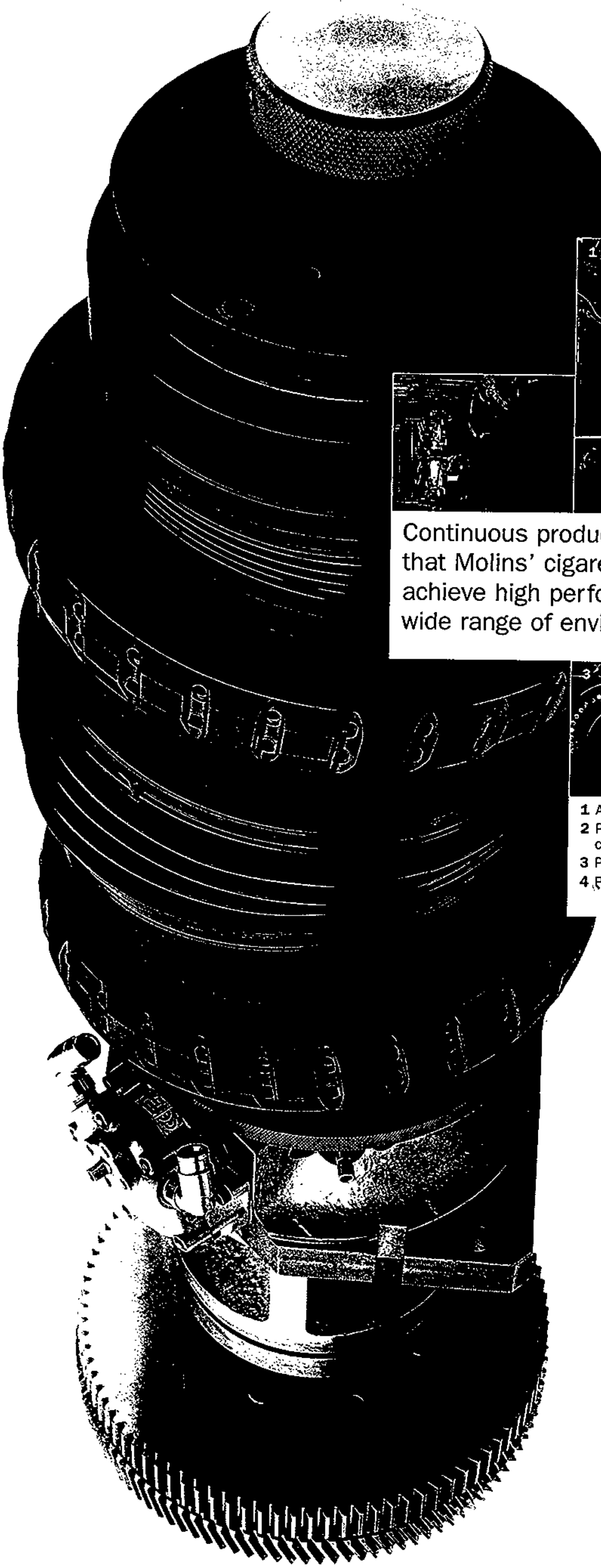
At Original Equipment, Saunderton, which faced a sudden and unexpected fall in demand in the second half, the workforce was reduced by about a third. The new generation mid-speed range Passim filter cigarette making combination, introduced last year, continued to strengthen its position as a market leader. It delivered exceptional output performance for its users, evidenced by substantial new orders received near the end of 1997 from two leading multinational customers. Product development continued to receive priority and good progress was made with further enhancements to the Passim range and the Concord, Pegasus and Match handling systems.

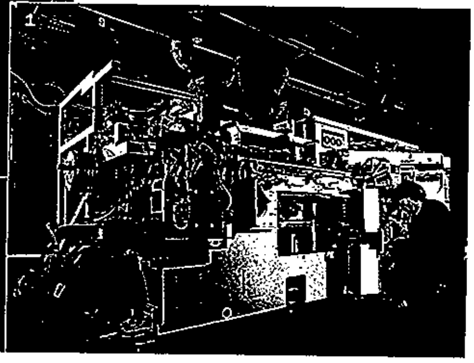
The Spares business had a disappointing year. Although there was notable sales success in the Middle East this was offset by reduced demand from China and North America towards the end of the year. Productivity was below expectations, in part due to industrial disruption in support of a pay claim. Recognising the weak market conditions, the workforce was reduced by 55 people during the last quarter. Major changes in manufacturing processes and business planning and control were initiated in the year, for implementation during 1998.

In the Americas, Molins Richmond further capitalised on its successful Pegasus high speed handling and distribution system with major export sales and another increase in profit. Short term prospects in the USA led to a small reduction in the workforce in November. In December, Molins do Brasil closed its São Paulo plant. It re-opened in February 1998 with a much more streamlined operation in Curitiba, closer to its major customers.

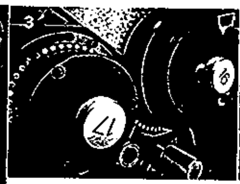
The Chinese Joint Venture has now commenced construction of its factory, with completion planned for mid 1998. Production of parts and machine rebuild activities for the Chinese market will commence during the second half of the year.

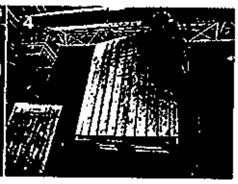
The division's management team, with a blend of experienced and new employees, has responded wholeheartedly to the challenge of facing up to the difficult trading conditions, building on the excellent customer relationships and the substantial installed base of Molins' equipment throughout the world.





Continuous product development ensures that Molins' cigarette making machines achieve high performance standards in a wide range of environmental conditions.





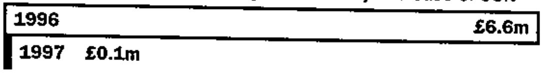
1 Assembly of Passim cigarette maker.
2 Precision engineering to fine tolerances ensures consistent performance of complex machinery.
3 Passim plug assembler drums.
4 Preparation for export of Passim cigarette maker.

Corrugated board machinery

A difficult year against a background of weak but improving market conditions.

Sales decrease of 31%

Operating profit (before exceptional items) decrease of 98%



Principal activities
The Corrugated Board Machinery division designs and manufactures complete corrugating lines, rotary die cutters and flexo folder gluers for box construction, all at Cherry Hill in the USA.

Principal locations
USA, UK, Australia, China, Singapore

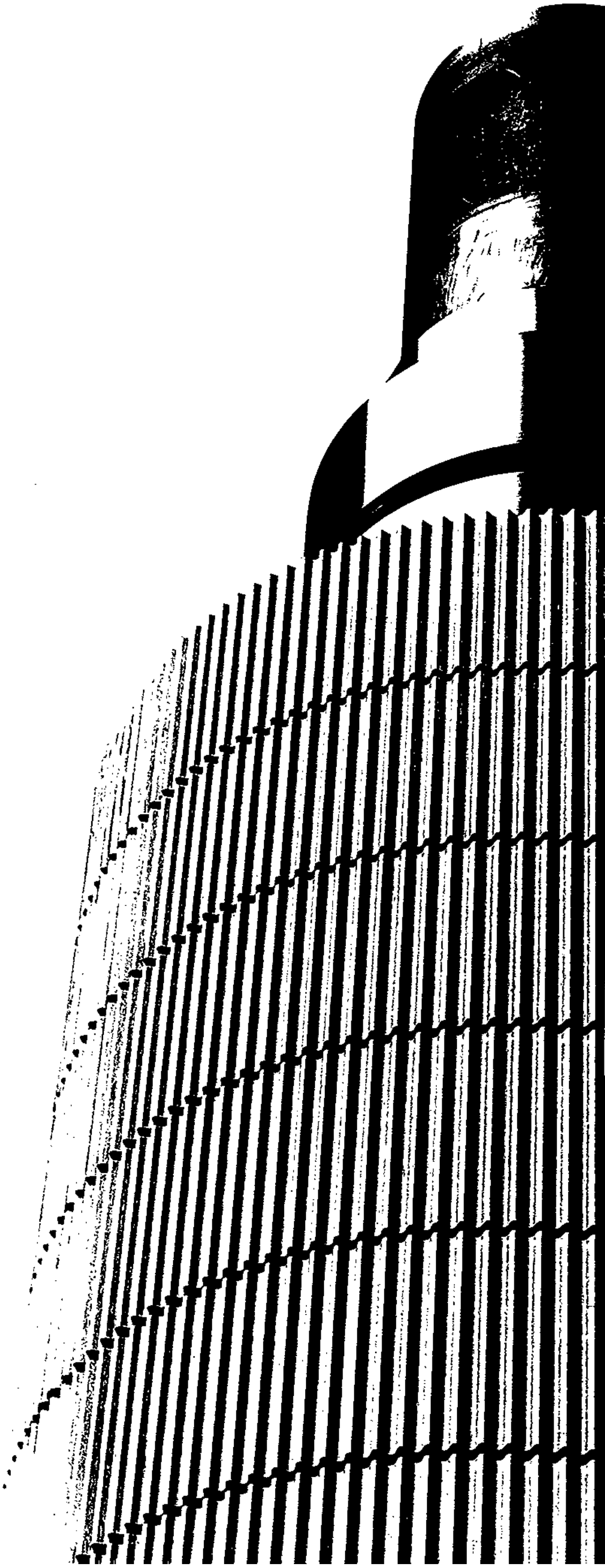
The year started with a low order book as paper prices fell substantially, leading to the large integrated forest products groups reporting significantly reduced profitability. Sales were down by 31% to £70.3m (1996: £101.6m) and operating profit before exceptional costs down to £0.1m against an overstated £6.6m reported for 1996. As the year progressed paper prices started to strengthen and progressively this gave rise to increased quotation activity and improving order intake at Langston.

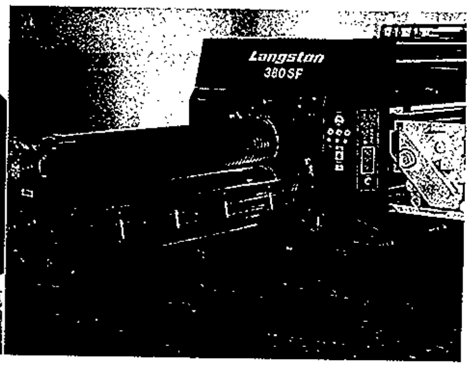
All of Langston's manufacturing operations were consolidated at Cherry Hill, supported by joint ventures in China and Mexico. This followed the closure of the Hunt Valley, Maryland, factory in December 1996 and the reorganisation of the Bristol, UK operation, in the first half of 1997, to concentrate on sales and service activities.

The discovery of and subsequent investigation into accounting irregularities at Langston, in the USA, caused a significant disruption to the business. Decisive action was taken to replace certain senior management and a number of other measures were implemented. As the year progressed the new management team established a clear strategic direction, the order book increased and stocks and debtors were reduced. There was a particularly good cash inflow during the second half.

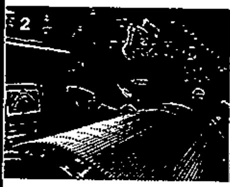
Molins Australia had a disappointing year, reporting a small loss largely due to reduced sales following the termination of a distribution agreement in 1996. Some jobs were cut in the middle of the year. Working with Langston, however, Molins Australia helped to secure an order from Amcor for further machinery to manufacture Xitex, a revolutionary cost-reduced corrugated board.

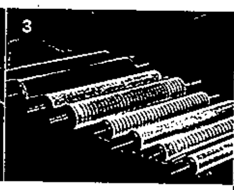
A number of initiatives were taken by Langston to strengthen the product range through technology licence agreements with specialist suppliers. These included a joint development agreement with Interfic to manufacture and sell a revolutionary double facer and a new glue machine jointly developed with Kohler. Continued product development resulted in improvements to the Jumbo flexo folder gluer and further advances with Langston's leading single facer technology. Other initiatives are in progress which will strengthen Langston's product and market position further.





The 380SF single facer corrugating machine is a market leader in the USA and incorporates Langston's latest technology for corrugating rolls which ensure consistent performance for extended periods.



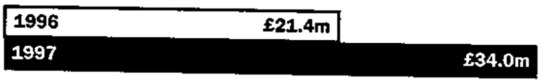


1 The cartridge based design of the 380SF single facer allows rapid changes in corrugator rolls.
2 Computer linked calibration of corrugating roll.
3 Various sizes of corrugating rolls meet all requirements.
4 Precision grinding of corrugating roll using specialist machinery.

Packaging machinery

Notwithstanding the strength of sterling, Sandiacre achieved further sales growth but the division's results were tempered by the weak first half order position at Langen.

Sales increase of 59%



Operating profit increase of 18%

Principal activities
The Packaging Machinery division designs and manufactures specialist machines for the fast moving consumer goods industries. It comprises Sandiacre Packaging Machinery (vertical form fill and seal bagging machines), Langen (cartoning and case packing machines), and Molins Food Machinery (high speed tea bag machines). The division is also supported by the development activities of the Molins International Technology Centre.

Principal locations
UK, Canada, Holland, USA, Australia

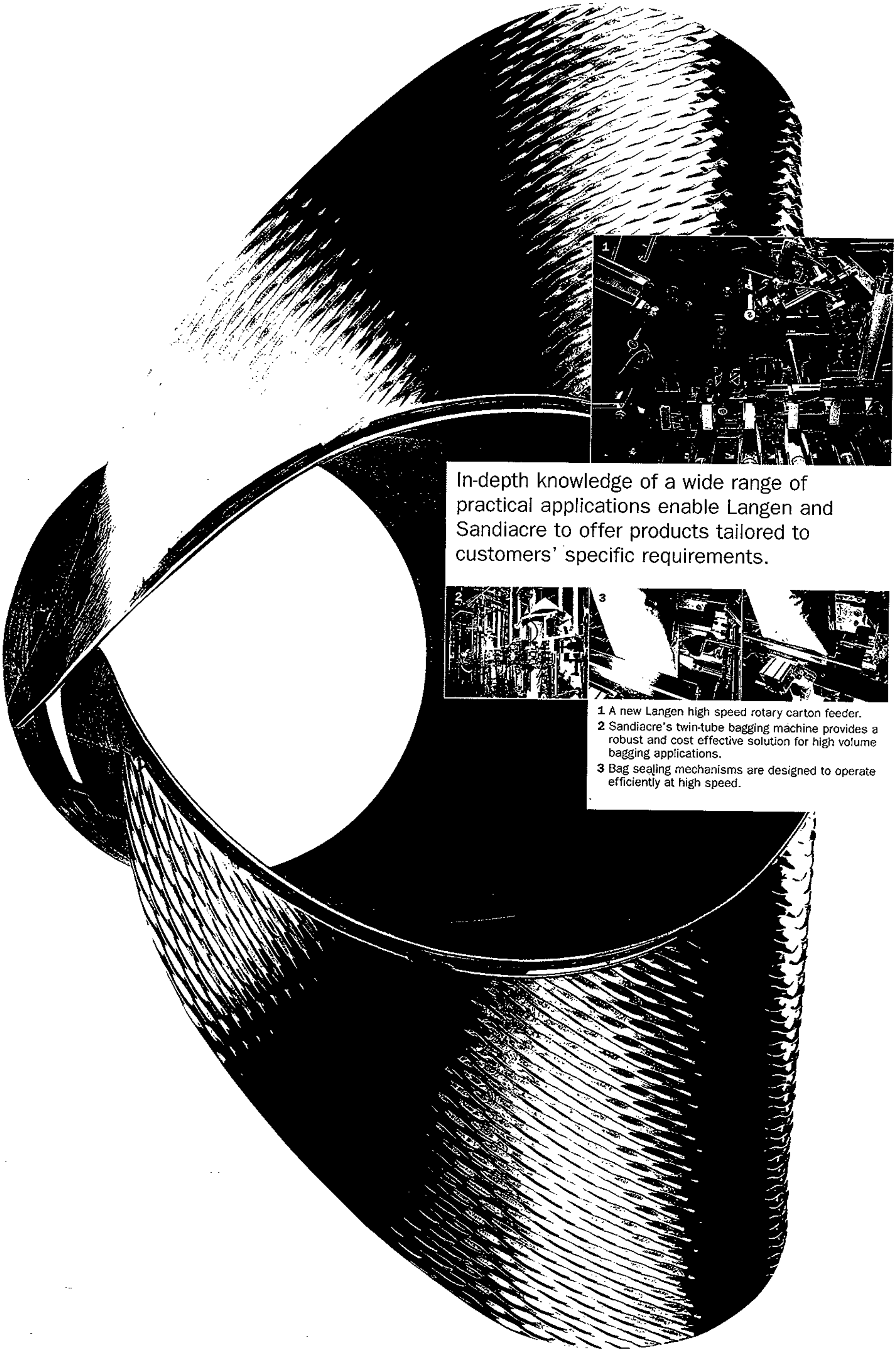
Further progress was made with integrating the Langen businesses into Molins, including establishing links with Sandiacre and other Molins' operations. Although the overall operating performance was disappointing, there are positive signs of potential in all parts of the division – Langen with improving order books, Sandiacre with turnover growth and Molins Food Machinery with its growing expertise in tea bag machinery. Sales were up 59% to £34.0m (1996: £21.4m) and operating profit increased by 18% to £3.9m (1996: £3.3m).

Langen in Canada and its sister company Langenpac in Holland both entered the year with relatively low order books and, in consequence, made only a small contribution to Group profit in the year. However, order intake improved throughout the year and both companies entered 1998 with much higher order books.

Throughout 1997, Langen and Langenpac continued to work on a number of new product developments including machinery for packaging videos, vertical and high speed case packers and a stand-alone accumulation system. These innovations broaden the markets for the business and are expected to result in repeat orders during 1998.

The strength of sterling has adversely impacted margins at Sandiacre, which exports much of its vertical form fill and seal bagging machinery. However, Sandiacre is a strong business which can withstand these effects and is continuing to grow its volumes around the world. Sales to the USA almost doubled during the year and repeat orders from major US food manufacturers are starting to come through. Sandiacre's strategy of developing relationships with multi-national producers of fast moving consumer goods is showing results with significant orders in China, Egypt and Russia. Much of this success can be attributed to the company's continuing emphasis on incremental product development, with the new twin tube D-action machine proving particularly successful.

Molins Food Machinery supplied further machines and continued to concentrate on supporting Van den Bergh in its high-profile and successful launch of the PG Tips Pyramid tea bag in the UK.



In-depth knowledge of a wide range of practical applications enable Langen and Sandiacre to offer products tailored to customers' specific requirements.

1 A new Langen high speed rotary carton feeder.
2 Sandiacre's twin-tube bagging machine provides a robust and cost effective solution for high volume bagging applications.
3 Bag sealing mechanisms are designed to operate efficiently at high speed.

Research and development

Research and development remains of considerable importance to the Group, with expenditure of £9.3m (1996: £11.1m).

Research and development decrease of 16%

Principal activities
The Group's operating units carry out product development and this work is complemented by the research and development activities of the International Technology Centre, located close to Warwick University.

Principal locations
UK, USA, Canada, Holland

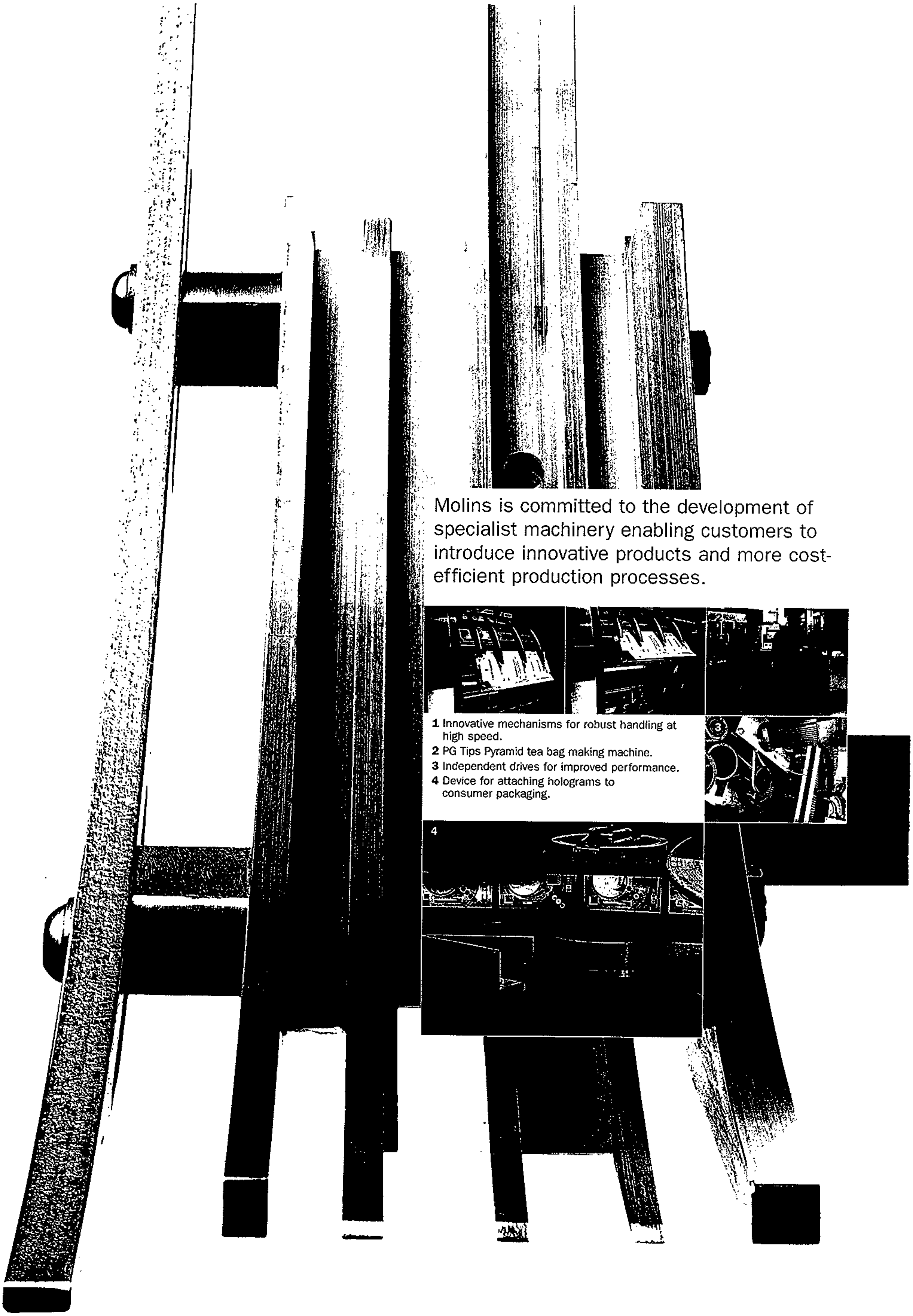
Product development takes place at each of the major sites where significant engineering capability exists. Molins International Technology Centre (ITC) provides the Group with a unique resource with focused technology and specific product developments taking place on behalf of Molins' existing businesses as well as external customers. The ITC also facilitates awareness of technology and product development throughout the Group.

Although the technology needs of existing businesses are diverse, the Group's focus on materials processing and packaging has led to common technologies being leveraged across the Group. Examples of such technologies include independent drives, continuous motion machines and materials sealing.

The association of the ITC with a number of international food companies has continued. Projects have been carried out on behalf of customers around the world, providing them with the opportunity to manufacture or package new products or achieve efficiency gains in existing operations.

The ITC continues with its extensive involvement in developing innovative tea bag machinery and there are a number of other technologies in the pipeline. The tea bag machines provided to Van den Bergh have enabled it to market the PG Tips Pyramid tea bag across the UK and increase its share of the tea bag market. Similarly, in France, the tea bag machines supplied to Fralib have enabled it to launch its Tchae product, a round tea bag with string and tag, developing the market in green tea. Both products won a Unilever award for product innovation, the Pyramid product taking first prize overall and the Fralib product taking first place in its category. This type of third party development work provides the opportunity for organic growth as well as practical applications for the development of the Group's engineering skills.

Molins investment in research and development will continue, with the focus reflecting the changing needs of customers and world markets.



Molins is committed to the development of specialist machinery enabling customers to introduce innovative products and more cost-efficient production processes.

1 Innovative mechanisms for robust handling at high speed.
2 PG Tips Pyramid tea bag making machine.
3 Independent drives for improved performance.
4 Device for attaching holograms to consumer packaging.

Financial review

Notwithstanding £31.3m exceptional charges the Group retains modest gearing and a strong balance sheet.

Operating results
Operating losses for the year were £20.1m after £31.3m exceptional charges, comprising £17.9m in respect of the restructuring of the Tobacco Machinery division and £13.4m relating to the accounting irregularities at Langston.

Langston investigation
Accounting irregularities at Langston were identified in April 1997 and the Board instructed Price Waterhouse LLP to work with KPMG Audit Plc to conduct an immediate investigation and to report to the Board on the precise nature of the irregularities and their financial effect. The results of the investigation were announced early in July. In summary, the investigation concluded that profits had been overstated over a number of years to the aggregate sum of US$20.8m (£12.2m) before tax and US$14.8m (£8.7m) after tax. The impact on the reported results for 1996 was less than £3.0m (£1.9m after tax) against reported profits of £33.4m (£24.9m after tax). The total adjustment, together with the related investigation costs of £1.2m (£1.0m after tax), has been accounted for as an exceptional charge. As a result of the adjustment, revised tax submissions will give rise to some tax repayments in respect of the overstatement of profits in prior years. Actual tax recoveries received in 1997 more than offset the cash cost of the investigation.

Restructuring of Tobacco Machinery division
In response to changes in market conditions, the Group announced on 13 November 1997 that the Tobacco Machinery division was being restructured, resulting in a reduction of some 25% of the division's workforce, which previously totalled some 2,000 people. This programme gave rise to an exceptional charge of £16.4m before tax (£15.1m after tax), in addition to the exceptional rationalisation charge of £1.5m before and after tax, made in the first half of the year for the initial restructuring of Molins do Brasil. The cash cost of this restructuring is £14.0m, of which £6.4m was expended during 1997. Against this, proceeds from the sale of the building in Brazil amount to £2.8m of which £1.1m was received in 1997.

Interest
Net interest costs in 1997 of £1.9m (1996: £1.0m) reflect the impact on average borrowings of the acquisition of Langen in November 1996. Interest costs were covered over 6 times by profit before exceptional items.

Taxation
The 1997 Group taxation charge of £0.5m comprises a charge of £5.5m in respect of profit before exceptional items and a credit of £5.0m in respect of the £31.3m exceptional charges. Due to exceptional charges in the UK the Company has written off advanced corporation tax (ACT) of £1.3m in respect of dividends charged in 1997, giving total unutilised ACT carried forward of £6.0m. The 49% rate of tax on profit before exceptional items is abnormally high due to net losses in Brazil receiving no effective current year relief.

The exceptional tax credit of £5.0m includes £3.7m relating to the charge in respect of the accounting irregularities at Langston and £1.3m in respect of the restructuring of the Tobacco Machinery division. The rate of credit in respect of the latter is low due to the write-off of ACT referred to above and losses in Brazil receiving no effective current year relief.

Earnings per share

Losses per share in 1997 amounted to 58.9p (1996: earnings per share of 72.8p). Earnings per share before exceptional items amounted to 16.3p (1996: 81.0p). The weighted average number of shares in issue in 1997 was 34,968,954 (1996: 34,183,637) and 35,528,497 (1996: 34,597,317) ordinary shares were in issue at the end of the year. There are options over a further 703,835 shares which can be exercised within varying periods, the last of which ends in December 2006.

Pension valuations

Triennial valuations of the UK Pension Fund and Scheme as at 30 June 1997 are currently in the process of being finalised. Notwithstanding the changes introduced in the July 1997 budget, which removed the ability of pension schemes to reclaim tax credits on UK equity dividends, preliminary indications are that the outcome of the valuation for accounting purposes will not materially alter the net pension credit in respect of UK operations from which the Company will benefit in the next three years when compared with the amount credited in the profit and loss account in 1997.

FMS patents

The lawsuit filed by Caterpillar, a licensee under the flexible manufacturing systems patents, was heard in court in January 1997 and the judge's decision is awaited. The directors continue to regard this claim as being without merit.

Borrowings and cash flow

Group net borrowings at the end of 1997 amounted to £7.3m (1996: £11.7m) – gearing of 9% (1996: 11%). Net cash flow benefited from an increase in customers' advance payments of £8.6m, mainly at Langston and Langen, offset by a cash outflow (excluding taxation) of £7.9m in respect of exceptional items.

Treasury and funding activities

The Group's policy is to manage its foreign currency trading risk by hedging cross-border business transactions and by borrowing, where relevant, in the currency of overseas investments. The Group maintains funding facilities in excess of its foreseeable needs.

Year 2000 compliance

The Group has detailed plans in hand for ensuring that computer systems employed in the business should continue to operate in the year 2000. Key suppliers are being asked to confirm that they have similar plans in place. The Group is also providing its customers with advice on how older generation products can be upgraded to ensure full year 2000 compliance.

Directors

J C Orr

MA **
Chairman of the Board
Chairman of the
Nomination Committee

Michael Orr joined the Board of Molins as a non-executive director in April 1991 and became Chairman a few weeks later. He is also Chairman of Waddington PLC and a non-executive director of Granada Group PLC, Lazard Brothers & Co Ltd, Sketchley Plc and W H Smith plc. Aged 60 years.

P W Grant

MA FCA *
Acting Chief Executive and
Group Finance Director

Peter Grant joined the Company as Finance Director on 1 March 1996 from The General Electric Company plc where he held a number of senior financial, commercial and general management positions. He was appointed Acting Chief Executive on 22 January 1998. Aged 42 years.

J C Humphries

BA
Legal and Contracts Director

Clive Humphries joined the Company in 1988 and was appointed to the Board in 1990. He previously held senior positions within Vickers PLC. Aged 59 years.

M J R Saw

BA CEng FIEE
Chief Executive,
Tobacco Machinery

Sam Saw joined Molins as an engineering apprentice in 1961 and has held overseas posts as well as managing a number of the Group's tobacco machinery operating units. He has overall responsibility for the Group's tobacco machinery operations and was appointed to the Board in February 1995. Aged 53 years.

Clockwise from above
J C Orr Chairman
P W Grant Acting Chief Executive and Group Finance Director
J C Humphries Legal and Contracts Director
M J R Saw Chief Executive, Tobacco Machinery
Sir Lindsay Bryson Non-executive director
M S Hodgkinson Non-executive director
M T Wright Non-executive director

Sir Lindsay Bryson

KCB FEng DSc **
Chairman of the
Remuneration Committee

Sir Lindsay was appointed as a non-executive director in February 1988. He served in the Navy until 1985, latterly as Controller of the Navy, and has recently retired as Chairman of ERA Technology Ltd. He is also a Past President of the Institution of Electrical Engineers and of the Association of Project Managers. He is Lord Lieutenant of East Sussex. Aged 73 years.

M S Hodgkinson

BA ACMA **
Chairman of the Audit Committee

Michael Hodgkinson joined the Molins Board as a non-executive director in August 1994. He is Group Airports Director of BAA Plc and was formerly Chief Executive of Grand Metropolitan Foods Europe Ltd and Managing Director of Land Rover Ltd. Aged 53 years.

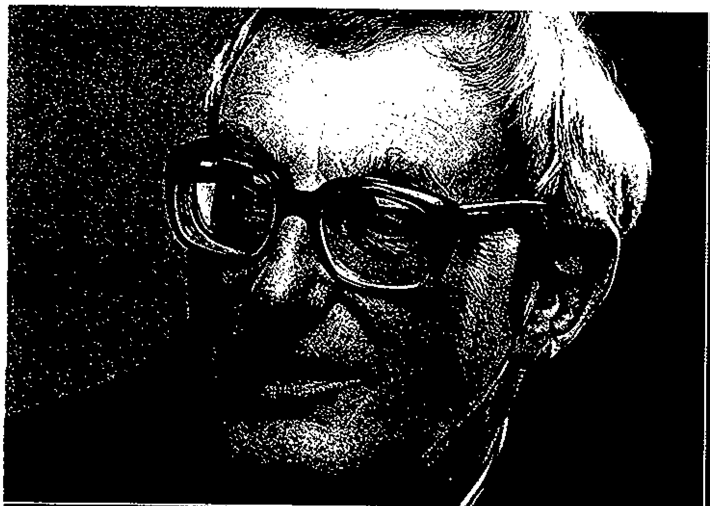
M T Wright

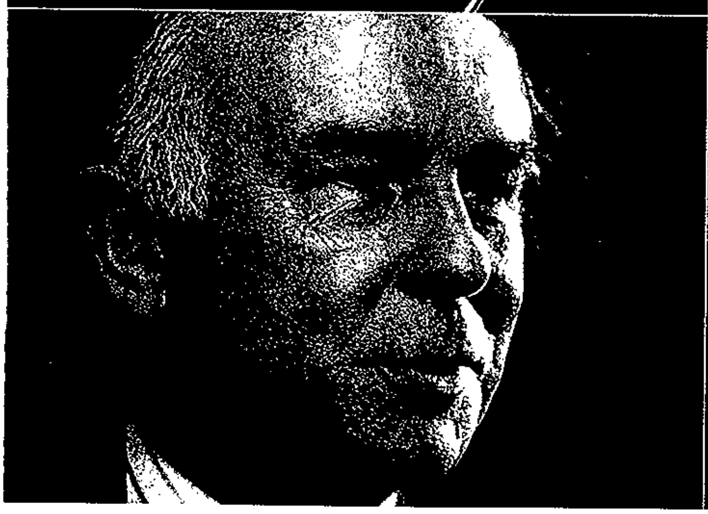
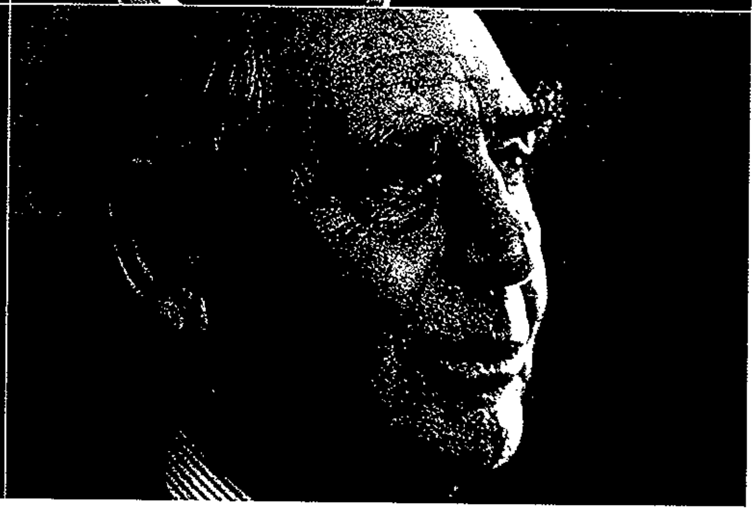
FEng PhD Cmath CIMgt **

Michael Wright, a non-executive director, joined the Company in 1985 and was an executive director until 1990, latterly Managing Director. He had previously held senior appointments with NEI plc and The General Electric Company plc. He is Vice-Chancellor of Aston University, non-executive Chairman of the 600 Group PLC and a director of ERA Technology Ltd. Aged 50 years.

** Member of the Audit, Remuneration and Nomination Committees

* Member of the Nomination Committee



Directors' report

The directors present their report to shareholders together with the audited accounts for the year ended 31 December 1997.

Principal activities
Group companies are engaged principally in the supply of specialist process and packaging machinery for the tobacco, corrugated board and fast moving consumer goods industries. A review of operations and likely future developments is given on pages 6 to 15, and a financial review appears on pages 16 and 17. Further details of the principal companies (including branches outside the UK) and their products are shown on pages 51 and 52.

Results and dividends
The loss for the year after taxation and exceptional items attributable to ordinary shareholders was £20.6m. The directors recommend a final dividend of 8.5p per ordinary share. An interim dividend of 6.5p was paid on 30 October 1997. This makes a total dividend for the year of 15.0p per ordinary share (1996: 22.0p), at a cost of £5.4m. Subject to approval at the Annual General Meeting, the final dividend will be paid on 20 May 1998 to ordinary shareholders registered at the close of business on 3 April 1998. Dividends on the 4.2% preference shares are paid on 30 June and 31 December in each year and amounted to £37,800 (1996: £37,800). The retained loss of £26.0m is charged to reserves.

Exports
The value of turnover attributable to exports from the UK, including exports to subsidiaries, was £128.6m (1996: £170.7m) and represented 84% (1996: 90%) of total sales by Group companies in the UK.

Research and development
Group policy is to design and develop machinery which, both technically and operationally, will enable it to retain and enhance its market position. To achieve this objective, extensive engineering and product development facilities are maintained in the UK and overseas. Expenditure incurred in 1997, net of third party research income, amounted to £9.3m (1996: £11.1m).

Supplier payment policy
The Group does not follow a specific standard or code for the payment of suppliers. Each Company agrees payment terms with its suppliers when it enters into purchase contracts. It then seeks to adhere to these arrangements providing it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. At 31 December 1997 trade creditors amounted to the equivalent of 48 days purchases in respect of the Company.

Directors
The names of the directors of the Company at the date of this report are shown on pages 18 and 19. All the present directors held office throughout 1997 as did Mr W A Baugh and Mr P W Harrisson. Mr Baugh resigned on 31 December 1997 and Mr Harrisson resigned on 22 January 1998. Mr Saw and Professor Wright will retire at the Annual General Meeting on 22 April 1998 in accordance with the Articles of Association. Mr Saw, being eligible, offers himself for reappointment. He has a service contract which can be terminated on two years' notice. Professor Wright, though eligible, is not offering himself for reappointment.

Directors' interests
Directors' interests in the Company's shares are shown on page 24 in the report of the Remuneration Committee.

Substantial shareholdings
As at 6 March 1998, the Company had been advised that the following shareholders had a notifiable interest in the issued ordinary share capital of the Company:

	No. of ordinary shares	% of issued ordinary shares
Prudential Corporation group of companies	4,454,568	12.52%
Schroders (Schroder Investment Management Limited, Schroder Capital Management International Limited, Schroder Management International Inc., Schroder Unit Trusts)	4,305,147	12.10%
M&G Group PLC and M&G Investment Management Ltd	4,223,880	11.87%
Putnam Investments (Putnam Investment Management, Inc., The Putnam Advisory Company, Inc.)	3,640,729	10.23%
Tweedy, Browne Company L.P.	1,817,300	5.11%
Japan Tobacco Inc.	1,350,000	3.79%
Marubeni Corporation	1,225,000	3.44%

Annual General Meeting
Notice of the Annual General Meeting can be found on page 54. In addition to the ordinary business there is one item of special business included in the notice; a proposed special resolution dealing with the disapplication of statutory pre-emption rights. The effect of this resolution, together with the ordinary resolution under section 80 of the Companies Act 1985 passed at the Annual General Meeting held on 24 April 1996, is to give the directors authority (a) to issue new shares for cash or other consideration (up to an aggregate nominal amount of £1,570,000 representing 17.65% of the total ordinary issued share capital as at 6 March 1998) during a period of five years from 24 April 1996, and (b) for as long as the authority in (a) above remains in force, to issue new shares for cash other than to existing shareholders on a pro rata basis (up to an aggregate nominal amount of £445,000 representing approximately 5% of the issued ordinary share capital).

The directors have no present intention of exercising the authority given by these resolutions, but they consider that the flexibility afforded is in the best interests of the Company.

Further information about the Company's share capital, including changes during the year, is given in note 21 to the accounts.

Employment policies
The Group is committed to developing its employment policies in line with best practice and providing equal opportunities for all, irrespective of sex, marital status, ethnic origin, religion or disability. Full and fair consideration is given to applications for employment from people with disabilities having regard to their aptitudes and abilities. Every effort is made to support those who become disabled, either in the same job or, if this is not practicable, in suitable alternative work.

Employee involvement
Emphasis is placed on training, effective communication and the involvement of employees in the development of the business. Information is regularly provided on the progress of the Group through local review meetings, briefings, and consultative bodies. A house journal is provided for employees and their families. Involvement in the achievements of the business is encouraged through locally based performance related bonus schemes.

Donations
During the year the Company made donations to UK charitable organisations of £2,000 (1996: £2,000).

Auditors
The auditors, KPMG Audit Plc, are willing to continue in office, and a resolution concerning their re-appointment and remuneration will be submitted to the Annual General Meeting to be held on 22 April 1998.

By order of the Board
J C Humphries Secretary
12 March 1998

Remuneration committee report

The Remuneration Committee's composition, responsibilities and operation comply with the best practice provisions in Section A of the annex to the Stock Exchange Listing Rules. As noted on page 26, the Committee determines the salary and other benefits of the executive directors and certain other senior executives. In forming its remuneration policy the Committee has given full consideration to the provisions of Section B of the annex to the Listing Rules. The following paragraphs show how the Group's remuneration policy is reflected in the package offered to each executive director.

Policy on remuneration of executive directors

a) Remuneration packages

The Remuneration Committee aims to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate executive directors of the right calibre. The Committee also seeks to recognise and reward performance in achieving growth annually and in the long term.

The main components of the package for each executive director are:

i) Basic salary

Basic salary is determined by the Remuneration Committee taking into account the performance of the individual and information from independent sources on the rates of salary for similar jobs in companies of comparable size in a range of engineering and other manufacturing industries.

ii) Incentive scheme

Executive directors participate each year in a scheme which provides for payments according to targets set annually by the Remuneration Committee, up to a maximum of 30% of relevant salaries. This is made up of three elements: improvement in Group profit before tax, improvement in return on capital employed, and attainment of individual objectives.

iii) Share options

Options are held by executive directors under executive share option and savings-related share option schemes, further details of which are included later in this report. Grants of executive share options are, so far as practicable, phased over the life of the schemes. Successive grants are thus made to individual directors (and other senior employees) as appropriate, so avoiding excessive use of available options in the early years of the scheme, and with the objective of enabling the grants to be effectively used as a significant incentive during the medium and long term. The executive share option scheme provides, as a condition of exercise, that growth in the Group's earnings per share must be greater than the increase in RPI over a period of three consecutive years. There are no specific performance criteria for the exercise of options under the savings-related scheme.

b) Contracts of service

The service contracts of the executive directors, other than Mr P W Grant, are terminable on two years' notice given by either party. In the case of Mr Grant, the notice period is one year.

The policy is that the contracts should provide reasonable and appropriate security to the directors concerned and to the Company. The position has been considered by the Remuneration Committee and is reviewed regularly.

c) Pensions

Molins' policy is to offer its executive directors membership of the Molins Senior Management Pension Scheme, which is a funded, Inland Revenue approved, contributory, final salary, occupational pension scheme. The scheme covers other senior UK executives as well as the executive directors, and is separate from the main UK Company scheme. Its main features as they affect executive directors are:

i) a normal pensionable age of 60;

ii) pension at normal pensionable age of two thirds of final pensionable salary, subject to completion of 20 years' service;

iii) life assurance cover of four times pensionable salary;

iv) pension payable in the event of ill health; and

v) spouse's pension on death.

Pensionable salary is the member's basic salary. Executive directors joining the Group on or after 1 June 1989 may be subject to the earnings cap introduced by the Finance Act 1989, limiting the calculation of remuneration for the purposes of pensions and death benefits under approved schemes to a level of, at present, £84,000. Where this is the case, the Company has agreed to increase pension and death benefits to the same level as if the earnings cap did not apply. It is intended in the case of Mr Grant to achieve this through establishment of a funded unapproved retirement benefit scheme.

Chairman

The remuneration of the Chairman is determined, in his absence, by the Remuneration Committee after consultation with the Chief Executive and reflects the nature and extent of his part time executive responsibilities.

Non-executive directors

The fees of non-executive directors are determined by the Board (but with the non-executive directors themselves abstaining from voting) on the recommendation of the Chairman based on comparable market levels.

Directors' emoluments	Notes	Salary 1997 £000	Fees 1997 £000	Incentive scheme 1997 £000	Benefits in kind 1997 £000	Compensation for loss of office £000	Total 1997 £000	Total 1996 adjusted £000	Total 1996 as reported £000
					(a)			(b)	(b)
Chairman									
J C Orr		**–**	**65**	**–**	**–**	**–**	**65**	65	65
Executive directors									
W A Baugh (resigned 31/12/97)	(e)	**112**	**–**	**–**	**7**	**192**	**311**	115	130
P W Grant	(c)	**112**	**–**	**–**	**13**	**–**	**125**	110	122
P W Harrisson (resigned 22/1/98)	(f)	**160**	**–**	**–**	**17**	**–**	**177**	154	175
J C Humphries		**77**	**–**	**–**	**9**	**–**	**86**	79	89
M J R Saw		**120**	**–**	**–**	**11**	**–**	**131**	111	126
Non-executive directors									
Sir Lindsay Bryson		**–**	**16**	**–**	**–**	**–**	**16**	16	16
M S Hodgkinson		**–**	**16**	**–**	**–**	**–**	**16**	16	16
M T Wright		**–**	**16**	**–**	**–**	**–**	**16**	16	16
		581	**113**	**–**	**57**	**192**	**943**	682	755

Notes:

a) The benefits comprise mainly the provision of a company car, fuel benefit and private medical cover.

b) The incentive scheme sums accrued and reported for 1996 were calculated on profits which were subsequently shown to be overstated. It was agreed that it would be inappropriate to pay such sums and the adjusted figures for 1996 shown above exclude these amounts.

c) The 1996 figures for Mr Grant represent emoluments earned during the part of the year during which he was a director. He was appointed with effect from 1 March 1996.

d) The Chairman and non-executive directors are not entitled to pension benefits. The executive directors are all members of the Molins Senior Management Pension Scheme. As agreed with the Actuary to the scheme, no contributions were required to be made to the scheme by the Company in respect of the years 1996 and 1997.

e) By way of compensation for termination of his employment with the Company and loss of office on 31 December 1997, the Company agreed compensation to Mr Baugh of an aggregate estimated amount of £192,200, comprising £170,000 by way of augmentation of pension benefits, a cash payment of £20,000, the payment of legal fees, and the use of a company car for a period of 31 days following termination of his employment.

f) By way of compensation for termination of his employment with the Company and loss of office, the Company agreed compensation to Mr Harrisson of an aggregate estimated amount of £222,000 comprising a cash payment of £180,000 (less tax), augmentation of pension benefits valued at £35,000, the payment of legal fees, and continuation of life assurance and private medical cover for a period of up to one year after termination of employment. He continues to be employed as a consultant to the Company until 30 April 1998, and to receive salary and other benefits until that date.

Continued

In addition to the foregoing information the following tables provide details, as required by Schedule 6 to the Companies Act 1985, of the aggregate amount of directors' emoluments.

Aggregate emoluments of the directors were:	1997 £000	1996 £000
Fees	**113**	113
Salaries	**581**	506
Benefits in kind	**57**	63
Total emoluments	**751**	682
Compensation for loss of office	**192**	–
Performance related element (1996 as adjusted – see Note (b) on page 23)	–	–
	943	682

Directors' pensions information

The following table relates to the benefits of the executive directors under the Molins Senior Management Pension Scheme:

	Increase in accrued pension during the period £	Transfer value of increase £	Accumulated total accrued pension at period end £
W A Baugh	4,625	53,400	47,175
P W Grant	2,790	19,800	5,110
P W Harrisson	2,810	32,100	6,270
J C Humphries	4,470	66,200	28,970
M J R Saw	12,410	159,400	71,750

The Company agreed to an augmentation of Mr Baugh's pension benefits under the agreement for termination of employment and loss of office referred to in note e) on page 23.

The above disclosure relates to defined benefit pension arrangements for the executive directors. In addition, sums of £33,330 (1996: £27,910) and £25,740 (1996: £17,050) were accrued towards anticipated funded unapproved retirement benefit schemes for the benefit of Mr Harrisson and Mr Grant respectively.

Notes to Directors pensions information:

1 The increase in accrued pension during the year excludes any increase for inflation.

2 The transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less each director's contributions over the year.

3 Members of the Scheme have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.

Directors' interests in shares

The beneficial interests of directors holding office at 31 December 1997 and their families in the ordinary shares of the Company (excluding share options) were as follows:

Shares	Held 31 Dec 1997	Held 1 Jan 1997
J C Orr	**10,000**	10,000
W A Baugh	**11,000**	11,000
Sir Lindsay Bryson	**2,000**	2,000
P W Grant	**366**	–
P W Harrisson	**7,220**	–
M S Hodgkinson	**2,000**	2,000
J C Humphries	**11,000**	11,000
M J R Saw	**36,020**	29,300
M T Wright	**5,250**	5,250

There were no changes in the above interests of the present directors between 31 December 1997 and 6 March 1998.

No director holds or held at any time during the year a beneficial interest in any of the Company's preference shares or in debentures issued by the Company.

Directors' share options

Details of share options, including Save As You Earn options, for each director who held office during 1997 are as follows:

		Held 1 Jan 97	Granted in year	Exercised in year	Lapsed in year	Held 31 Dec 97	Option price	Market price at date of exercise	Date from when exercisable	Expiry date
W A Baugh	a)	6,720	–	6,720	–	–	279p	298p	01.07.1997	31.12.1997
	b)	12,000	–	–	–	12,000	570p	–	26.04.1998	25.04.2005
	b)	10,000	–	–	10,000	–	895p	–	04.12.1999	03.12.2006
		28,720	**–**	**6,720**	**10,000**	**12,000**				
P W Grant	b)	25,000	–	–	–	25,000	904p	–	02.04.1999	01.04.2006
	a)	864	–	–	–	864	702p	–	02.12.2001	01.06.2002
	b)	10,000	–	–	–	10,000	895p	–	04.12.1999	03.12.2006
		35,864	**–**	**–**	**–**	**35,864**				
P W Harrisson	b)	56,000	–	–	–	56,000	819p	–	13.10.1998	12.10.2005
(c)	a)	864	–	–	–	864	702p	–	02.12.2001	01.06.2002
	b)	10,000	–	–	–	10,000	895p	–	04.12.1999	03.12.2006
		66,864	**–**	**–**	**–**	**66,864**				
J C Humphries	a)	4,032	–	–	4,032	–	279p	–	01.07.1997	31.12.1997
	b)	25,000	–	–	–	25,000	507p	–	11.10.1996	10.10.2003
	b)	12,000	–	–	–	12,000	570p	–	26.04.1998	25.04.2005
	a)	222	–	–	–	222	702p	–	02.12.1999	01.06.2000
	b)	9,480	–	–	–	9,480	895p	–	04.12.1999	03.12.2006
		50,734	**–**	**–**	**4,032**	**46,702**				
M J R Saw	a)	6,720	–	6,720	–	–	279p	425p	01.07.1997	31.12.1997
	b)	12,000	–	–	–	12,000	570p	–	26.04.1998	25.04.2005
	b)	15,000	–	–	–	15,000	895p	–	04.12.1999	03.12.2006
		33,720	**–**	**6,720**	**–**	**27,000**				

No other directors held options in respect of the Company's shares during the year. There are no other long term incentive schemes.

The market price of Molins PLC ordinary shares at 31 December 1997 was 298p and the range during the year was 298p to 970p.

There were no changes in the above options held by the present directors between 31 December 1997 and 6 March 1998.

The aggregate amount of gains made by directors on the exercise of share options in the year was £11,000.

a) Options under savings-related share option scheme

b) Options under executive share option scheme

c) Mr Harrisson's options lapsed on his resignation on 22 January 1998.

Corporate governance

Statement of 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 Group and of the profit or loss 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 which enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Statement of compliance
The directors consider that the Company complied throughout 1997 with all of the provisions of the Code of Best Practice established by the Cadbury Committee in its Report on the Financial Aspects of Corporate Governance.

Board committees
In furtherance of the principles of good corporate governance, the Board has appointed the following committees, each with a formal constitution. The membership of the committees is shown on page 18 and 19.

Audit Committee
The Committee is chaired by Mr M S Hodgkinson, and normally meets three times per year, with the Chief Executive, the Finance Director, and representatives of the auditors in attendance as required. The Committee assists the Board in the discharge of its duties concerning the announcements of results and the annual Report and Accounts, and the maintenance of proper internal controls. It reviews the scope and planning of the audit, and the auditors' findings, and considers Group accounting policies and the compliance of those policies with applicable legal and accounting standards.

Remuneration Committee
The Remuneration Committee is chaired by Sir Lindsay Bryson. It meets on a regular basis, usually twice a year, and additionally whenever required. The meetings are normally attended by the Chief Executive. The Committee determines the remuneration and other benefits of the Chairman and executive directors, and certain other senior executives. The report of the Committee is set out on pages 22 to 25.

Nomination Committee
The Chairman of the Nomination Committee is Mr J C Orr. The Committee is responsible for formulating and reviewing proposals for the appointment of non-executive directors, and making recommendations thereon to the Board.

Internal financial control
The Board of directors is responsible for the Group's system of internal financial control and has established a framework which is regularly reviewed for its effectiveness.

On 23 April 1997 the Company announced the discovery of accounting irregularities at The Langston Corporation ('Langston'), Molins' wholly-owned corrugated board machinery subsidiary in the USA. Decisive action was taken to replace the management and Price Waterhouse LLP was instructed to work with KPMG Audit Plc, the Group's auditors, to report on the precise nature of the irregularities and their financial effect.

On 8 July 1997 the Company announced that the investigation was complete and that its main conclusions were as follows:

i) a large number of irregularities, most of which were individually quite small, accumulated over a number of years into an overstatement of net assets at 31 December 1996 of £8.7m (compared with reported consolidated net assets of the Group of £106.1m);

ii) the irregularities related mainly to the overvaluation of inventory, the deferral of costs and provisions, and the overstatement of debtors;

iii) no evidence has been uncovered of any misappropriation of Langston's assets;

iv) certain accounting practices were deployed at Langston in the United States at various times which resulted in incorrect accounts, were contrary to Group policy and were concealed from Group management.

The Board has taken and will continue to take appropriate measures to ensure that the chances of irregularities occurring in the future are reduced as far as possible by improving the quality of information at all levels in the Group, creating a more open environment and ensuring that financial analysis is rigorously applied. Any system of internal control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board meets regularly throughout the year and is responsible for overall Group strategy, for approving revenue and capital budgets and plans, for approving major acquisitions and disposals and for determining the financial structure of the Group including financing and dividend policy. The Board monitors the effectiveness of the system of internal financial control principally through the regular review of financial information and the work of the Audit Committee as described above.

The Board has reviewed the effectiveness of the system of internal financial control, the major elements of which are as follows:

- An organisational structure with clearly defined lines of responsibility and delegation of authority to executive management.
- A comprehensive system for planning, budgeting, reporting and monitoring the performance of the Group's operating units. Monthly results are reported against budget and prior year and forecasts for the current financial year are regularly revised in the light of actual circumstances.
- Each operating unit is required to comply with defined policies, financial controls and procedures. Key controls over major business risks include reviews against performance indicators and exception reporting.
- Prescribed procedures exist for capital investment applications which include a financial justification. Authorisation levels are clearly defined and communicated.
- Managers of operating units are required regularly to confirm in writing compliance with the Group's policies and control procedures. Selected internal control reviews and specific investigations are carried out by Group finance staff and followed up by executive management.

Going concern

Having made due enquiries the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

By order of the Board
J C Humphries Secretary
12 March 1998

Auditors' report on corporate governance matters

Review report by KPMG Audit Plc to Molins PLC on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the directors' statement on pages 26 and 27 on the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. This guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal financial control or the Company's corporate governance procedures, or on the ability of the Group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control and going concern on pages 26 and 27, in our opinion the directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on pages 26 and 27 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

KPMG Audit Plc

KPMG Audit Plc
London
Chartered Accountants
12 March 1998

Auditors' report on the financial statements

To the members of Molins PLC

We have audited the financial statements on pages 30 to 50. We have also examined the amounts disclosed relating to emoluments, share options, and directors' pension entitlements which form part of the Remuneration Committee report on pages 22 to 25.

Respective responsibilities of directors and auditors
As described on page 26 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 1997 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
London
Chartered Accountants
Registered Auditor
12 March 1998

Group profit and loss account

For the year ended 31 December	Notes	1997 Before exceptional items £m	1997 Exceptional items £m	1997 Total £m	1996 Before exceptional items £m	1996 Exceptional items £m	1996 Total £m
Turnover	1, 2	**254.8**	**–**	**254.8**	306.2	–	306.2
Cost of sales		**(195.5)**	**(23.9)**	**(219.4)**	(217.9)	(2.8)	(220.7)
Gross profit		**59.3**	**(23.9)**	**35.4**	88.3	(2.8)	85.5
Net operating expenses	3	**(46.2)**	**(7.4)**	**(53.6)**	(50.0)	(1.1)	(51.1)
Operating (loss)/profit	1, 3	**13.1**	**(31.3)**	**(18.2)**	38.3	(3.9)	34.4
Net interest payable	8	**(1.9)**	**–**	**(1.9)**	(1.0)	–	(1.0)
(Loss)/profit on ordinary activities before taxation		**11.2**	**(31.3)**	**(20.1)**	37.3	(3.9)	33.4
Taxation	9	**(5.5)**	**5.0**	**(0.5)**	(9.6)	1.1	(8.5)
(Loss)/profit for the financial year		**5.7**	**(26.3)**	**(20.6)**	27.7	(2.8)	24.9
Dividends (including non-equity)		**(5.4)**	**–**	**(5.4)**	(7.6)	–	(7.6)
Retained (loss)/profit for the year	22	**0.3**	**(26.3)**	**(26.0)**	20.1	(2.8)	17.3
(Loss)/earnings per ordinary share	11	**16.3p**	**(75.2)p**	**(58.9)p**	81.0p	(8.2)p	72.8p

There were no discontinued operations in 1997 or 1996. There is no material difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis.

Balance sheets

As at 31 December	Notes	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Fixed assets					
Tangible assets	12	**49.8**	54.7	**27.8**	29.1
Investments	13	**2.0**	1.2	**46.2**	42.0
		51.8	55.9	**74.0**	71.1
Current assets					
Stocks	14	**60.9**	78.1	**33.2**	42.8
Debtors – due within one year	15	**61.6**	66.0	**40.5**	51.5
Debtors – due after more than one year	15	**14.5**	13.9	**11.6**	11.1
Cash at bank and in hand		**9.2**	9.8	**1.6**	1.2
		146.2	167.8	**86.9**	106.6
Creditors – amounts falling due within one year					
Borrowings	16	**(1.5)**	(16.3)	**(1.3)**	(6.2)
Other creditors	17	**(81.6)**	(84.1)	**(73.4)**	(87.8)
Proposed dividend		**(3.0)**	(5.4)	**(3.0)**	(5.4)
		(86.1)	(105.8)	**(77.7)**	(99.4)
Net current assets		**60.1**	62.0	**9.2**	7.2
Total assets less current liabilities		**111.9**	117.9	**83.2**	78.3
Creditors – amounts falling due after more than one year					
Borrowings	16	**(15.0)**	(5.2)	**(11.0)**	(2.0)
Other creditors	18	**(0.7)**	(0.9)	**–**	–
		(15.7)	(6.1)	**(11.0)**	(2.0)
Provisions for liabilities and charges	20	**(13.2)**	(5.7)	**(4.6)**	(0.9)
Net assets		**83.0**	106.1	**67.6**	75.4
Capital and reserves					
Called up share capital	21	**9.8**	9.5	**9.8**	9.5
Share premium account	22	**25.5**	21.0	**25.5**	21.0
Revaluation reserve	22	**18.3**	17.8	**5.2**	5.2
Profit and loss account	22	**29.2**	57.6	**27.1**	39.7
Shareholders' funds (including non-equity interests)	23	**82.8**	105.9	**67.6**	75.4
Minority interests	24	**0.2**	0.2	**–**	–
		83.0	106.1	**67.6**	75.4

The accounts were approved by the Directors on 12 March 1998, and signed on their behalf by:

J C Orr Director

P W Grant Director

Group cash flow statement

For the year ended 31 December	Notes	1997 £m	1996 £m
Cash flow from operating activities	26	**22.7**	27.6
Returns on investments and servicing of finance	27	**(1.8)**	(1.1)
Taxation	27	**(6.0)**	(8.2)
Capital expenditure (net)	27	**(3.8)**	(9.6)
Acquisitions and disposals	27	**(1.0)**	(20.5)
Equity dividends paid		**(7.7)**	(7.1)
Cash inflow/(outflow) before management of liquid resources and financing		**2.4**	(18.9)
Management of liquid resources	27	**–**	6.5
Financing	27	**(2.1)**	(0.1)
Increase/(decrease) in cash in the period		**0.3**	(12.5)

Reconciliation of net cash flow to movement in net debt

For the year ended 31 December	Notes	1997 £m	1996 £m
Increase/(decrease) in cash in the period		**0.3**	(12.5)
Cash inflow from movement in liquid resources		**–**	(6.5)
Cash outflow from decrease in debt and lease financing		**4.8**	1.5
Change in net debt resulting from cash flows	28	**5.1**	(17.5)
Loans acquired with subsidiaries		**–**	(1.6)
Translation difference	28	**(0.7)**	0.6
Movement in net debt in the period		**4.4**	(18.5)
Net (debt)/funds at 1 January		**(11.7)**	6.8
Net debt at 31 December	28	**(7.3)**	(11.7)

Statement of total group recognised gains and losses

For the year ended 31 December	1997 £m	1996 £m
(Loss)/profit for the year	**(20.6)**	24.9
Currency translation differences arising on foreign currency net investments	**0.2**	(5.0)
Property revaluation	**–**	(1.5)
Total recognised (losses)/gains for the year	**(20.4)**	18.4

Reconciliation of movements in shareholders' funds

		Group		Company	
As at 31 December	Notes	1997 £m	1996 £m	1997 £m	1996 £m
(Loss)/profit for the year		**(20.6)**	24.9	**(5.1)**	18.2
Dividends		**(5.4)**	(7.6)	**(5.4)**	(7.6)
Retained (loss)/profit for the year		**(26.0)**	17.3	**(10.5)**	10.6
Goodwill	25	**–**	(19.8)	**–**	(18.9)
Other recognised gains/(losses) for the year		**0.2**	(6.5)	**–**	–
New share capital		**2.7**	3.5	**2.7**	3.5
Net reduction to shareholders' funds		**(23.1)**	(5.5)	**(7.8)**	(4.8)
Opening shareholders' funds		**105.9**	111.4	**75.4**	80.2
Closing shareholders' funds	23	**82.8**	105.9	**67.6**	75.4

Accounting policies

Accounting conventions
The Group accounts have been prepared in accordance with applicable accounting and financial reporting standards and under the historical cost convention, modified by the revaluation of certain fixed assets.

Consolidation principles
The Group accounts comprise the consolidated results of the parent company and all its subsidiary and associated undertakings.

A separate profit and loss account dealing with the results of the Company only has not been presented.

Foreign exchange
Profits and losses of overseas subsidiaries are translated into sterling at the average exchange rates ruling during the year. The retranslation of the retained earnings of overseas subsidiaries to closing rates is dealt with as a reserve movement.

Foreign currency assets and liabilities are translated into sterling at rates of exchange ruling at the balance sheet date. Exchange differences arising on the retranslation of the opening net assets are taken direct to reserves. All other exchange differences are taken to the profit and loss account.

Transactions denominated in foreign currencies are translated at the rate of exchange ruling at the date of the transaction, except where forward foreign currency contracts cover the transactions, in which case the forward contract exchange rates are used.

The results of the Brazilian subsidiary are prepared using US dollars. This treatment is in accordance with Urgent Issues Task Force Abstract 9 "Accounting for operations in hyperinflationary economies".

Goodwill
Goodwill on acquisition is the excess of the fair value of the consideration over the fair value of the net tangible assets acquired and is taken directly to reserves.

Fixed assets and depreciation
Tangible fixed assets are included at cost or valuation. Depreciation is calculated by writing off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives. Half a year's depreciation is charged in the year of acquisition.

The annual rates generally used are:
Freehold land is not depreciated.
Freehold buildings – 3% on valuation or cost.
Leasehold buildings over life of lease.
Plant and machinery – 8% to 25%.
Fixtures and fittings including software – 10% to 33.3%.
Motor vehicles – 30%.

Leased assets
Assets acquired under finance leases are included in tangible fixed assets and are depreciated evenly over the shorter of the lease term and their expected useful life. The capital element of future rentals is treated as a liability and the interest element of rental payments is charged against profits over the period of the lease in proportion to the balance outstanding.

Rental costs on operating leases are charged against profit evenly over their duration.

Stocks
Stocks and contracts in progress are valued at the lower of cost, including appropriate overheads, and net realisable value. Provisions are made against excess and obsolete inventories.

Turnover
Turnover is the amount receivable for goods and services supplied to customers, net of discounts and value added tax.

Research and development
Expenditure on research and development is charged against profits as incurred unless specifically chargeable to and recoverable from customers under agreed contract terms.

Deferred taxation
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Pensions and other post retirement benefits
The expected costs of providing pensions and other post retirement benefits are charged to the profit and loss account over the employees' service lives based on rates determined by independent actuaries.

Notes to the accounts

1 Segmental analysis

	1997 Turnover £m	1996 Turnover £m	1997 Operating profit £m	1996 Operating profit £m	1997 Net assets £m	1996 Net assets £m
By activity:						
Tobacco machinery	**150.5**	183.2	**9.1**	28.4	**55.2**	70.3
Corrugated Board machinery	**70.3**	101.6	**0.1**	6.6	**26.5**	39.8
Packaging machinery	**34.0**	21.4	**3.9**	3.3	**8.6**	7.7
	254.8	306.2	**13.1**	38.3	**90.3**	117.8
By geographic location of origin:						
United Kingdom	**152.3**	188.7	**8.5**	26.2	**60.5**	65.8
North America	**107.7**	131.7	**5.5**	11.5	**31.4**	43.2
Rest of world	**24.8**	31.8	**(0.9)**	0.6	**(1.6)**	8.8
	284.8	352.2	**13.1**	38.3	**90.3**	117.8
Less inter segment turnover	**(30.0)**	(46.0)				
Turnover	**254.8**	306.2				
Operating profit (before exceptional items)			**13.1**	38.3		
Exceptional items (note 4)			**(31.3)**	(3.9)		
Operating (loss)/profit			**(18.2)**	34.4		
Net interest payable			**(1.9)**	(1.0)		
(Loss)/profit before taxation			**(20.1)**	33.4		
Net borrowings					**(7.3)**	(11.7)
Net assets					**83.0**	106.1

2 Turnover

	1997 £m	1997 %	1996 £m	1996 %
By geographical destination of goods:				
United Kingdom	**24.0**	**9**	23.8	8
Continental Europe	**20.4**	**8**	22.6	7
North America	**96.4**	**38**	115.4	38
Asia	**74.8**	**29**	108.1	35
Rest of world	**39.2**	**16**	36.3	12
	254.8	**100**	306.2	100

Continued

3 Operating (loss)/profit	1997 Before exceptional items £m	1997 Exceptional items (note 4) £m	1997 Total £m	1996 Before exceptional items £m	1996 Exceptional items (note 4) £m	1996 Total £m
Turnover	**254.8**	–	**254.8**	306.2	–	306.2
Cost of sales	**(195.5)**	**(23.9)**	**(219.4)**	(217.9)	(2.8)	(220.7)
Gross profit	**59.3**	**(23.9)**	**35.4**	88.3	(2.8)	85.5
Distribution costs	**(17.7)**	–	**(17.7)**	(17.9)	–	(17.9)
Administration costs	**(28.5)**	**(7.4)**	**(35.9)**	(32.1)	(1.1)	(33.2)
Operating (loss)/profit	**13.1**	**(31.3)**	**(18.2)**	38.3	(3.9)	34.4

Cost of sales includes all direct manufacturing costs and related overheads including depreciation, together with research and development costs recovered in sales. Research and development costs borne by the Group amounted to £9.3m (1996: £11.1m). Distribution costs include selling costs.

	1997 £m	1996 £m
Operating (loss)/profit is arrived at after charging:		
Depreciation of owned assets	**6.5**	6.2
Depreciation of assets held under finance leases	**0.4**	0.4
Hire of plant	**1.0**	1.1
Hire of plant and machinery – operating leases	**0.3**	0.7
Hire of other assets – operating leases	**0.6**	1.0
Remuneration of the auditors and their associates:		
– audit services (the Company £0.2m; 1996: £0.2m)	**0.3**	0.5
– non audit services (the Company £0.1m; 1996: £0.1m)	**0.3**	0.2

In addition to the above, non audit fees payable to the Group's auditors and their associates in respect of capital transactions amounted to £nil (1996: £0.4m).

4 Exceptional items

	1997 Exceptional items £m	1997 Taxation £m	1997 Net £m	1996 Exceptional items £m	1996 Taxation £m	1996 Net £m
Restructuring of Tobacco Machinery division						
– UK	**(11.4)**	**1.3**	**(10.1)**	(1.0)	0.2	(0.8)
– Overseas	**(6.5)**	**–**	**(6.5)**	–	–	–
	(17.9)	**1.3**	**(16.6)**	(1.0)	0.2	(0.8)
Rationalisation of Corrugated Board Machinery division	**–**	**–**	**–**	(2.9)	0.9	(2.0)
Adjustments and costs in respect of accounting irregularities at Langston	**(13.4)**	**3.7**	**(9.7)**	–	–	–
	(31.3)	**5.0**	**(26.3)**	(3.9)	1.1	(2.8)

Exceptional cash flows (excluding taxation)

	1997 Tobacco Machinery division £m	1997 Corrugating Machinery division £m	1997 Total £m	1996 Tobacco Machinery division £m	1996 Corrugating Machinery division £m	1996 Total £m
Total exceptional items	**(17.9)**	**(13.4)**	**(31.3)**	(1.0)	(2.9)	(3.9)
Exceptional items which do not give rise to a cash flow movement	**3.9**	**12.2**	**16.1**	–	0.9	0.9
	(14.0)	**(1.2)**	**(15.2)**	(1.0)	(2.0)	(3.0)
Other provisions and creditors carried forward at the year end	**7.6**	**0.5**	**8.1**	–	1.2	1.2
Cash outflow in the year relating to exceptional items	**(6.4)**	**(0.7)**	**(7.1)**	(1.0)	(0.8)	(1.8)
Cash outflow in the year relating to prior year exceptional items	**–**	**(0.8)**	**(0.8)**	–	–	–
Total cash outflow in the year	**(6.4)**	**(1.5)**	**(7.9)**	(1.0)	(0.8)	(1.8)

As part of the restructuring in the Tobacco Machinery division, the building in Brazil was sold at net book value for £2.8m, of which £1.1m has been received in 1997, with the balance receivable in 1998.

Continued

5 Employee information

	1997	1996
The average numbers of persons employed by the Group were:		
Tobacco machinery	**1,960**	2,171
Corrugated board machinery	**532**	663
Packaging machinery	**347**	163
	2,839	2,997

	£m	£m
Employment costs were:		
Wages and salaries	**65.0**	73.2
Social security costs	**8.8**	10.8
Pension (credit)/charge (note 6)	**(0.8)**	0.1
	73.0	84.1

In addition to the above, £10.3m (1996: £1.4m) was charged in the year for exceptional redundancy costs.

6 Pensions and other post retirement benefits

The Group operates pension schemes covering the majority of employees. The schemes are funded by contributions partly from the employees and partly from the companies at rates determined by independent actuaries.

UK pension schemes

The Group operates two principal pension schemes in the UK, the trustees of which are independent. Both are defined benefit schemes, the assets of which are held separately from those of the Company, and are funded by means of contributions paid by members and the Company (as necessary) in order to ensure that the schemes can meet their expected benefit obligations. The funding policy is to ensure that the assets held by the schemes in the future are adequate to meet accrued liabilities allowing for future increases in pay and pensions. None of the assets of the schemes are invested in the Company except for an interest in the cumulative preference shares of the Company which have a current market value of £0.2m. As at 1 April 1997, the Sandiacre Pension Scheme was transferred into the Molins UK Pension Fund. At the transfer date an accrual of £0.3m, representing the difference between the Sandiacre pension charge and cash contributions since 1994, was released in full to the profit and loss account.

The most recent formal actuarial valuations of the Fund at 31 December 1994 and the Scheme at 30 June 1994, the latter updated by way of an actuarial review to 31 December 1994, were carried out by independent actuaries using the projected unit method. These reported a combined surplus after allowing for the cost of equalisation of benefits between men and women, of £51.3m which, following actuarial recommendations, has allowed the Company to continue its contribution holiday subject to future actuarial reviews. The market value of the two schemes' assets and funding levels at 31 December 1994 were as follows:

6 **Pensions and other post retirement benefits** continued

	Market value £m	Funding level %
Molins UK Pension Fund (the Fund)	203	132
Molins Senior Management Pension Scheme (the Scheme)	29	117

The principal actuarial assumptions at 1 January 1995 were an investment return of 9.0%, pensionable pay increasing at 7.0%, pensions increasing at 4.5% and dividend growth of 4.5%. The actuarial surpluses are being spread over the average expected future working lifetimes of current employees as a percentage of pensionable salary.

US schemes

In the US, the Group has four non-contributory schemes offering defined benefits to members. For the purposes of determining the surplus or deficit funding, formal independent actuarial valuations were carried out as at 1 January 1997 using the projected unit credit method. Resulting from these valuations the profit before tax includes a pension charge of £nil (1996: £0.2m) which is net of a normal pension cost of £0.7m (1996: £0.6m).

Analysis of the net pension credit/(charge) included in the Group's profit and loss account

	1997 £m	1996 £m
United Kingdom Fund and Scheme:		
Normal pension cost	**(4.1)**	(4.1)
Amortisation of the surplus	**3.7**	3.7
Interest element on balance sheet prepayment	**0.9**	0.9
	0.5	0.5
Other pension arrangements	**0.3**	(0.6)
Net pension credit/(charge)	**0.8**	(0.1)

Post retirement benefits

The Group has an unfunded liability, arising principally in the United States, for post-retirement benefits in respect of medical costs and life assurance. The last valuation by an independent actuary of the US liability was at 1 January 1997 using the projected unit credit method and included as the principal assumptions a discount rate of 7.0% and an annual increase in health care costs of 7.3%, falling on a straight line basis over seven years to 5.0% per annum. Provision for such benefits amounted to £2.9m (1996: £2.9m) with a cost of £0.3m (1996: £0.3m) charged to the profit and loss account during the year.

7 **Emoluments of directors and interests in shares**

Information as to the emoluments of the directors, together with information as to the beneficial interests of the directors and their families in the ordinary shares of the Company, is included in the Remuneration Committee report on pages 22 to 25.

Continued

8 Net interest payable

	1997 £m	1996 £m
Payable:		
Amounts payable on bank loans and overdrafts	**2.2**	1.6
Amounts payable on other loans	**0.1**	0.1
Finance leases	**–**	0.1
	2.3	1.8
Receivable: cash and other short term investments	**(0.4)**	(0.8)
Net interest payable	**1.9**	1.0

9 Tax on (loss)/profit on ordinary activities

	1997 £m	1996 £m
UK Corporation tax at 31% (1996: 33%) on (loss)/profit for year		
– current year	**0.7**	9.1
– prior year	**(0.1)**	–
Advance corporation tax written off/(recovered) (net)	**1.3**	(3.4)
Less: double taxation relief	**(0.6)**	(0.3)
UK taxation	**1.3**	5.4
Overseas taxation	**(1.8)**	2.9
Deferred taxation	**1.0**	0.2
Taxation charge	**0.5**	8.5

10 (Loss)/profit attributable to parent company

	1997 £m	1996 £m
The amount dealt with in the Company's accounts	**(5.1)**	18.2

11 (Loss)/earnings per ordinary share

The calculations of (loss)/earnings per ordinary share are based upon losses after taxation (less preference dividends) of £20.6m (1996: earnings after taxation of £24.9m), and on the weighted average of 34,968,954 shares in issue during the year (1996: 34,183,637 shares). The 1997 and 1996 earnings per share on a fully diluted basis differ by less than 5%.

Reconciliation from basic (loss)/earnings per share to earnings per share before exceptional items

	1997 pence	1996 pence
Basic (loss)/earnings per share	**(58.9)**	72.8
Exceptional items	**75.2**	8.2
Earnings per share before exceptional items	**16.3**	81.0

12 Fixed tangible assets

	Group Land & buildings £m	Group Plant & machinery £m	Group Fixtures fittings & vehicles £m	Group Total £m	Company Land & buildings £m	Company Plant & machinery £m	Company Fixtures fittings & vehicles £m	Company Total £m
Cost or valuation:								
At beginning of year	29.3	45.5	22.6	97.4	14.8	21.3	16.6	52.7
Retranslation and other adjustments	0.3	1.2	0.1	1.6	–	–	–	–
Additions	0.1	2.0	2.9	5.0	–	0.8	2.5	3.3
Disposals	(3.2)	(1.9)	(1.9)	(7.0)	(0.1)	(1.6)	(0.8)	(2.5)
At end of year	**26.5**	**46.8**	**23.7**	**97.0**	**14.7**	**20.5**	**18.3**	**53.5**
Depreciation:								
At beginning of year	1.6	28.2	12.9	42.7	0.7	13.5	9.4	23.6
Retranslation and other adjustments	–	0.7	–	0.7	–	–	–	–
Charge for year	0.6	2.9	3.4	6.9	0.2	1.3	2.9	4.4
Applicable to disposals	(0.3)	(1.6)	(1.2)	(3.1)	–	(1.5)	(0.8)	(2.3)
At end of year	**1.9**	**30.2**	**15.1**	**47.2**	**0.9**	**13.3**	**11.5**	**25.7**
Net book values:								
At beginning of year	27.7	17.3	9.7	54.7	14.1	7.8	7.2	29.1
At end of year	**24.6**	**16.6**	**8.6**	**49.8**	**13.8**	**7.2**	**6.8**	**27.8**

The net book value of land and buildings based upon cost or valuation at 31 December 1997 comprises the following:

	Group Cost £m	Group Valuation £m	Group Total £m	Company Cost £m	Company Valuation £m	Company Total £m
Freeholds	–	22.9	22.9	–	12.1	12.1
Long leaseholds	1.7	–	1.7	1.7	–	1.7
	1.7	22.9	24.6	1.7	12.1	13.8

The net book value of fixed assets for the Group includes £1.0m (1996: £1.3m) and for the Company includes £1.0m (1996: £1.3m) in respect of assets held under finance leases. Depreciation charged on finance leased assets in the year was £0.4m (1996: £0.4m). The net book value for the Group of assets held in the course of construction is £0.3m (1996: £0.4m).

The Group's principal properties were valued on an open market existing use basis by professional valuers as at 31 December 1993 or acquisition if later.

The historical cost of land and buildings shown at valuation for the Group is estimated to be £17.1m (1996: £17.0m) and for the Company £9.5m (1996: £9.5m).

Depreciation is not charged on assets, which are included in land and buildings, with a gross value for the Group of £8.0m (1996: £9.5m) and for the Company of £5.6m (1996: £5.6m).

Continued

13 Investments

	Group Cost £m	Group Provision £m	Group Total £m	Company Cost £m	Company Provision £m	Company Loans £m	Company Total £m
At beginning of year	1.3	(0.1)	1.2	16.9	(1.7)	26.8	42.0
Additions in year	0.8	–	0.8	0.8	–	3.4	4.2
At end of year	**2.1**	**(0.1)**	**2.0**	**17.7**	**(1.7)**	**30.2**	**46.2**

The principal subsidiary and associated undertakings are shown on pages 51 and 52.

14 Stocks

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Raw materials and consumables	**6.2**	7.1	**3.7**	4.0
Work in progress	**28.8**	40.2	**16.1**	26.6
Finished goods	**25.9**	30.8	**13.4**	12.2
	60.9	78.1	**33.2**	42.8

15 Debtors

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Amounts falling due within one year:				
Trade debtors	**51.4**	58.4	**26.2**	32.7
Amounts owed by subsidiary undertakings	–	–	**11.8**	13.7
Other debtors including taxation	**7.0**	4.5	**0.5**	2.9
Prepayments and accrued income	**3.2**	3.1	**2.0**	2.2
	61.6	66.0	**40.5**	51.5
Amounts falling due after more than one year:				
Other debtors	**0.5**	0.7	**0.5**	0.6
Pension fund prepayment	**14.0**	13.2	**11.1**	10.5
	14.5	13.9	**11.6**	11.1
Total debtors	**76.1**	79.9	**52.1**	62.6

16 Borrowings

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Amounts falling due within one year:				
Overdrafts	**0.3**	0.9	**0.3**	0.2
Discounted bills of exchange and other borrowings	**0.1**	14.1	–	4.8
Loan notes	**1.0**	1.0	**1.0**	1.0
Finance lease obligations	**0.1**	0.3	–	0.2
	1.5	16.3	**1.3**	6.2
Amounts falling due after more than one year:				
Repayable between one and two years	**4.2**	0.1	**4.0**	–
Between two and five years	**8.3**	2.6	**7.0**	2.0
More than five years	**2.5**	2.5	–	–
	15.0	5.2	**11.0**	2.0
Amounts falling due after more than one year comprise:				
Finance lease obligations	**0.1**	0.2	–	–
Multi-currency unsecured credit facilities at variable interest rates, repayable and renewable at borrower's option up to 2002	**12.0**	2.0	**11.0**	2.0
Industrial Revenue US$ Bond at variable interest rates, repayable 1998-2018 (unsecured)	**2.5**	2.5	–	–
Mortgage (secured on property)	**0.4**	0.5	–	–
	15.0	5.2	**11.0**	2.0

Interest rates on borrowings at the year end varied between 3.8% and 8.5%.

17 Other creditors

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Payments amounts falling due within one year:				
Deposits received on account	**21.8**	13.2	**7.5**	7.8
Trade creditors	**24.4**	34.8	**15.2**	24.6
Amounts owed to subsidiary undertakings	–	–	**28.4**	27.5
Corporation tax including ACT	**4.6**	6.7	**1.2**	5.9
Other taxes and social security	**1.5**	1.9	**1.3**	1.5
Other creditors	**14.7**	10.7	**9.8**	8.5
Accruals and deferred income	**14.6**	16.8	**10.0**	12.0
	81.6	84.1	**73.4**	87.8

Continued

18 Creditors – amounts falling due after more than one year:

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Pension fund accrual	**0.6**	0.5	–	–
Other creditors	**0.1**	0.4	–	–
	0.7	0.9	–	–

19 Operating leases

At 31 December there were annual commitments under non-cancellable operating leases as set out below:

	Group 1997 Land and buildings £m	Group 1997 Other £m	Group 1996 Land and buildings £m	Group 1996 Other £m	Company 1997 Land and buildings £m	Company 1997 Other £m	Company 1996 Land and buildings £m	Company 1996 Other £m
Operating leases which expire:								
Within one year	**0.1**	–	0.3	0.1	–	–	0.3	0.1
Between two and five years	–	**0.7**	–	0.7	–	–	–	–
More than five years	**0.3**	–	0.4	–	**0.3**	–	0.3	–
	0.4	**0.7**	0.7	0.8	**0.3**	–	0.6	0.1

20 Provisions for liabilities and charges

	Deferred taxation £m	Restructuring & rationalisation provisions £m	Post retirement benefits £m	Total £m
At the beginning of the year	1.6	1.2	2.9	5.7
Retranslation	0.1	–	0.1	0.2
Charge for the year	1.0	17.9	0.1	19.0
Utilised during the year	–	(11.5)	(0.2)	(11.7)
At the end of the year	**2.7**	**7.6**	**2.9**	**13.2**

For the Company there are provisions for post-retirement benefits of £0.2m (1996: £0.2m) and rationalisation costs of £4.4m (1996: £0.7m), the latter being charged in the year.

Post retirement benefits are dealt with in note 6.

20 Provisions for liabilities and charges continued

	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Deferred taxation comprises:				
Equalisation of capital allowances and depreciation	**2.7**	1.8	**–**	–
Other timing differences	**–**	(0.2)	**–**	–
	2.7	1.6	**–**	–
The amount of unprovided deferred taxation is as follows:				
Equalisation of capital allowances and depreciation	**0.7**	0.8	**0.7**	0.8
US stock	**2.0**	2.0	**–**	–
Capital gains in respect of UK and overseas property revaluations	**4.4**	4.9	**3.2**	3.2
Other timing differences	**(3.4)**	(1.2)	**(2.2)**	(1.2)
	3.7	6.5	**1.7**	2.8

Unutilised advance corporation tax (ACT) of £6.0m (1996: £4.7m) is carried forward for offset against future UK tax liabilities. The UK government has announced a major change to corporation tax procedures which includes phasing out ACT. It is understood that special rules will be introduced to allow ACT carried forward to be offset against certain future UK corporation tax liabilities but the details of these rules are not yet finalised. No provision for deferred taxation has been made on the net pension credit or the pension fund prepayment as these are not regarded as timing differences which will reverse in the foreseeable future for tax purposes.

21 Share capital

	1997 Authorised £m	1996 Authorised £m	1997 Allotted called up and fully paid £m	1996 Allotted called up and fully paid £m
Ordinary shares of 25p each	**10.1**	10.1	**8.9**	8.6
Preference shares of £1 each (4.2%)	**0.9**	0.9	**0.9**	0.9
	11.0	11.0	**9.8**	9.5

During the year 931,180 ordinary shares were issued following the exercise of share options.

There were 35,528,497 (1996: 34,597,317) ordinary shares in issue at the year end. Options held over Molins PLC ordinary shares were as follows:

	Savings related schemes	Executive schemes
At 1 January 1997	1,270,200	447,230
Granted	–	–
Exercised	(931,180)	–
Lapsed	(33,965)	(48,450)
At 31 December 1997	**305,055**	**398,780**
Option price per share	279p - 702p	507p - 904p
Exercise dates	1998 - 2002	1998 - 2006

Continued

21 Share capital continued

Options were exercised during 1997 at prices of between 279p and 702p per share. The options granted prior to 1 January 1996 under the savings related scheme (less any lapsed options) were exercisable between 1 July and 31 December 1997.

Preference shares

Dividends to preference shareholders amounted to £37,800 (1996: £37,800).

The preference shares carry a fixed cumulative preferential dividend at the rate of 4.2% (net) per annum, and on a winding up shall entitle the holders to repayment of the capital paid up thereon (together with a sum equal to any arrears or deficiency of the fixed dividend calculated down to the date of the return of capital and to be payable irrespective of whether such dividend has been declared or earned or not) in priority to any payment to the holders of the ordinary shares, but the preference shares shall not entitle the holders thereof to any further or other participation in the profits or assets of the Company.

The preference shareholders are not entitled to receive notice of or to attend or vote at any general meeting unless either:

a) at the date of the notice convening the meeting the dividend on the preference shares is six months in arrears and so that for this purpose the dividend on the preference shares shall be deemed to be payable half yearly on 30 June and 31 December in every year; or

b) the business of the meeting includes the consideration of a resolution for the winding up of the Company, or for reducing its share capital or for sanctioning a sale of the undertaking, or any resolution directly and adversely affecting any of the special rights or privileges attached to the preference shares.

QUEST

Of the 931,180 options exercised in the year under the savings related scheme, 917,593 have been satisfied through a Qualifying Employee Share Trust (QUEST).

The QUEST has subscribed for shares at market value and has received from the Company contributions equal to the difference between the market value of the shares subscribed and the exercise price of the options under the savings related scheme. The contributions by the Company to the QUEST in the year totalled £2.1m, which have been charged directly to reserves.

The range of the market price subscriptions for shares by the QUEST in the year was 308p to 593p.

22 Share premium account and reserves

	Share premium £m	Revaluation reserve £m	Profit & loss account £m	Total £m
Group				
At 1 January 1997	21.0	17.8	57.6	96.4
Charge from profit and loss account of the year	–	–	(26.0)	(26.0)
Currency translation differences arising on foreign currency denominated net investments	–	0.5	(0.3)	0.2
Premium on shares issued during year	4.5	–	(2.1)	2.4
At 31 December 1997	**25.5**	**18.3**	**29.2**	**73.0**
Company				
At 1 January 1997	21.0	5.2	39.7	65.9
Charge from profit and loss account of the year	–	–	(10.5)	(10.5)
Premium on shares issued during year	4.5	–	(2.1)	2.4
At 31 December 1997	**25.5**	**5.2**	**27.1**	**57.8**

Reserves included in the profit and loss account in respect of pension fund net assets at 31 December 1997 are £13.4m (1996: £12.7m) for the Group and £11.1m (1996: £10.5m) for the Company.

Cumulative total amounts taken to reserves in respect of goodwill on acquisition of subsidiaries has amounted to £46.1m (1996: £46.1m) and for the Company £18.9m (1996: £18.9m).

23 Shareholders' funds

	Group		Company	
	1997 £m	1996 £m	**1997 £m**	1996 £m
Equity interests	**81.9**	105.0	**66.7**	74.5
Non-equity interests	**0.9**	0.9	**0.9**	0.9
	82.8	105.9	**67.6**	75.4

24 Minority interests

	Group	
	1997 £m	1996 £m
At beginning of year	**0.2**	–
Acquisition of subsidiary undertaking	–	0.2
At end of year (all equity)	**0.2**	0.2

Continued

25 Acquisitions

On 1 November 1996 the Group acquired the assets and certain liabilities of H J Langen Inc. and the property from which it operates; the whole of the share capital of Langenpac NV and the property from which it operates; and a 60% interest in Langen-Kyoto Inc., a Canadian joint venture company. Total consideration, including accrued expenses of £0.5m, amounted to £23.0m. The fair value of the net assets acquired amounted to £3.2m and goodwill arising on acquisition of £19.8m was taken to reserves.

Final acquisition expenses amounted to £0.2m and were settled during the year.

26 Reconciliation of operating (loss)/profit to operating cash flows

	1997 £m	1996 £m
Operating (loss)/profit	**(18.2)**	34.4
Depreciation	**6.9**	6.6
Movements in restructuring and rationalisation provisions:		
– asset writedowns	**3.9**	0.4
– increase in provisions for liabilities and charges	**6.4**	0.8
Non cash adjustments in respect of accounting irregularities at Langston	**12.2**	–
Working capital movements:		
– stocks	**6.8**	(1.2)
– debtors	**8.5**	2.1
– creditors and other provisions	**(3.8)**	(15.2)
– other	**–**	(0.3)
Net cash inflow from operating activities	**22.7**	27.6
Cash flows from exceptional items excluding tax effect (note 4)	**(7.9)**	(1.8)
Other cash flows	**30.6**	29.4
Net cash inflow from operating activities	**22.7**	27.6

27 Analysis of cash flows for headings netted in the cash flow statement

	1997 £m	1996 £m
Returns on investments and servicing of finance		
Interest received	**0.4**	0.8
Interest paid	**(2.2)**	(1.8)
Interest element of finance lease rental payments	**–**	(0.1)
Net cash outflow for returns on investment and servicing of finance	**(1.8)**	(1.1)
Taxation		
Taxation repaid	**0.8**	–
Taxation paid	**(6.8)**	(8.2)
Net cash outflow for taxation	**(6.0)**	(8.2)
Capital expenditure		
Purchase of tangible fixed assets	**(5.0)**	(10.0)
Sales of tangible fixed assets	**1.2**	0.4
Net cash outflow for capital expenditure	**(3.8)**	(9.6)
Acquisitions and disposals		
Purchase of subsidiary undertakings	**(0.2)**	(20.4)
Net cash acquired with subsidiaries	**–**	0.9
Investment in joint ventures	**(0.8)**	(1.0)
Net cash outflow for acquisitions and disposals	**(1.0)**	(20.5)
Management of liquid resources		
Decrease in short term bank deposits	**–**	6.5
Financing		
Issue of ordinary share capital	**4.8**	1.4
Contributions to Qualifying Employee Share Trust	**(2.1)**	–
Debt due within a year:		
(Decrease)/increase in short term borrowings	**(14.3)**	6.3
Debt due beyond a year:		
Increase/(decrease) in unsecured loans	**9.8**	(7.7)
Capital element of finance lease rental payments	**(0.3)**	(0.1)
Net cash outflow from financing	**(2.1)**	(0.1)

Continued

28 Analysis of net debt

	At 1 Jan 1997 £m	Cash flow £m	Exchange movement £m	At 31 Dec 1997 £m
Cash in hand, at bank	9.8	(0.3)	(0.3)	**9.2**
Overdrafts	(0.9)	0.6	–	**(0.3)**
	8.9	0.3	(0.3)	**8.9**
Debt due within 1 year	(15.1)	14.3	(0.3)	**(1.1)**
Debt due after 1 year	(5.0)	(9.8)	(0.1)	**(14.9)**
Finance leases	(0.5)	0.3	–	**(0.2)**
Total net debt	(11.7)	5.1	(0.7)	**(7.3)**

29 Capital commitments

	Group		Company	
	1997 £m	1996 £m	**1997 £m**	1996 £m
Capital investment contracted but not provided for	**1.3**	0.5	**1.3**	0.5

30 Contingent liabilities

	Group		Company	
	1997 £m	1996 £m	**1997 £m**	1996 £m
Contingent liabilities in respect of indemnities in relation to sales and other contracts	**7.6**	14.3	**7.6**	14.3

In addition to the above, a claim was filed in 1994 against the Company by Caterpillar Inc., a licensee under Molins' FMS patents, claiming a minimum total sum of $10.5m. The lawsuit was heard in court in January 1997, and the judge's decision is awaited. The claim is considered by Molins to be without merit.

31 Related party transactions

Details of the principal subsidiary undertakings are shown on pages 51 and 52. In accordance with FRS 8, transactions or balances between Group entities that have been eliminated on consolidation are not reported.

Subsidiaries, divisions and branches

Tobacco Machinery

Design, manufacture, marketing and servicing of machinery for the tobacco industry.
M J R Saw Chief Executive

Original Equipment
Haw Lane, Saunderton, High Wycombe, Bucks HP14 4JE
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R D'Sa Managing Director

Spares
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Fax: +44(0)1733 264751
Tlx: 32442
K A J Sheridan Director & General Manager

Molmac Engineering Limited
26 Tanners Drive, Blakelands, Milton Keynes MK14 5LA
Tel: +44(0)1908 614422
Fax: +44(0)1908 613857
M G Radley Operations Manager

Molins Richmond Inc.
3900 Carolina Avenue, Richmond, Virginia 23222, USA
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M J Bedford President

Molins do Brasil Maquinas Automaticas Ltda
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S G McFarlane President Director

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A Wong Director & General Manager

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E Lünse Director & General Manager

A O Tabak (60%)
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V I Babayev General Manager

Molins Kunming Service Centre
The King World Hotel Centre, 2206 3/F
28 Beijing Road South
Kunming
Yunnan 650011
China
Tel: + 86 871 319 1716
Fax: + 86 871 319 1715
R Barnard Manager

Corrugated Board Machinery

Design, manufacture, marketing and servicing of machinery for the corrugated board industry.

The Langston Corporation
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Fax: +1 609 795 0652
Tlx: 6851064
A J Stroud President

Continued

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Fax: +44 (0)117 940 1820/21
R Dal Lago General Manager

Molins (Australia) Pty Limited
46-50 Sheehan Road, West Heidelberg,
Victoria 3081, Australia
Tel: +61 39 457 7200
Fax: +61 39 457 7211
A C King Managing Director

The Langston (China) Corporation Limited (50%)
31 Xianning East Road, Eastern Suburbs,
Xian 710043, China
Tel: +86 29 323 8140
Fax: +86 29 323 8136
P D Jenkins General Manager

Packaging Machinery

Design, manufacture, marketing and servicing of machinery for the fast moving consumer goods industries.

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Tel: +44 (0)115 9678787
Fax: +44 (0)115 9678707
C Davison Managing Director

Molins Food Machinery
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Tel: +44 (0)1203 421100
Fax: +44 (0)1203 421255
G W Vernon Business Manager

Langen Packaging Inc.
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Ontario, Canada, L5T 1Z2
Tel: + 1 905 670 7200
Fax: + 1 905 670 5291
P Langen President

Langen-Kyoto Inc. (60%)
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Fax: + 1 905 670 5291
P Wardell General Manager

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H J M Langen Managing Director

Research and Development

Molins International Technology Centre
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Fax: +44 (0)1203 421255
M J Cahill Director of Research

Note
The subsidiary undertakings shown above include those which principally affect the profits and assets of the Group. UK undertakings operate in England and are registered in England & Wales. Overseas companies operate and are incorporated in the countries in which they are based. In all cases the class of shares held is ordinary equity shares and the proportion held is 100% unless otherwise indicated. Shares in the UK, Chinese and Russian companies are held directly by Molins PLC and those in the other overseas subsidiaries by intermediate holding companies. The Langston (China) Corporation Limited is a subsidiary undertaking of Molins PLC by virtue of section 258(2)(b) of the Companies Act 1985. A full list of subsidiaries will be included in the next annual return.

Five year record

	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Turnover	**254.8**	306.2	285.5	223.9	203.5
Operating profit (before exceptional items)	**13.1**	38.3	32.0	25.4	23.1
Net interest payable	**(1.9)**	(1.0)	(2.2)	(1.4)	(2.0)
Profit before taxation (before exceptional items)	**11.2**	37.3	29.8	24.0	21.1
Exceptional items	**(31.3)**	(3.9)	–	–	–
(Loss)/profit before taxation	**(20.1)**	33.4	29.8	24.0	21.1
Taxation	**(0.5)**	(8.5)	(7.5)	(5.8)	(5.0)
(Loss)/profit after taxation	**(20.6)**	24.9	22.3	18.2	16.1
Return on sales	**5.1%**	12.5%	11.2%	11.3%	11.4%
Earnings per share (before exceptional items)	**16.3p**	81.0p	65.4p	57.8p	51.9p
(Loss)/earnings per share	**(58.9)p**	72.8p	65.4p	57.8p	51.9p
Dividends per share	**15.0p**	22.0p	20.0p	17.0p	15.4p
Fixed assets and investments	**51.8**	55.9	53.5	49.5	46.0
Stocks	**60.9**	78.1	76.8	65.0	58.5
Debtors	**76.1**	79.9	80.6	72.1	59.5
Creditors and provisions	**(98.5)**	(96.1)	(106.3)	(84.8)	(66.6)
	90.3	117.8	104.6	101.8	97.4
Net (borrowings)/cash	**(7.3)**	(11.7)	6.8	(6.4)	(2.3)
Net assets	**83.0**	106.1	111.4	95.4	95.1
Share capital and premium account	**35.3**	30.5	29.1	29.0	15.7
Reserves and minority interests	**47.7**	75.6	82.3	66.4	79.4
Shareholders' funds (including non-equity and minorities)	**83.0**	106.1	111.4	95.4	95.1
Net assets per equity share	**231p**	303p	324p	278p	303p

Notice of meeting

The eighty-sixth Annual General Meeting of Molins PLC will be held at Painters' Hall, 9 Little Trinity Lane, London EC4V 2AD on Wednesday 22 April 1998 at 12.15pm for the following purposes:

1 To receive the directors' report and audited accounts for the year ended 31 December 1997.

2 To declare a final dividend on the ordinary shares.

3 To reappoint Mr M J R Saw as a director.

4 To reappoint KPMG Audit Plc as auditors and to authorise the directors to determine their remuneration.

As special business:

5 To consider and, if thought fit, to pass the following resolution as a special resolution:

Special resolution

Disapplication of pre-emption rights

THAT

A The directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 (the "Act") to allot equity securities for cash, pursuant to the general authority conferred upon them by Resolution 7 passed at the Annual General Meeting held on 24 April 1996, as if Section 89(1) of the Act did not apply to any such allotment and so that the power conferred by this resolution shall enable the Company to make any offer or agreement before the expiry of this power (unless previously revoked or varied by the Company in general meeting), which would or might require equity securities to be allotted after such expiry and so that notwithstanding such expiry the directors may allot equity securities pursuant to any such offer or agreement previously made by the Company as if the power conferred hereby had not expired PROVIDED however that the power conferred by this resolution shall be limited:

i) to the allotment of equity securities in connection with or pursuant to any arrangement whereby the holders of ordinary shares at a record date or dates adopted for the purposes of the arrangement are entitled to acquire any equity securities of the Company issued for cash pursuant to such arrangement, in the proportion (as nearly as may be) to such holders' holdings of shares (or, as appropriate, to the numbers of ordinary shares which such holders are for the purpose deemed to hold) subject to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under or resulting from the application of the laws of any territory or the requirements of any recognised regulatory body or stock exchange in any territory; and

ii) to the allotment (otherwise than pursuant to sub-paragraph i) above) of equity securities having an aggregate nominal value not exceeding £432,000; and

B Words and expressions defined in or for the purposes of the Act shall bear the same meanings in this resolution.

By order of the Board

J C Humphries, Secretary

12 March 1998

Note

A member entitled to attend and vote may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member.

Financial calendar

Annual General Meeting	April
Announcement of Results	
Half Year	September
Full Year	March
Dividends Paid	
Ordinary	
Interim	October
Final	May
Preference	30 June 31 December

Subject to members' approval, the final dividend for 1997 will be paid on 20 May 1998 to ordinary shareholders registered at the close of business on 3 April 1998.

Corporate information

Registered and Head Office

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MK14 5LU
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Secretary
J C Humphries BA

Registered Number
124855

Auditors
KPMG Audit Plc

Stockbrokers
Cazenove & Co

Registrars
IRG plc
Bourne House
34 Beckenham Road
Beckenham
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