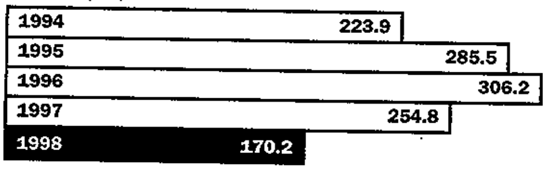
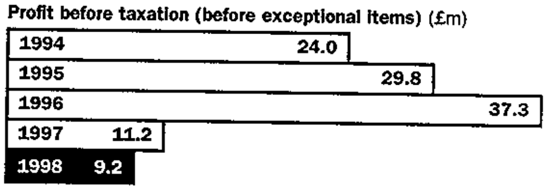
# Financial highlights

| For the year ended 31 December | 1998 £m | 1997 £m |
|---|---|---|
| **Operations** | | |
| Turnover | **170.2** | 254.8 |
| Profit before taxation (before exceptional items) | **9.2** | 11.2 |
| Loss before taxation (after exceptional items) | **(6.6)** | (20.1) |
| Shareholders' funds | **70.4** | 82.8 |
| Net cash/(borrowings) | **10.9** | (7.3) |
| **UK exports** | | |
| Exports from UK | **91.2** | 128.6 |
| Percentage of total UK turnover | **86%** | 84% |
| **Amount per ordinary share** | | |
| Earnings (before exceptional items) | **16.3p** | 16.3p |
| Loss (after exceptional items) | **(36.2)p** | (58.9)p |
| Dividends | **8.0p** | 15.0p |
| Net assets | **196p** | 231p |

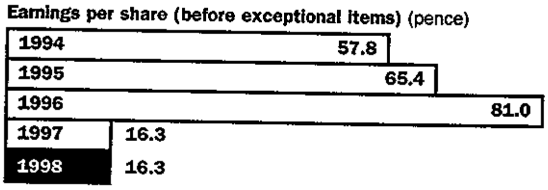
**Turnover** (£m)



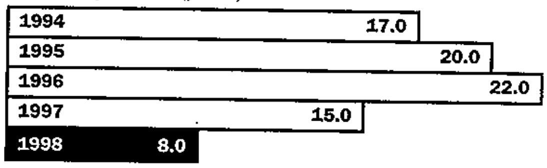

**Profit before taxation (before exceptional items)** (£m)




**Earnings per share (before exceptional items)** (pence)



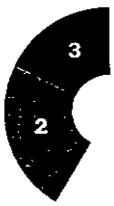

**Dividends per share** (pence)



# Serving customers worldwide

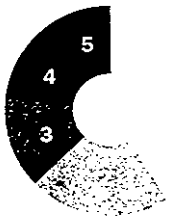
Molins is focused on the supply of quality machinery, related support services and systems, principally to the fast moving consumer goods sectors, including tobacco, food and other high volume products.

**Turnover by division in 1998 (£m)**




| | |
|---|---|
| 1 Tobacco machinery | 100.2 |
| 2 Packaging machinery | 40.4 |
| 3 Discontinued operations | 29.6 |

**Turnover by destination in 1998 (£m)**




| | |
|---|---|
| 1 North America | 70.5 |
| 2 Asia | 36.8 |
| 3 Rest of the world | 23.7 |
| 4 Continental Europe | 21.4 |
| 5 United Kingdom | 17.8 |

## Tobacco machinery

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

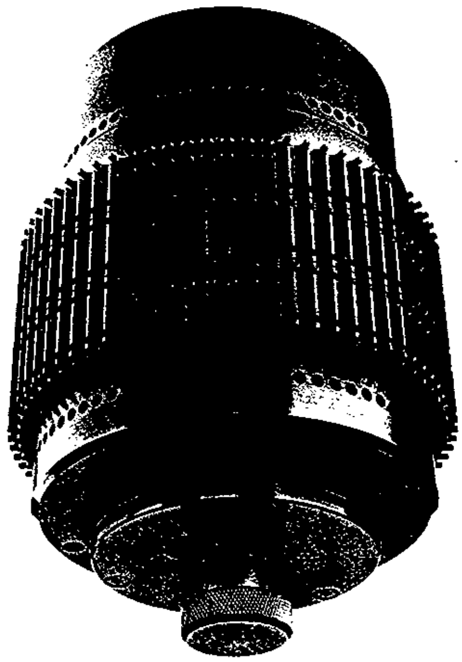
**Operating units and locations**

| | |
|---|---|
| Original Equipment, Saunderton | UK |
| Service and Spares, Saunderton | 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 Tobacco CIS, Moscow | Russia |
| Molins Kunming Service Centre, Kunming | China |
| Kunming Molins Tobacco Machinery Company | China |

# Speed

Up to 12,000 cigarettes per minute.

*Image* Passim plug assembly drum
See page 9



## Packaging machinery

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

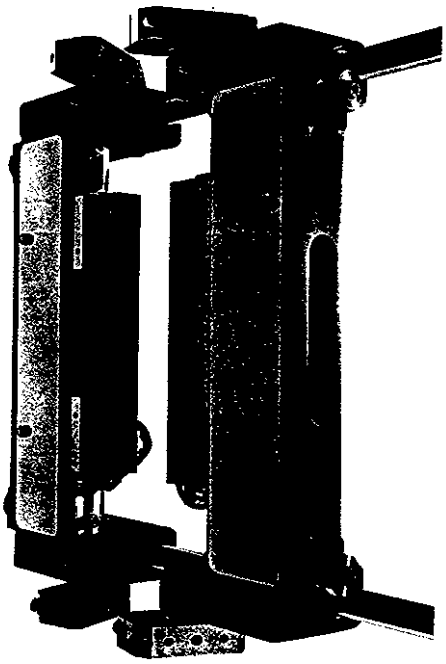
**Operating units and locations**

| | |
|---|---|
| Sandiacre Packaging Machinery, Nottingham | UK |
| Molins Food Machinery, Coventry | UK |
| Molins Sandiacre, Richmond, Virginia | USA |
| Langen Packaging, Ontario | Canada |
| Langenpac, Wijchen | The Netherlands |
| Molins Australia, West Heidelberg | Australia |

# Efficiency

140 bags per minute.

*Image* D-action sealer
See page 11



## Research and development

**Principal activities**
Product and technology development.

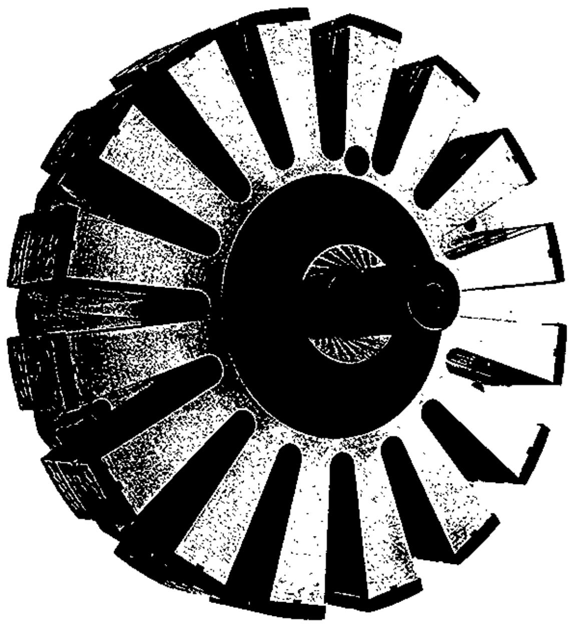
**Operating units and locations**

| | |
|---|---|
| Molins International Technology Centre, Coventry | UK |
| Original Equipment, Saunderton | UK |
| Sandiacre Packaging Machinery, Nottingham | UK |
| Molins Richmond, Virginia | USA |
| Langen Packaging, Ontario | Canada |
| Langenpac, Wijchen | The Netherlands |

# Precision

Component tolerances to 5 microns.

*Image* looper arm hub
See page 13



# Chairman's statement

During 1998, demand for tobacco machinery showed no signs of recovery and further restructuring was necessary to bring capacity into line. Sales of packaging machinery continued to grow, in some areas at the expense of margins. The Group sharpened its focus and strengthened its balance sheet by disposing of its corrugated board machinery business, Langston.

**Results**

Sales were £170.2m (1997: £254.8m) of which £140.6m (1997: £187.4m) related to continuing businesses. Operating profit before exceptional items was £9.1m (1997: £13.1m) of which £8.5m (1997: £12.8m) related to continuing businesses. Exceptional charges of £16.0m before tax (1997: £31.3m) were incurred as a result of further restructuring of the Tobacco Machinery division and an exceptional gain before tax of £0.2m was realised on the sale of Langston. The Group loss before tax amounted to £6.6m (1997: loss £20.1m) and the loss after tax to £12.9m (1997: loss £20.6m). Earnings per share before exceptional items were 16.3p (1997: 16.3p) and the loss per share after exceptional items was 36.2p (1997: loss 58.9p).

**Operations**

With demand for the products of the Tobacco Machinery division showing no signs of recovery, decisive action was taken to effect a further rationalisation of capacity. The proposal to close the Peterborough site was announced in June and the consolidation of its activities with those at Saunderton has now been implemented. Order intake for original equipment has been subdued in recent months, with the result that aftermarket activities in spares and rebuild now represent the bulk of the division's current workload. An important new initiative has been launched to take full advantage of the aftermarket opportunities arising from the substantial installed base of Molins' machinery in use throughout the world. Sales in 1998 reflected reduced shipments of original equipment and amounted to £100.2m (1997: £150.5m). Operating profit before exceptional items was £6.4m (1997: £9.1m).

The Packaging Machinery division achieved a 9% increase in sales at £40.4m (1997: £36.9m) and an operating profit of £2.1m (1997: £3.7m). Notwithstanding steady performances from Sandiacre and Molins Food Machinery, the division's results were affected by lower margins at Langen and Langenpac arising from an unusually high proportion of development projects partially funded by customers.

**Balance sheet**

After exceptional items amounting to £18.7m net of tax, Group shareholders' funds at 31 December 1998 were £70.4m against £82.8m at 31 December 1997. Net assets per share were 196p (1997: 231p).

The Group's balance sheet remains strong. Net cash at the year end of £10.9m benefited from the £21.3m net cash proceeds from the sale of Langston and compared with borrowings of £7.3m a year earlier. Net interest receivable amounted to £0.1m (1997: charge £1.9m).

**Dividends**

The results for 1998 are much in line with the Board's expectations when a maintained interim dividend of 6.5p was declared in September. However, in the months since then, order intake for tobacco machinery for delivery in 1999 has been lower than budgeted. Taking account of the prospects for the current year and the need to establish adequate dividend cover, the Board has concluded that total dividends should be reduced to 8.0p per share and intends next year to redress the balance between the interim and final dividends. Accordingly the Board recommends the payment of a final dividend of 1.5p. This together with the interim dividend of 6.5p per share, would make a total for the year of 8.0p per share (1997: 15.0p), giving dividend cover of 2.0 times before exceptional items (1997: 1.1 times). If approved, the final dividend will be paid on 19 May 1999 to ordinary shareholders registered on 16 April 1999.

**Authority to purchase own shares**

The Board has taken care to maintain a strong balance sheet throughout the uncertainties of recent years. As a result of this, the Group has been able to meet the heavy costs of capacity rationalisation without undue strain on its finances. Certain of the costs of rationalisation, already provided for in the accounts, have yet to be incurred and will absorb part of the Group's existing cash balances in 1999.

As the programme of rationalisation nears its end, the Board is considering how best to apply any surplus liquidity which may remain. The Company does not currently have the power to purchase its own shares and accordingly it will seek authority at the forthcoming Annual General Meeting to purchase up to 10% of its own share capital. Before taking any action to purchase shares, however, the Board would wish to measure the attractions of doing so against other investment opportunities then available to the Group.

**Board and management**

Several important management changes have taken place in the last twelve months. In September, the Board confirmed Peter Grant's appointment as Group Chief Executive and decided to look outside for his successor as Group Finance Director. The successful candidate, David Cowen, formerly Member of the Board, Finance & Systems, Rolls-Royce Motor Cars Ltd, took up his duties as Group Finance Director in February of this year. In addition, Chris Horton, formerly Company Secretary of Leigh Interests plc, joined the Group as Company Secretary and Director of Legal Affairs, replacing Clive Humphries on his retirement in November after ten years' distinguished service.

In the last two years of my eight year term as Chairman, the Group has had to face a rapid and substantial fall in demand for tobacco machinery which has posed especially challenging problems of restructuring. With the rationalisation of capacity now substantially complete, I have decided to stand down in favour of a new Chairman who would lead the next phase of development. Accordingly, Peter Byrom was appointed to the Board as a non-executive director in February, with the intention that he should become Chairman following the Annual General Meeting.

Lindsay Bryson has made an enormous contribution to the Board since his appointment as a non-executive director in 1988. However, he was 71 when he sought re-election at my request three years ago and made it clear then that he would not stand again. Accordingly, he will retire at the Annual General Meeting along with John Parnaby who has decided for personal reasons, not to seek re-election. John joined the Board in July as a non-executive director and his advice at a difficult time of change has been greatly appreciated. The appointment of at least one further non-executive director is a priority for the Board.

**Employees**

Employees at every level have willingly faced up to the demands of another testing year. They have had to cope with significant changes and challenges, and I would like to thank every one of them for their whole-hearted commitment to the Group.

**Outlook**

The Tobacco Machinery division's sales are likely to be down again in 1999, with the order backlog for original equipment significantly below that of a year ago and current levels of demand at a low ebb. The aftermarket business has held up reasonably well and the early action taken to rationalise capacity and reduce costs should ensure that the division as a whole remains profitable. The flow of orders for the Packaging Machinery division is encouraging and its current order backlog provides a sound platform to support growth in 1999. Even so, without a sudden and unforeseen improvement in demand for tobacco machinery, the Group as a whole is unlikely to achieve results matching the £9.1m operating profit earned in 1998.

Although the results of recent years have been very disappointing, the Group's response to an especially deep and prolonged trough in the demand for tobacco machinery has been prompt and effective. With the restructuring nearing completion, the new management team is turning its focus towards the opportunities for actively developing the Group's businesses.

**J C Orr**
Chairman
11 March 1999

# Group Chief Executive's review

With the reorganisation of the Tobacco Machinery division well on course and the sale of Langston, the Group ended 1998 as a much more focused business, with a new management team, a clear sense of direction and £10.9m net cash.

As anticipated, the Tobacco Machinery division's order intake was exceptionally low with little investment by major multinationals, the China State Tobacco Monopoly Authority, and tobacco companies in South East Asia and Russia. This has affected all competitors similarly.

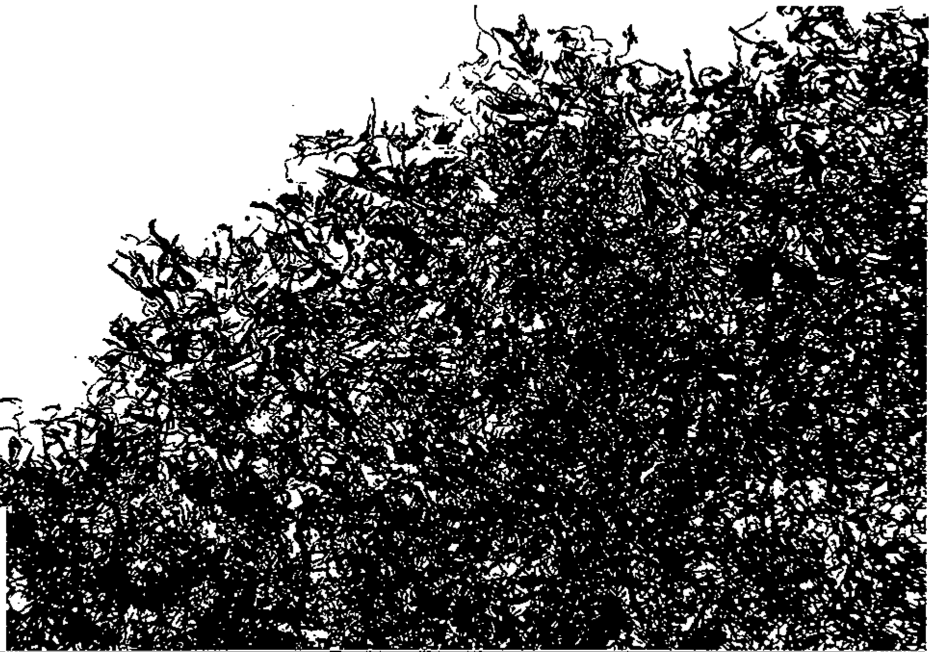
As well as restructuring the division to bring capacity in line with demand, a new impetus has been given to developing a growing and focused world-wide service operation. The Tobacco Machinery division's management team has been organised to embrace the new emphasis on service. New people have been hired both from within the tobacco industry customer base and from other industries to enhance the blend of management skills. This team is enthusiastically responding to the multifaceted needs and challenges of the global market.

The Packaging Machinery division saw a further improvement in the second half in its order book at Langen in particular, although the performance was constrained by disappointing results at both Langen and Langenpac. Management is being strengthened to assist in developing the full potential of these businesses. Sandiacre continued to show sales growth, notwithstanding the strength of sterling. Molins Food Machinery also continued to develop its business in innovative teabag machinery, leading to the launch of the Pyramid teabag in South Africa. Further progress was made in utilising the Group's technologies in new products at Sandiacre, Langen and MFM.

Group investment in new plant and equipment was lower at £2.6m (1997: £5.0m), as the Tobacco Machinery division concentrated on further retrenchment. An incremental investment of £0.3m was also made in the joint venture in Kunming, which commenced trading during the year as a rebuild and parts supplier in China. The Group has continued to invest in product development, with a net investment totalling £5.8m for continuing businesses, compared with £6.3m last year. Both divisions introduced important enhancements to existing products as well as a number of new products.

During the last quarter the Group launched a competitiveness improvement programme called "Moving Forward". This Group-wide initiative uses a proven project management approach to business transformation with particular emphasis on improving business and product introduction processes. In support of this initiative the Group is encouraging ambitious employees to develop their careers by participating in change projects.

At the end of the year net cash amounted to £10.9m (1997: net borrowings £7.3m). The balance sheet remains strong and gives the Group the strength to take the business forward both organically and by acquisition.



Molins machines handle materials including, (clockwise from top right), tobacco, tea and fresh and frozen produce

# Speed, efficiency, precision

**Molins is dedicated to producing and supporting highly engineered machines that meet demanding modern production standards and are capable of handling a wide range of delicate products.**

# Tobacco machinery

The division completed a major strategic review that had been initiated in the latter part of 1997. Far-reaching changes were implemented in anticipation of continuing low levels of demand for new equipment and to take advantage of opportunities in certain parts of the aftermarket.

**Principal activities**
The Tobacco Machinery division designs and manufactures a wide range of specialist machines for the tobacco industry's secondary processes and provides aftermarket services to the industry worldwide. The range of equipment is supplied from Saunderton, UK and Richmond, Virginia and spare parts, rebuilds and services are supplied from operations based throughout the world.

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

**Sales** decrease of 33%


**Operating profit (before exceptional items)** decrease of 30%


The Tobacco Machinery division had a very difficult trading year. As anticipated, order intake for new equipment was considerably lower than in the previous year, adding urgency to the implementation of a wide range of initiatives designed to underpin the business. These included the further reduction in capacity announced in June, and the refocusing of existing activities into a more pro-active and customer focused service operation. This is aimed at supporting the substantial installed base of Molins' machines throughout the global tobacco industry, providing the many Molins' customers with enhanced opportunities to improve efficiency.

The underlying market trends previously reported caused all the major cigarette manufacturers to review their asset management strategies. In particular, litigation issues in the US and the economic problems in Asia, Russia and Brazil continue to suppress capital expansion plans. Investment by the state controlled Chinese tobacco industry has been cut drastically and certain major multinationals have announced mergers, factory closures, consolidation and project postponements.

As a result, the division experienced a 33% fall in sales to £100.2m (1997: £150.5m) and operating profit before exceptional costs was down by 30% to £6.4m (1997: £9.1m).

As a direct consequence of this continuing reduction in demand and following the division's strategic review, it was decided to close the Peterborough spares manufacturing facility and consolidate all related operations at Saunderton, with a reduction of some 300 jobs.

The division has been restructured into two principal operations, one focused on new equipment design and manufacture and the other on all aspects of serving the aftermarket. The service business has been organised on geographical lines and will be developed further to strengthen local support to customers. New business has been secured by working closely with customers on specific innovative development projects.

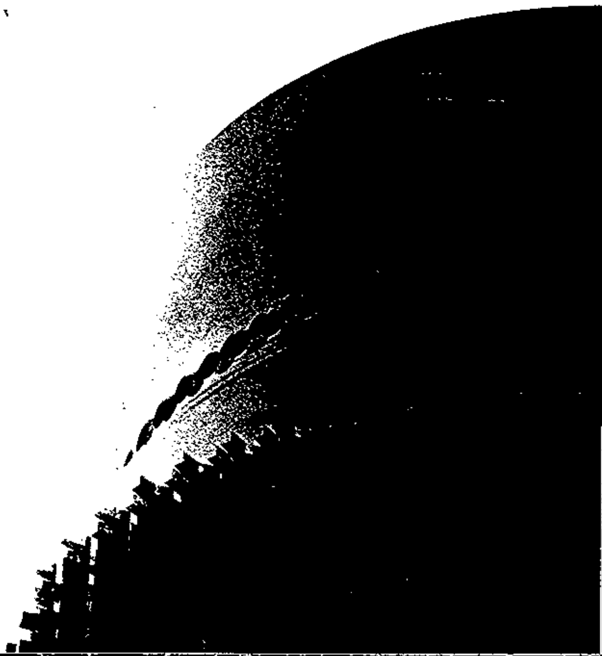
During October, the latest generation Passim cigarette maker and a number of new and innovative handling systems, supported by the "global and local" service theme, were featured at the World Tobacco Exhibition in Geneva – an event that takes place every four years. The Passim continues to be recognised as a leading mid speed maker, achieving excellent productivity results with multinational and independent customers.

The spares business had mixed trading results. Growth was achieved in some locations, but overall demand was lower as economic problems caused many customers to restrict their spend.

Better focus and new management led to an improving position at Molmac, the UK rebuild operation.

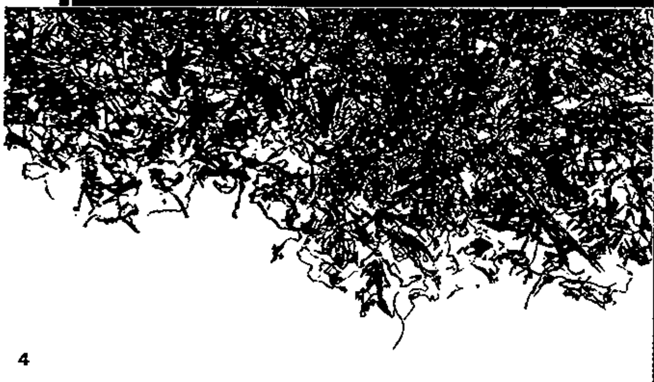
In the Americas, Molins Richmond suffered a downturn in business in an environment where customers are beset with litigation issues and factory closures were announced. However, lower domestic volumes were underpinned by export sales of Molins' world leading Pegasus high speed handling and filter distribution system and three new innovative products were launched in association with this equipment. In Brazil, the business relocation to Curitiba has proven successful. Costs have been significantly reduced and the business has moved into profit. Molins Far East also continued to produce good results despite the difficult conditions.

The Chinese joint venture commenced its rebuild and parts manufacturing activities in October and is working with its Chinese partners to reinforce Molins' strong presence in this important market.



# Speed

**The Passim cigarette maker produces up to 12,000 cigarettes per minute. Typical cigarette weight of 700 milligrams is maintained to within 5 milligrams by a sophisticated weight control system.**

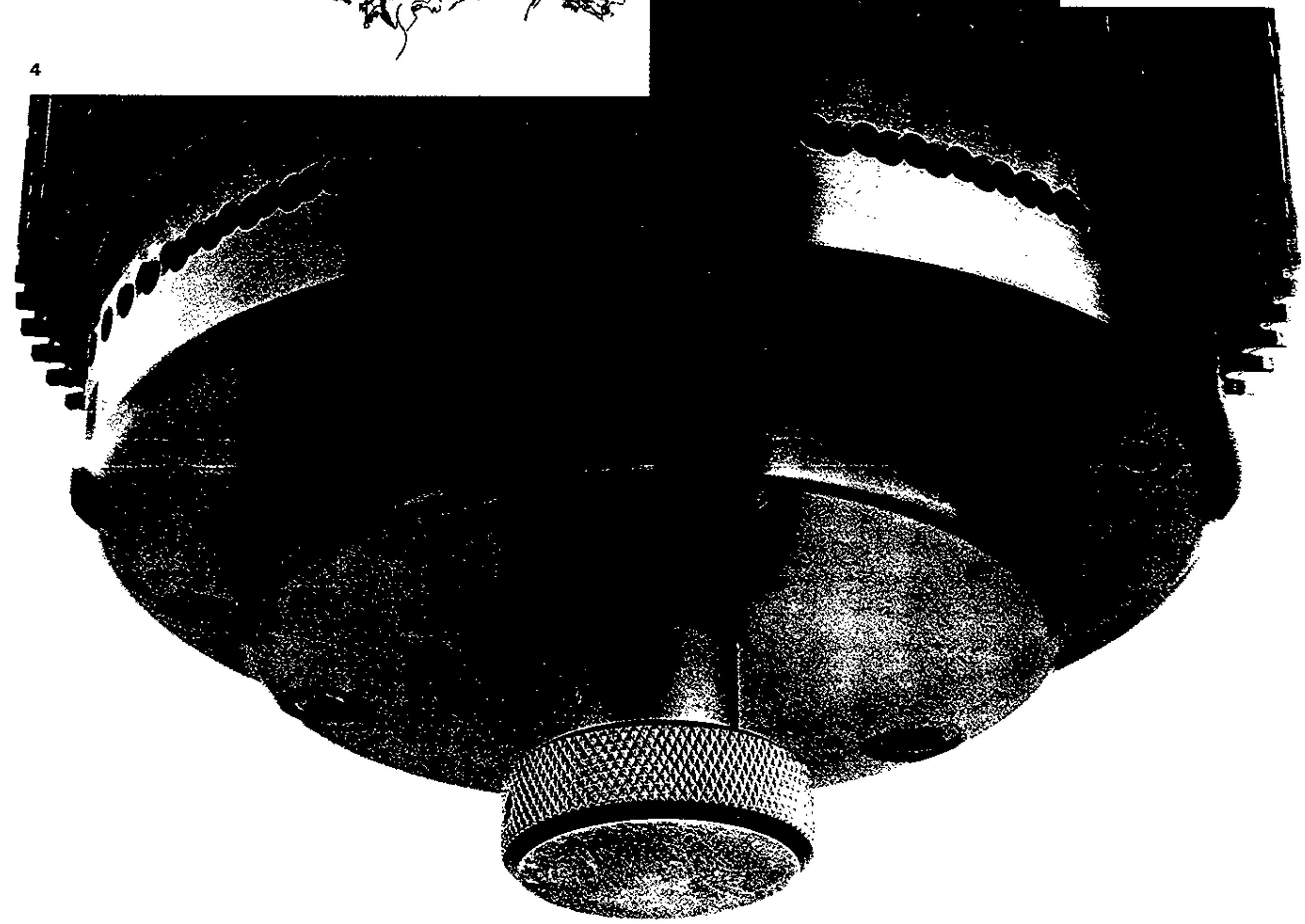


1 Advanced touch screen operator controls.

2 Cigarette maker on test before despatch.

3 Market leading cigarette handling and reservoir system which boosts line efficiencies.

4 The tobacco blend is carefully preserved throughout production.



# Packaging machinery

Despite a consistent performance from Sandiacre and MFM, profitability of the Packaging Machinery division was constrained by an unusually high proportion of development projects at Langen and Langenpac.

**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 and Langenpac (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, USA, Canada, The Netherlands, Australia

**Sales** increase of 9%

| | |
|---|---|
| 1997 | £36.9m |
| 1998 | £40.4m |

**Operating profit** decrease of 43%

| | |
|---|---|
| 1997 | £3.7m |
| 1998 | £2.1m |

Market conditions for the Group's packaging machinery products remained reasonably strong. Sales were up 9% to £40.4m (1997: £36.9m) though profits were down to £2.1m (1997: £3.7m) owing to the disappointing results at Langen and its sister company Langenpac.

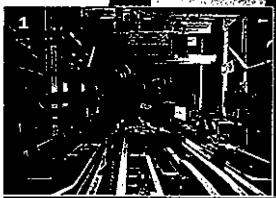
Although both Langen and Langenpac entered the year with higher order books, these contained an unusually large proportion of development projects, which are partially funded by customers. This has increased the portfolio of products and technologies that Langen and Langenpac will be able to offer in the longer term, although trading results for 1998 were reduced as resources were applied to the development projects. At both companies, bid and contract management processes have been improved and the management is being strengthened. During the course of the year the order book continued to improve, particularly in Canada, including a better mix of standard configurations in the outstanding order book going into 1999. New products included: a tray and lid style carton suited for fancy papers and X-ray film; an integrated lamp packaging system for Osram Sylvania (USA); a linear servo system for handling non-synchronised product flow for 3M, Kelloggs and Malt-O-Meal; and a high speed wrapped bar collating and cartoning system with a capacity of up to 500 bars per minute.

Sandiacre achieved double digit sales growth during 1998, largely as a result of its continued success in North America where the sale of machines grew by over 50% and Sandiacre is now established as one of the leading suppliers of vertical form fill and seal machinery. Sales growth also came from the successful introduction of a number of new products including the 400 D-action machine, a block top machine, a machine for manufacturing tetrahedral bags and a resealable bag application. Further modular development of the already versatile 320 D-action machine has established it as an industry standard for a number of applications. In addition the recently launched 400 D-action machine will further help sales growth in 1999. Sandiacre continues to provide a responsive service to meet customers' needs. During the year, in addition to the more usual bagging of food products, it completed applications ranging from bagging water in Kazhakstan, bagging and casepacking petfood in mainland Europe and producing stand up frozen food bags for a major multinational in the USA. Substantial machinery orders have also been received for packing fresh produce for the salad industry. Work continues on a number of other developments aimed at offering customers an ever increasing range of innovative flexible packaging options.

Molins Australia made a modest profit, following the restructuring implemented in 1997.

Molins Food Machinery (MFM) designed and manufactured machinery to make Lipton Yellow Label tea bags in a Pyramid format for the Unifoods company of Durban, South Africa. The launch into the South African market took place during February 1999. MFM provided a complete system to make the quality tea bags at high speed. It also continued to support Van den Bergh in its successful launch of the PG Tips Pyramid tea bag in the UK and developed opportunities for further implementations of innovative tea bag machinery.

1

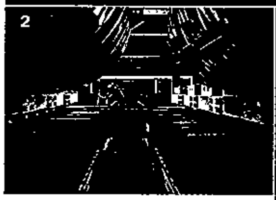


4

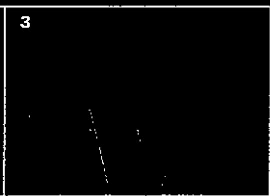
# Efficiency

**A state of the art jaw mechanism used on Sandiacre's range of continuous motion D-action machines capable of filling 140 bags per minute.**

2



3



1 Hundreds of precision moving parts go into each packaging machine.

2 Langen stacking machine which can be used for a range of different products.

3 Detail of high volume, flexible stacking device.

4 One of the many products packed by Sandiacre machines.

# Research and development

It remains key to the long-term success of the Group that there is a continuing flow of new products and this commitment is evidenced by expenditure on product development of £5.8m (1997: £6.3m) in continuing operations.

**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, The Netherlands

**Research and development (continuing businesses)** decrease of 8%


*1997 figure restated to exclude discontinued businesses

Each of the divisions is responsible for its own investment in product development. This is set at a level appropriate to meet the objectives of attaining leadership in our chosen areas.

Molins International Technology Centre (ITC) is a centre of innovation and expertise for many of the Group's technologies and carries out specific product developments on behalf of Molins' existing businesses as well as external customers. The ITC also identifies and develops core technologies for current and future business such that at the appropriate time the technology can be embedded into the Group's products at a manageable level of risk. The Group has special expertise in areas as technically diverse as high speed handling/precision metering of fibrous and granular products, buffer systems for a wide variety of products, quality product packaging and cartoning systems, high speed web and document handling systems and anti-counterfeit device application systems. Coupled with this list of specific product skills is the full range of general engineering skills applicable to high speed machinery, including design, mechanism simulation, software and electronic systems. These combined skills offer our customers the benefits of reduced manufacturing costs and the opportunity to introduce new products and packaging applications.

To ensure full awareness of the latest technologies, Molins ITC maintains close links with universities including Aston University, where Mike Cahill, Director of Research, is a visiting professor in Engineering Design. Relevant technology seminars have been attended and papers presented, notably those associated with the application of holograms to security documents and packaging where Molins possesses patented machine technology that provides high speed application coupled with significant material saving.

Specific machine developments are also carried out on behalf of customers in the areas of tobacco, food and pharmaceutical machinery. These special projects build on the close partnership with key major international companies and are selected on the basis of their business potential and technology contribution to the Group. During 1998, a joint ITC/Tobacco Machinery team was responsible for a fast track successful implementation of a novel cigarette packaging system for Rothmans. In conjunction with Molins Food Machinery, the ITC continues with its extensive involvement in developing innovative tea bag machinery.

Molins will continue to invest in research and development, focusing on technologies consistent with achieving technical leadership in our targeted areas of business.

**P W Grant**
Group Chief Executive
11 March 1999

**1** Tea, one of the many fire organic materials packec at high speed.

**2** Fine adjustments of servo heating system.

**3** Precision tension controi for automatic splicer.

**4** World leading technolog for application of holograms.

# Precision

**Key part of the fine thread manipulation system which threads teabags at high speed.**

# Financial review

The Group has maintained a strong balance sheet despite difficult trading conditions. The sale of Langston and continued focus on efficient use of working capital has left the Group holding net cash of £10.9m at the year end.

**Operating results**

Operating losses for the year were £6.9m after a further £16.0m of exceptional charges for the restructuring of the Tobacco Machinery division. In addition there was a £0.2m profit on the sale of Langston.

**Restructuring of Tobacco Machinery division**

It was announced on 10 August 1998 that the Company would proceed with a phased closure of the Peterborough facility and the consolidation of its activities on the Saunderton site. This gave rise to an exceptional charge of £16.0m before tax (£15.6m after tax). The cash cost of this restructuring is £10.4m of which £6.1m was expended during 1998. In addition, £4.0m of cash was expended in 1998 relating to prior year restructuring provisions. This leaves £6.9m to be spent in 1999 in respect of these provisions carried forward.

**Sale of Langston**

On 10 July 1998 the Company announced the sale of its corrugated board machinery business ("Langston") to Langston Acquisition Corporation, a portfolio company of BancBoston Capital, the private equity division of BankBoston Corporation. Total consideration was US$50.0m (£30.5m) with US$40.0m (£24.4m) payable in cash on completion and the balance in the form of an interest bearing subordinated loan note, which is repayable five years and three months after the date on which the sale was completed. Following the investigation into the accounting irregularities at Langston in 1997, discussions took place with the Group's auditor, KPMG Audit Plc. Although KPMG Audit Plc has not admitted liability, a negotiated settlement was reached for a total sum of US$3.0m (£1.8m). The exceptional pre-tax profit on disposal of Langston amounted to £0.2m, after taking account of the KPMG settlement, after making certain provisions and after charging £1.9m of goodwill previously written off to reserves.

**Interest**

Net interest income in 1998 was £0.1m (1997: £1.9m cost) which reflects the impact of the receipt of the Langston sale proceeds in July 1998.

**Taxation**

The 1998 Group taxation charge of £6.3m comprises a charge of £3.4m in respect of profit before exceptional items, a credit of £0.4m in respect of the £16.0m exceptional charges and a further charge of £3.3m in respect of the sale of Langston. In the UK the Company has written off net advanced corporation tax (ACT) of £0.1m in respect of dividends paid in 1998, giving total unutilised ACT carried forward of £6.1m.

**Earnings per share**

Losses per share in 1998 amounted to 36.2p (1997: 58.9p). Earnings per share before exceptional items amounted to 16.3p (1997: 16.3p) and provides 2.0 times cover for the total recommended dividend of 8.0p per share. The weighted average number of shares in issue in 1998 was 35,572,959 (1997: 34,968,954) and 35,574,864 (1997: 35,528,497) ordinary shares were in issue at the end of the year. There are options over a further 954,426 shares which can be exercised within varying periods, the last of which ends in 2008.

**Pension valuations**

Triennial valuations of the UK Pension Fund and Scheme as at 30 June 1997 have been concluded. The actuary has reported that both the Fund and the Scheme are adequately funded. Further details are set out in note 6 to the accounts on page 36.

**FMS patents**
In the USA, the federal district court found in Molins' favour on all counts in respect of the longstanding claim by Caterpillar Inc., a licensee under the company's flexible manufacturing system patents. Caterpillar has chosen not to appeal and the case is now closed.

**Borrowings and cash flow**
Group net cash at the end of 1998 amounted to £10.9m (1997: £7.3m net debt). Net cash flow benefited from £21.3m proceeds (net of tax) from the sale of Langston and the KPMG settlement, offset by a cash outflow (excluding taxation) of £10.3m in respect of exceptional items.

**Treasury and funding activities**
The results of the Group's foreign subsidiaries are translated into sterling at the average exchange rates for the period concerned. The balance sheets of foreign subsidiaries are translated into sterling at the closing exchange rates. 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 does not engage in speculative treasury transactions. The Group maintains funding facilities in excess of its foreseeable needs.

**Year 2000 compliance**
The Directors' report (page 19) describes the programme that the Board has established in respect of year 2000 compliance. A number of the Group's business systems are currently in the process of being upgraded, which, as well as dealing with year 2000 compliance, will also have the benefit of increased functionality and efficiency. Such costs will, where appropriate, be capitalised and depreciated over their useful lives. All other costs of achieving year 2000 compliance are being charged to the profit and loss account in the years in which they are incurred.

Total expenditure, related at least in part to year 2000 compliance, amounted to £1.3m (1997: £1.5m), of which £0.6m (1997: £0.9m) represents capital expenditure.

**D J Cowen**
Group Finance Director
11 March 1999

# Directors

**1 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. He intends to retire from the Board at the conclusion of the forthcoming Annual General Meeting. Aged 61 years.

**2 P W Grant**

MA FCA *

Group Chief Executive

Peter Grant joined the Company as Group 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 Group Chief Executive in September 1998. Aged 43 years.

**3 D J Cowen**

BSc(Econ) FCA

Group Finance Director

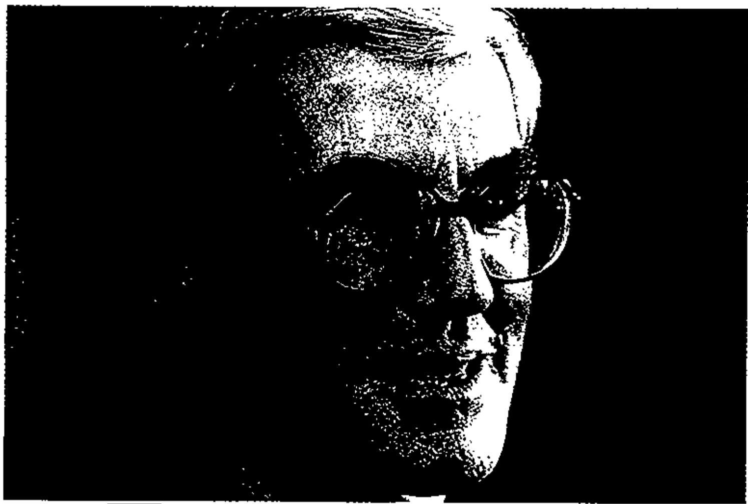
David Cowen joined the Molins Board as Group Finance Director on 8 February 1999 from Rolls-Royce Motor Cars Ltd where he was Member of the Board, Finance & Systems. He previously held senior financial appointments with Vickers PLC. Aged 35 years.

**4 J Parnaby**

CBE FEng FIEE FIMechE **

Dr John Parnaby was appointed a non-executive director in July 1998. He is a director of Scottish Power PLC and Jarvis PLC and a member of the Council of the Royal Academy of Engineering. His previous appointments include Group Director, Lucas Varity PLC (retired October 1997). He is a past president of the Institutions of Electrical Engineers and Manufacturing Engineers. Aged 61.

** Member of the Audit, Remuneration and Nomination Committees
*  Member of the Nomination Committee



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## 5 P J Byrom

BSc FCA **

Peter Byrom joined the Molins Board as a non-executive director and Chairman designate on 4 February 1999. He is Chairman of Domino Printing Sciences plc and a non-executive director of Peter Black Holdings plc, Rolls-Royce plc and Wilson Bowden plc. Aged 54.

## 6 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 54 years.

## 7 Sir Lindsay Bryson

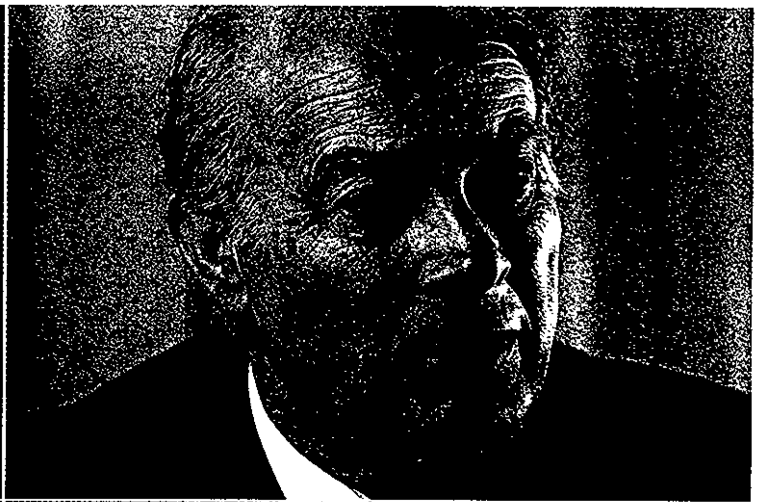
KCB FEng DSc **
Chairman of the
Remuneration Committee

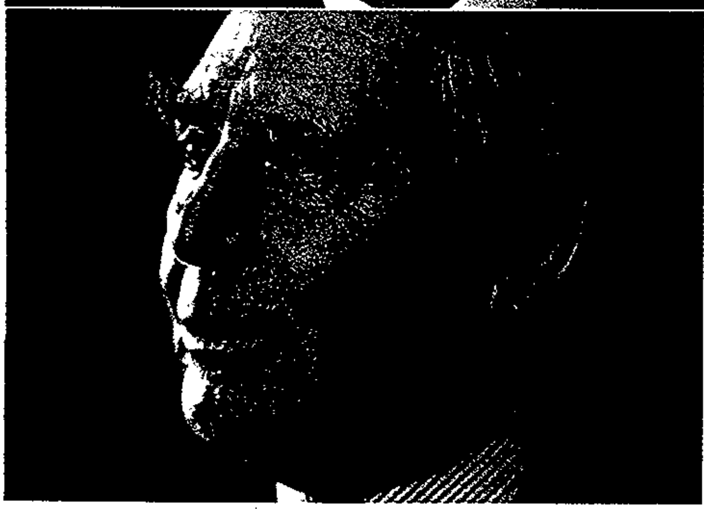
Sir Lindsay was appointed as a non-executive director in February 1988. He served in the Navy until 1985, latterly as Controller of the Navy, and was Chairman of ERA Technology Ltd. He is also a past President of the Institution of Electrical Engineers and of the Association of Project Managers. He is Lord Lieutenant of East Sussex. Aged 74 years.

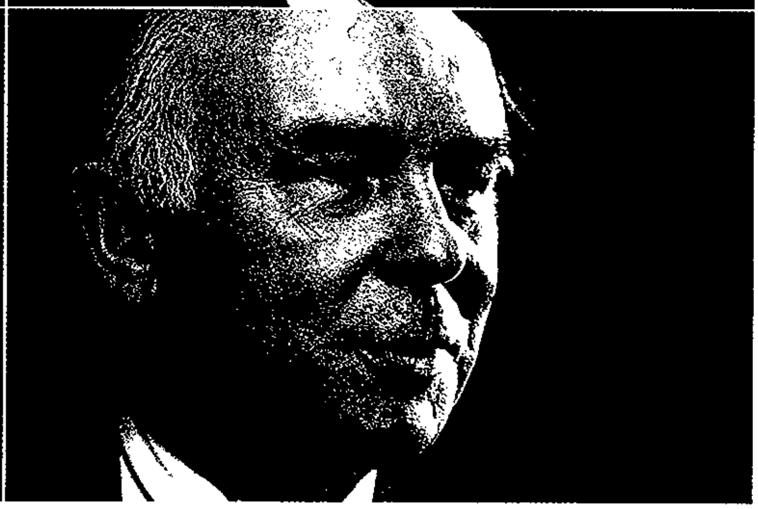
## 8 M S Hodgkinson

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 54 years.







# Directors' report

The directors present their report to shareholders together with the audited accounts for the year ended 31 December 1998.

**Principal activities**
Group companies are engaged principally in the supply of specialist process and packaging machinery for the tobacco and fast moving consumer goods industries. A review of operations and likely future developments is given on pages 4 to 13, and a financial review appears on pages 14 and 15. Further details of the principal companies, subsidiaries, divisions and branches (including branches outside the UK) and their products are shown on pages 50 and 51.

**Results and dividends**
The loss for the year after taxation and exceptional items attributable to ordinary shareholders was £12.9m. The directors recommend a final dividend of 1.5p per ordinary share. An interim dividend of 6.5p was paid on 29 October 1998. This makes a total dividend for the year of 8.0p per ordinary share (1997: 15.0p), at a cost of £2.9m. Subject to approval at the Annual General Meeting, the final dividend will be paid on 19 May 1999 to ordinary shareholders registered at the close of business on 16 April 1999. Dividends on the 4.2% preference shares are paid on 30 June and 31 December in each year and amounted to £37,800 (1997: £37,800). The retained loss of £15.8m is charged to reserves.

**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 1998, net of third party research income, amounted to £5.8m (1997: £6.3m).

**Supplier payment policy**
It is the Group policy to agree 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 1998 trade creditors amounted to the equivalent of 46 days (1997: 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 16 and 17. All the present directors held office throughout 1998 except Dr J Parnaby who was appointed on 13 July 1998 and Mr P J Byrom and Mr D J Cowen who have been appointed since 31 December 1998, on 4 and 8 February 1999 respectively. Mr P W Harrisson, Professor M T Wright and Mr J C Humphries resigned on 22 January 1998, 22 April 1998 and 3 November 1998 respectively. Sir Lindsay Bryson, Mr Byrom, Mr Hodgkinson, Mr Orr and Dr Parnaby, the non-executive directors, are considered to be independent.

The directors retiring by rotation, in accordance with the articles of association, are Sir Lindsay Bryson and Mr Grant and both will retire at the Annual General Meeting to be held on 21 April 1999. Mr Grant, being eligible, offers himself for re-appointment. He has a service contract which can be terminated on notice of one year. Sir Lindsay Bryson, though eligible, is not offering himself for re-appointment.

Dr Parnaby, Mr Byrom and Mr Cowen having been appointed since the last Annual General Meeting, will retire at the Annual General Meeting in accordance with article 83 of the articles of association. Dr Parnaby, though eligible, is not offering himself for appointment. Mr Byrom and Mr Cowen, being eligible, offer themselves for appointment. Mr Cowen has a service contract which can be terminated by notice of one year and Mr Byrom, as a non-executive director, does not have a service contract.

Mr Orr has indicated that it is his intention to retire from the Board at the conclusion of the 1999 Annual General Meeting.

**Directors' interests**
Directors' interests in the Company's shares are shown on page 23 in the Remuneration report.

**Substantial shareholdings**

As at 5 March 1999, 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 |
|---|---|---|
| Schroders (Schroder Investment Management Limited, Schroder Capital Management International Inc., Schroder Unit Trusts Limited) | 5,049,089 | 14.19% |
| M&G Group PLC and M&G Investment Management Ltd | 4,223,880 | 11.87% |
| Fidelity International Limited | 3,444,500 | 9.68% |
| Tweedy, Browne Company L.P. | 2,618,345 | 7.36% |
| Prudential Corporation group of companies | 2,044,853 | 5.75% |
| Britannic Assurance PLC | 1,796,700 | 5.05% |
| Japan Tobacco Inc. | 1,350,000 | 3.79% |
| Marubeni Corporation | 1,225,000 | 3.44% |
| Britannic Assurance Staff Pension Scheme | 1,083,300 | 3.05% |

**Environmental policy**

The Group is committed not only to compliance with environmental legislation but also to the progressive introduction of appropriate measures to limit the adverse effects of its operations upon the environment. In particular, reasonable efforts are made to minimise waste arising from operations, to recycle materials wherever possible and to consider alternative methods of design or operation. The Group aims both to reduce its costs by this means and to promote good practice in use of resources at sustainable levels.

**Year 2000**

The Company has established a comprehensive Group-wide programme to ensure with reasonable certainty that:

a) all products currently supplied by Group companies have been tested and are year 2000 compliant when operated as designed and specified;
b) all material management information systems are or will be in reasonable time year 2000 compliant;
c) key suppliers have demonstrated their own commitment to continuity of supply of goods and services and have given reasonable warranties concerning compliance of products.

Progress in implementation is regularly reported to the Board. Further information is given in the Financial Review (page 15).

**Share capital**

Although the directors have no present plans for the Company to purchase its own shares, they believe that to maintain flexibility the Company should have the ability to do so. The relevant authority will be sought at the Annual General Meeting to be held on 21 April 1999. Details can be found in the Chairman's letter dated 25 March 1999 accompanying this report. 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.

# Continued

**Donations**

During the year the Company made donations to UK charitable organisations of £5,000 (1997: £2,000).

**Annual General Meeting**

The Annual General Meeting will take place on 21 April 1999. Notice of the meeting can be found on page 53. Details of the special business are set out in the Chairman's letter dated 25 March 1999 accompanying this report.

**Auditor**

The auditor, KPMG Audit Plc, is willing to continue in office, and a resolution concerning its re-appointment and remuneration will be submitted to the Annual General Meeting to be held on 21 April 1999.

By order of the Board

**C J Horton**

Secretary

11 March 1999

# Remuneration report

The Board has ultimate responsibility for remuneration policy but has delegated to the Remuneration Committee responsibility for the items below.

The Remuneration Committee consists of the non-executive directors, Sir Lindsay Bryson, Mr P J Byrom, Mr M S Hodgkinson, Mr J C Orr and Dr J Parnaby. The Committee's composition, responsibilities and operation comply with the best practice provisions in the Combined Code annexed to the Stock Exchange Listing Rules. As noted on page 25 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 the Combined Code and the reports of the various committees which led to the preparation of the Code. 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 measured against targets: improvement in Group profit before tax, improvement in Group cash flows 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 have been, so far as practicable, phased over the life of the schemes. Successive grants have been 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.

iv) Long- term incentive plan (LTIP)

The Chairman's letter dated 25 March 1999 accompanying this report sets out a proposal to establish a LTIP subject to the approval of shareholders at the Annual General Meeting to be held on 21 April 1999. The Remuneration Committee believes that this will enable the Company to offer an effective incentive in line with current practice to executive directors and certain other key senior managers. If the proposal is approved, it is the Committee's intention that participants in the new LTIP would not be eligible for awards or grants under both the executive share option scheme and the LTIP in the same year.

**b) Contracts of service**

The service contracts of the executive directors, other than Mr M J R Saw, are terminable on notice of one year given by either party. In the case of Mr Saw, whose service as a director commenced before the Board established a policy of a one year notice period, the notice period is two years.

The purpose of this policy is that the contracts should provide reasonable and appropriate security to the directors concerned and to the Company. The policy has been considered by the Remuneration Committee and is reviewed regularly. The Committee has decided that any question of compensation should be determined at the appropriate time rather than in advance so that the principle of mitigation is effectively applied in the particular circumstances.

**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;

# Continued

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, £87,600 (£90,600 from 6 April 1999). 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. This is being achieved in the case of Mr Grant and is intended to be achieved in the case of Mr Cowen through the establishment of a funded unapproved retirement benefits scheme and top up life assurance.

**Chairman**
The remuneration of the Chairman is determined, in his absence, by the Remuneration Committee after consultation with the Group 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 | Salary 1998 £000 | Fees 1998 £000 | Incentive scheme 1998 £000 | Other payments 1998 £000 | Compensation for loss of office £000 | Benefits in kind 1998 £000 | 1998 £000 | 1997 £000 |
|---|---|---|---|---|---|---|---|---|
| **Chairman** | | | | | | | | |
| J C Orr | – | **65** | – | – | – | – | **65** | 65 |
| **Executive directors** | | | | | | | | |
| P W Grant | **160** | – | **15** | **21** | – | **13** | **209** | 125 |
| P W Harrisson (resigned 22/1/98) | **10** | – | – | – | **221** | **1** | **232** | 177 |
| J C Humphries (resigned 3/11/98) | **76** | – | **6** | – | – | **7** | **89** | 86 |
| M J R Saw | **124** | – | **8** | – | – | **12** | **144** | 131 |
| **Non-executive directors** | | | | | | | | |
| Sir Lindsay Bryson | – | **16** | – | – | – | – | **16** | 16 |
| M S Hodgkinson | – | **16** | – | – | – | – | **16** | 16 |
| Dr J Parnaby (appointed 13/7/98) | – | **8** | – | – | – | – | **8** | – |
| Prof M T Wright (resigned 22/4/98) | – | **5** | – | – | – | – | **5** | 16 |

**Notes:**

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

b) In the case of Mr Harrisson, Mr Humphries, Dr Parnaby and Professor Wright, the figures represent emoluments earned during the parts of the year in which they were directors.

c) Mr Harrisson's emoluments include compensation for termination of his employment with the Company and loss of office of an aggregate amount of £220,843 comprising a cash payment of £180,600 (less tax), augmentation of pension benefits valued at £34,400, the payment of legal fees of £4,000, continuation of life assurance and private medical cover up to 31 December 1998 valued at £1,843. He continued to be employed as a consultant to the Company until 30 April 1998 for which he received salary and other benefits to the value of £49,842.

d) Mr Grant's emoluments include a pensions related payment in lieu of his full contractual entitlement of payments into his funded unapproved retirement benefit scheme (FURBS) (see page 23).

e) In addition to his emoluments, Dr Parnaby received fees for consultancy services of £21,000 which were paid to BPSE Limited a company of which Dr Parnaby is a director.

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: | 1998 £000 | 1997 £000 |
|---|---|---|
| Fees | **110** | 113 |
| Salaries | **370** | 581 |
| Benefits in kind | **33** | 57 |
| Other payments | **21** | – |
| Total emoluments | **534** | 751 |
| Compensation for loss of office | **221** | 192 |
| Performance related element | **29** | – |
| | **784** | *943 |

* Of the £943,000 which was paid during 1997, £311,000 relates to Mr W A Baugh, of which £192,000 was in respect of compensation for termination of his employment.

**Directors' pensions information**

The following table relates to the benefits of 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 £ |
|---|---|---|---|
| P W Grant | 2,980 | 21,200 | 19,750 |
| P W Harrisson | 1,200 | 15,800 | 7,540 |
| J C Humphries | 2,970 | 48,400 | 32,800 |
| M J R Saw | 1,870 | 21,100 | 76,200 |

Mr J C Humphries retired on 3 November 1998 at his normal retirement age.

The accrued pension at the end of the period for Mr P W Grant (but not the increase in accrued pension) includes the benefit granted in respect of a transfer payment received from a former employer's pension scheme.

On termination of his employment the Company agreed to augment Mr Harrisson's pension rights at an additional cost of £34,400, not included in the table above.

The above disclosures relate to defined pension arrangements for the executive directors. In addition, a sum of £19,415 (1997: £15,444) was contributed to the funded unapproved retirement benefit scheme for the benefit of Mr Grant.

**Notes:**

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) For the two members of the Scheme who have left, the figures shown are as at the date of leaving rather than the year end.
4) 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 1998 and their families in the ordinary shares of the Company (excluding share options) were as follows:

| Shares | Held 31 Dec 1998 | Held 1 Jan 1998 |
|---|---|---|
| J C Orr | **10,000** | 10,000 |
| Sir Lindsay Bryson | **2,000** | 2,000 |
| P W Grant | **6,274** | 366 |
| M S Hodgkinson | **2,000** | 2,000 |
| M J R Saw | **36,020** | 36,020 |

**Notes:**

There were no changes in the above interests of the present directors between 31 December 1998 and 5 March 1999.

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.

# Continued

**Directors' share options**

Details of share options, including Save As You Earn options, for each director who held office during 1998 are as follows:

| | | Held 1 Jan 98 | Granted in year | Exercised in year | Lapsed in year | Held 31 Dec 98 | Option price | Market price at date of exercise | Date from when exercisable | Expiry date |
|---|---|---|---|---|---|---|---|---|---|---|
| **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 |
| | a) | – | 1,084 | – | – | 1,084 | 210p | – | 03.08.2003 | 02.02.2004 |
| | b) | – | 40,000 | – | – | 40,000 | 196p | – | 02.07.2001 | 01.07.2008 |
| | | **35,864** | **41,084** | **–** | **–** | **76,948** | | | | |
| **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** | b) | 25,000 | – | – | – | 25,000 | 507p | – | 11.10.1996 | 10.10.2003 |
| (d) | 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 |
| | | **46,702** | **–** | **–** | **–** | **46,702** | | | | |
| **M J R Saw** | b) | 12,000 | – | – | – | 12,000 | 570p | – | 26.04.1998 | 25.04.2005 |
| | b) | 15,000 | – | – | – | 15,000 | 895p | – | 04.12.1999 | 03.12.2006 |
| | a) | – | 1,577 | – | – | 1,577 | 210p | – | 03.08.2003 | 02.02.2004 |
| | b) | – | 40,000 | – | – | 40,000 | 196p | – | 02.07.2001 | 01.07.2008 |
| | | **27,000** | **41,577** | **–** | **–** | **68,577** | | | | |

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 1998 was 107.5p and the range during the year was 104p to 349.5p.

There were no changes in the above options held by the present directors between 31 December 1998 and 5 March 1999.

**Notes:**

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.

d) Mr Humphries' options are available for exercise for six months from his retirement on 3 November 1998 under the rules of the scheme.

By order of the Board

**C J Horton**

Secretary

11 March 1999

# 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.

**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.

**Statement of compliance**
The directors consider that the Company complied throughout 1998 with all of the provisions of section 1 of the Combined Code published in June 1998 by the Committee on Corporate Governance, except that the following changes were made on 29 October 1998 to ensure compliance from that date:

a) the terms of reference of the Nomination Committee were broadened to include all Board appointments, not only non-executive appointments, and its constitution was clarified to require the Committee Chairman to be non-executive;

b) the then current practice that the notice period of a newly-appointed executive director should be one year was formally adopted;

c) each director agrees to submit to re-election at an AGM not less frequently than every three years to ensure the articles of association do not have the occasional effect of requiring re-election only after four years;

d) the Remuneration Committee's terms of reference were formally extended to include the framework of executive remuneration and its costs; and

e) minor amendments were made to the terms of reference of the Audit Committee to follow more closely the provisions of the Combined Code.

**The Board**
The Board meets regularly throughout the year and is responsible for overall Group strategy, for approving revenue and capital budgets and plans, for approving acquisitions and disposals of businesses, subsidiaries or material assets, for determining the financial and corporate structure of the Group, including financing and dividend policy, and for ensuring appropriate training of directors and other senior managers. The Board regularly reviews financial information and the work of the Audit Committee as described below.

The director recognised as the senior independent director for the purposes of the Combined Code is Mr M S Hodgkinson.

In furtherance of the principles of good corporate governance. the Board has appointed the following committees, each with formal terms of reference. The membership of the committees is shown on page 16 and 17.

*Audit Committee*
The Committee is chaired by Mr M S Hodgkinson, and normally meets three times per year, with the Group Chief Executive, the Group 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 Group Chief Executive. The Committee determines the remuneration and other benefits of the Chairman, the executive directors and certain other senior executives. The Remuneration report is set out on pages 21 to 24.

# Continued

*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 directors and making recommendations thereon to the Board.

**Relationships with shareholders**
The Board recognises the importance of maintaining a regular dialogue with institutional shareholders to ensure that its strategy is communicated and any concerns can be addressed.

All shareholders have the opportunity to attend the Annual General Meeting where the Group's operations can be discussed with the directors.

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

The Board has taken and will continue to take appropriate measures to ensure that the chances of financial irregularities occurring are reduced as far as possible by improving the quality of information at all levels in the Group, fostering an 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 reviews the effectiveness of the system of internal financial control and will further review the system of internal control generally against the background of guidance to be issued by the Institute of Chartered Accountants in England and Wales. The major elements of the system of internal control are as follows:

- An organisational structure has been established with clearly defined lines of responsibility and delegation of authority to executive management.
- There is 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 prevailing conditions.
- Each operating unit is required to comply with defined policies, financial controls and procedures and authorisation levels are clearly defined and communicated.
- Selected internal control reviews and specific investigations are carried out by Group staff and followed up by executive management.
- A comprehensive programme is being developed for senior management to identify and analyse material risks faced by the businesses and to assess existing and potential risk control measures and processes.

The Board has reviewed the effectiveness of the system of internal financial controls during the year ended 31 December 1998 and intends to review controls annually and more frequently if the need arises.

By order of the Board
**C J Horton**
Secretary
11 March 1999

# Auditor's report on the financial statements

To the members of Molins PLC

We have audited the financial statements on pages 28 to 49.

**Respective responsibilities of directors and auditor**
The directors are responsible for preparing the Annual Report, including as described on page 25, the financial statements. Our responsibilities, as independent auditor, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on page 25 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

**Basis of audit 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 1998 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
11 March 1999

# Group profit and loss account

| For the year ended 31 December | Notes | 1998 Before exceptional items £m | 1998 Exceptional items £m (Note 4) | 1998 Total £m | 1997 Before exceptional items £m | 1997 Exceptional items £m (Note 4) | 1997 Total £m |
|---|---|---|---|---|---|---|---|
| **Turnover** | | | | | | | |
| – Continuing operations | 1 | **140.6** | **–** | **140.6** | 187.4 | – | 187.4 |
| – Discontinued operations | | **29.6** | **–** | **29.6** | 67.4 | – | 67.4 |
| **Total turnover** | 2 | **170.2** | **–** | **170.2** | 254.8 | – | 254.8 |
| Cost of sales | | **(127.9)** | **(12.6)** | **(140.5)** | (195.5) | (23.9) | (219.4) |
| Gross profit | | **42.3** | **(12.6)** | **29.7** | 59.3 | (23.9) | 35.4 |
| Net operating expenses | 3 | **(33.2)** | **(3.4)** | **(36.6)** | (46.2) | (7.4) | (53.6) |
| **Operating profit/(loss)** | | | | | | | |
| – Continuing operations | 1 | **8.5** | **(16.0)** | **(7.5)** | 12.8 | (17.9) | (5.1) |
| – Discontinued operations | | **0.6** | **–** | **0.6** | 0.3 | (13.4) | (13.1) |
| **Total operating profit/(loss)** | 3 | **9.1** | **(16.0)** | **(6.9)** | 13.1 | (31.3) | (18.2) |
| **Profit on sale of discontinued operations** | 25 | **–** | **0.2** | **0.2** | – | – | – |
| Net interest receivable/(payable) | 8 | **0.1** | **–** | **0.1** | (1.9) | – | (1.9) |
| **Profit/(loss) on ordinary activities before taxation** | | **9.2** | **(15.8)** | **(6.6)** | 11.2 | (31.3) | (20.1) |
| **Taxation** | 9 | **(3.4)** | **(2.9)** | **(6.3)** | (5.5) | 5.0 | (0.5) |
| **Profit/(loss) for the financial year** | | **5.8** | **(18.7)** | **(12.9)** | 5.7 | (26.3) | (20.6) |
| **Dividends (including non-equity)** | | **(2.9)** | **–** | **(2.9)** | (5.4) | – | (5.4) |
| **Retained profit/(loss) for the year** | 22 | **2.9** | **(18.7)** | **(15.8)** | 0.3 | (26.3) | (26.0) |
| Basic and fully diluted earnings/(loss) per ordinary share | 11 | **16.3p** | **(52.5)p** | **(36.2)p** | 16.3p | (75.2)p | (58.9)p |

The discontinued operations relate to the sale of the Langston businesses on 10 July 1998. 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.

# MOLINS PLC
## Profit and Loss account
## for the year ended 31 December

| | 1998 £000 | 1997 £000 |
|---|---|---|
| Turnover | 105,420 | 149,380 |
| Cost of sales | (82,680) | (116,590) |
| Gross profit | 22,740 | 32,790 |
| Net operating expenses | (19,660) | (24,430) |
| Operating profit - before exceptional items | 3,080 | 8,360 |
| Exceptional Items | (11,950) | (11,810) |
| Net interest receivable/(payable) | 170 | (480) |
| Profit on ordinary activities before taxation | (8,700) | (3,930) |
| Tax on profit on ordinary activities | 220 | (1,130) |
| Profit for the financial year | (8,480) | (5,060) |
| Dividends paid or proposed: | | |
| - equity shares | (2,850) | (5,330) |
| - non-equity shares | (40) | (40) |
| Profit transferred to reserves | (11,370) | (10,430) |

The accounts were approved by the directors on 11 March 1999, and signed on their behalf by:

Director ......................................

Director ......................................

# Balance sheets

| As at 31 December | Notes | Group 1998 £m | Group 1997 £m | Company 1998 £m | Company 1997 £m |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | 12 | **29.4** | 49.8 | **21.4** | 27.8 |
| Investments | 13 | **1.9** | 2.0 | **46.3** | 46.2 |
| | | **31.3** | 51.8 | **67.7** | 74.0 |
| **Current assets** | | | | | |
| Stocks | 14 | **38.1** | 60.9 | **22.3** | 33.2 |
| Debtors – due within one year | 15 | **36.9** | 61.6 | **27.9** | 40.5 |
| Debtors – due after more than one year | 15 | **18.8** | 14.5 | **12.3** | 11.6 |
| Cash at bank and in hand | | **13.7** | 9.2 | **7.1** | 1.6 |
| | | **107.5** | 146.2 | **69.6** | 86.9 |
| **Creditors – amounts falling due within one year** | | | | | |
| Borrowings | 16 | **(2.4)** | (1.5) | **(1.0)** | (1.3) |
| Other creditors | 17 | **(55.4)** | (81.6) | **(69.7)** | (73.4) |
| Proposed dividend | | **(0.5)** | (3.0) | **(0.5)** | (3.0) |
| | | **(58.3)** | (86.1) | **(71.2)** | (77.7) |
| **Net current assets/(liabilities)** | | **49.2** | 60.1 | **(1.6)** | 9.2 |
| **Total assets less current liabilities** | | **80.5** | 111.9 | **66.1** | 83.2 |
| **Creditors – amounts falling due after more than one year** | | | | | |
| Borrowings | 16 | **(0.4)** | (15.0) | **–** | (11.0) |
| Other creditors | 18 | **(0.3)** | (0.7) | **(0.1)** | – |
| | | **(0.7)** | (15.7) | **(0.1)** | (11.0) |
| **Provisions for liabilities and charges** | 20 | **(9.2)** | (13.2) | **(8.9)** | (4.6) |
| **Net assets** | | **70.6** | 83.0 | **57.1** | 67.6 |
| **Capital and reserves** | | | | | |
| Called up share capital | 21 | **9.8** | 9.8 | **9.8** | 9.8 |
| Share premium account | 22 | **25.6** | 25.5 | **25.6** | 25.5 |
| Revaluation reserve | 22 | **17.7** | 18.3 | **6.0** | 5.2 |
| Profit and loss account | 22 | **17.3** | 29.2 | **15.7** | 27.1 |
| **Shareholders' funds (including non-equity interests)** | 23 | **70.4** | 82.8 | **57.1** | 67.6 |
| Minority interests | 24 | **0.2** | 0.2 | **–** | – |
| | | **70.6** | 83.0 | **57.1** | 67.6 |

The accounts were approved by the Directors on 11 March 1999, 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 | 1998 £m | 1997 £m |
|---|---|---|---|
| **Cash inflow from operating activities** | 26 | **5.6** | 22.7 |
| Returns on investments and servicing of finance | 27 | **(0.2)** | (1.8) |
| Taxation | 27 | **(6.0)** | (6.0) |
| Capital expenditure (net) | 27 | **0.3** | (3.8) |
| Acquisitions and disposals | 27 | **24.1** | (1.0) |
| Equity dividends paid | | **(5.4)** | (7.7) |
| **Cash inflow before management of liquid resources and financing** | | **18.4** | 2.4 |
| Management of liquid resources | 27 | **(4.6)** | – |
| Financing | 27 | **(14.5)** | (2.1) |
| **(Decrease)/increase in cash in the period** | | **(0.7)** | 0.3 |

The above cashflows include those derived from discontinued operations, details of which are set out in note 25.

# Reconciliation of net cash flow to movement in net funds/(debt)

| For the year ended 31 December | Notes | 1998 £m | 1997 £m |
|---|---|---|---|
| **(Decrease)/increase in cash in the period** | | **(0.7)** | 0.3 |
| Cash outflow from movement in liquid resources | | **4.6** | – |
| Cash outflow from decrease in debt and lease financing | | **14.6** | 4.8 |
| Change in net debt resulting from cash flows | 28 | **18.5** | 5.1 |
| Translation difference | 28 | **(0.3)** | (0.7) |
| **Movement in net funds/(debt) in the period** | | **18.2** | 4.4 |
| Net debt at 1 January | | **(7.3)** | (11.7) |
| **Net funds/(debt) at 31 December** | 28 | **10.9** | (7.3) |

# Statement of total group recognised gains and losses

| For the year ended 31 December | 1998 £m | 1997 £m |
|---|---|---|
| Loss for the year | **(12.9)** | (20.6) |
| Currency translation differences arising on foreign currency net investments | **–** | 0.2 |
| Unrealised surplus on revaluation of properties | **1.4** | – |
| **Total recognised losses for the year** | **(11.5)** | (20.4) |

# Reconciliation of movements in shareholders' funds

| | | Group | | Company | |
|---|---|---|---|---|---|
| As at 31 December | Notes | 1998 £m | 1997 £m | 1998 £m | 1997 £m |
| Loss for the year | | **(12.9)** | (20.6) | **(8.5)** | (5.1) |
| Dividends | | **(2.9)** | (5.4) | **(2.9)** | (5.4) |
| Retained loss for the year | | **(15.8)** | (26.0) | **(11.4)** | (10.5) |
| Property revaluation | | **1.4** | – | **0.8** | – |
| Goodwill adjustment on sale of Langston | 25 | **1.9** | – | **–** | – |
| Other recognised gains for the year | | **–** | 0.2 | **–** | – |
| New share capital | | **0.1** | 2.7 | **0.1** | 2.7 |
| Net reduction to shareholders' funds | | **(12.4)** | (23.1) | **(10.5)** | (7.8) |
| Opening shareholders' funds | | **82.8** | 105.9 | **67.6** | 75.4 |
| **Closing shareholders' funds** | 23 | **70.4** | 82.8 | **57.1** | 67.6 |

# 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 hyper-inflationary economies".

**Goodwill**
Goodwill arising on consolidation (representing the excess of fair value of the consideration given over the fair value of the identifiable net assets acquired) has been eliminated against reserves on acquisition. In accordance with the transitional rules of FRS 10, this treatment which applied under the previous accounting standard has continued to be applied to acquisitions prior to 1 January 1998. Future acquisitions will follow the provisions of FRS 10 which require the capitalisation of goodwill and its subsequent amortisation over its useful life.

On a subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the amount of any related goodwill not written off through the profit and loss account, including any previously taken direct 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%.

In accordance with FRS 11 the directors regularly consider the carrying value of fixed assets for impairment. Any reduction in value arising from the impairment of fixed assets is charged to the profit and loss account for the year.

**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.

**Associated undertakings and joint ventures**
Undertakings other than subsidiary undertakings, in which the Group has an investment over which it exerts significant influence, are treated as associated undertakings. The Group's share of profits and other recognised gains and losses of the associated undertakings are included in the Group's profit and loss account and statement of total recognised gains and losses.

# Notes to the accounts

| 1 Segmental analysis | 1998 Turnover £m | 1997 Turnover £m | 1998 Operating profit/(loss) £m | 1997 Operating profit/(loss) £m | 1998 Net assets £m | 1997 Net assets £m |
|---|---|---|---|---|---|---|
| **By activity:** | | | | | | |
| Tobacco machinery | **100.2** | 150.5 | **6.4** | 9.1 | **46.5** | 55.2 |
| Packaging machinery | **40.4** | 36.9 | **2.1** | 3.7 | **13.2** | 9.4 |
| | **140.6** | 187.4 | **8.5** | 12.8 | **59.7** | 64.6 |
| Discontinued operations | **29.6** | 67.4 | **0.6** | 0.3 | **–** | 25.7 |
| | **170.2** | 254.8 | **9.1** | 13.1 | **59.7** | 90.3 |
| **By geographical location of origin:** | | | | | | |
| United Kingdom | **89.3** | 128.2 | **3.8** | 8.5 | **43.1** | 60.5 |
| North America | **61.6** | 104.0 | **3.8** | 5.5 | **12.6** | 31.4 |
| Rest of the world | **19.3** | 22.6 | **1.5** | (0.9) | **4.0** | (1.6) |
| | **170.2** | 254.8 | **9.1** | 13.1 | **59.7** | 90.3 |
| | | | | | | |
| Operating profit (before exceptional items) | | | **9.1** | 13.1 | | |
| Exceptional items (note 4) | | | **(16.0)** | (31.3) | | |
| **Operating loss** | | | **(6.9)** | (18.2) | | |
| Profit on sale of discontinued operations (note 25) | | | **0.2** | – | | |
| Net interest receivable/(payable) | | | **0.1** | (1.9) | | |
| **Loss before taxation** | | | **(6.6)** | (20.1) | | |
| | | | | | | |
| Net cash/(borrowings) | | | | | **10.9** | (7.3) |
| **Net assets** | | | | | **70.6** | 83.0 |

Following the sale of the Langston businesses, the results for Molins Australia, which were previously reported with the discontinued operations, are included in the Packaging Machinery division. Comparative figures have been restated accordingly.

| 2 Turnover | 1998 £m | 1998 % | 1997 £m | 1997 % |
|---|---|---|---|---|
| **By geographical destination of goods:** | | | | |
| United Kingdom | **17.8** | **10** | 24.0 | 9 |
| Continental Europe | **21.4** | **13** | 20.4 | 8 |
| North America | **70.5** | **41** | 96.4 | 38 |
| Asia | **36.8** | **22** | 74.8 | 29 |
| Rest of world | **23.7** | **14** | 39.2 | 16 |
| | **170.2** | **100** | 254.8 | 100 |

# Continued

| 3 Operating profit/(loss) | 1998 Before exceptional items £m | 1998 Exceptional items (note 4) £m | 1998 Total £m | 1997 Before exceptional items £m | 1997 Exceptional items (note 4) £m | 1997 Total £m |
|---|---|---|---|---|---|---|
| **Turnover** | **170.2** | **–** | **170.2** | 254.8 | – | 254.8 |
| **Cost of sales** | | | | | | |
| Continuing operations | **(103.1)** | **(12.6)** | **(115.7)** | (139.5) | (12.6) | (152.1) |
| Discontinued operations | **(24.8)** | **–** | **(24.8)** | (56.0) | (11.3) | (67.3) |
| Total | **(127.9)** | **(12.6)** | **(140.5)** | (195.5) | (23.9) | (219.4) |
| **Gross profit** | | | | | | |
| Continuing operations | **37.5** | **(12.6)** | **24.9** | 47.9 | (12.6) | 35.3 |
| Discontinued operations | **4.8** | **–** | **4.8** | 11.4 | (11.3) | 0.1 |
| Total | **42.3** | **(12.6)** | **29.7** | 59.3 | (23.9) | 35.4 |
| **Distribution costs** | | | | | | |
| Continuing operations | **(10.7)** | **–** | **(10.7)** | (13.8) | – | (13.8) |
| Discontinued operations | **(2.4)** | **–** | **(2.4)** | (3.9) | – | (3.9) |
| Total | **(13.1)** | **–** | **(13.1)** | (17.7) | – | (17.7) |
| **Administration costs** | | | | | | |
| Continuing operations | **(18.3)** | **(3.4)** | **(21.7)** | (21.3) | (5.3) | (26.6) |
| Discontinued operations | **(1.8)** | **–** | **(1.8)** | (7.2) | (2.1) | (9.3) |
| Total | **(20.1)** | **(3.4)** | **(23.5)** | (28.5) | (7.4) | (35.9) |
| **Operating profit/(loss)** | **9.1** | **(16.0)** | **(6.9)** | 13.1 | (31.3) | (18.2) |

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 (excluding the Langston businesses) amounted to £5.8m (1997: £6.3m). Distribution costs include selling costs.

| | 1998 £m | 1997 £m |
|---|---|---|
| **Operating profit/(loss) is arrived at after charging:** | | |
| Depreciation of owned assets | **5.4** | 6.5 |
| Depreciation of assets held under finance leases | **0.4** | 0.4 |
| Hire of plant | **0.8** | 1.0 |
| Hire of plant and machinery – operating leases | **0.2** | 0.3 |
| Hire of other assets – operating leases | **0.6** | 0.6 |
| Remuneration of the auditor and its associates: | | |
| – audit services (the Company £0.2m; 1997: £0.2m) | **0.3** | 0.3 |
| – non audit services (the Company £0.1m; 1997: £0.1m) | **0.3** | 0.3 |

In addition to the above, non audit fees payable to the Group's auditor and its associates in respect of capital transactions amounted to £0.4m (1997: £nil).

## 4 Exceptional items

| | 1998 Exceptional items £m | 1998 Taxation £m | 1998 Net £m | 1997 Exceptional items £m | 1997 Taxation £m | 1997 Net £m |
|---|---|---|---|---|---|---|
| Restructuring of Tobacco Machinery division | | | | | | |
| – UK | **(16.0)** | **0.4** | **(15.6)** | (11.4) | 1.3 | (10.1) |
| – Overseas | **–** | **–** | **–** | (6.5) | – | (6.5) |
| | **(16.0)** | **0.4** | **(15.6)** | (17.9) | 1.3 | (16.6) |
| Adjustments in respect of Langston | **–** | **–** | **–** | (13.4) | 3.7 | (9.7) |
| | **(16.0)** | **0.4** | **(15.6)** | (31.3) | 5.0 | (26.3) |
| Sale of Langston businesses | **0.2** | **(3.3)** | **(3.1)** | – | – | – |
| | **(15.8)** | **(2.9)** | **(18.7)** | (31.3) | 5.0 | (26.3) |

**Exceptional cash flows (excluding taxation and the sale of Langston)**

| | 1998 Tobacco Machinery division £m | 1998 Discontinued operations £m | 1998 Total £m | 1997 Tobacco Machinery division £m | 1997 Discontinued operations £m | 1997 Total £m |
|---|---|---|---|---|---|---|
| Total exceptional items | **(16.0)** | **–** | **(16.0)** | (17.9) | (13.4) | (31.3) |
| Exceptional items which do not give rise to a cash flow movement | **3.7** | **–** | **3.7** | 3.9 | 12.2 | 16.1 |
| | **(12.3)** | **–** | **(12.3)** | (14.0) | (1.2) | (15.2) |
| Other provisions and creditors carried forward at the year end | **6.2** | **–** | **6.2** | 7.6 | 0.5 | 8.1 |
| Cash outflow in the year relating to exceptional items | **(6.1)** | **–** | **(6.1)** | (6.4) | (0.7) | (7.1) |
| Cash outflow in the year relating to prior year exceptional items | **(4.0)** | **(0.2)** | **(4.2)** | – | (0.8) | (0.8) |
| **Total cash outflow in the year** | **(10.1)** | **(0.2)** | **(10.3)** | (6.4) | (1.5) | (7.9) |

# Continued

## 5 Employee information

| | 1998 | 1997 |
|---|---|---|
| **The average numbers of persons employed by the Group were:** | | |
| Tobacco machinery | **1,353** | 1,960 |
| Packaging machinery | **420** | 347 |
| Discontinued activities | **255** | 532 |
| | **2,028** | 2,839 |

| | £m | £m |
|---|---|---|
| **Employment costs were:** | | |
| Wages and salaries | **46.9** | 65.0 |
| Social security costs | **5.3** | 8.8 |
| Pension credit (note 6) | **(0.9)** | (0.8) |
| | **51.3** | 73.0 |

## 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 an estimated current market value of £0.3m.

The most recent formal valuations of the Fund and Scheme were carried out as at 30 June 1997 by independent actuaries using the projected unit method. The market value of the two Schemes' assets and funding levels at that date were as follows:

| | Market value £m | Funding level % |
|---|---|---|
| Molins UK Pension Fund (the Fund) | 263 | 132 |
| Molins Senior Management Pension Scheme (the Scheme) | 40 | 109 |

The valuation results were updated to 31 December 1997 by the actuaries on an approximate basis to show a combined surplus of £53.1m. In respect of the Scheme, following discussions between the Company and the Trustees, it was agreed that the surplus was sufficient to allow the Company to contribute at a much reduced level, subject to future actuarial reviews. In respect of the Fund, following discussions between the Company and the Trustees, it was agreed that the Company would continue not to make employer's contributions, subject to future actuarial reviews.

The principal actuarial assumptions used in deriving the UK pension credit were an investment return of 8.5% per annum, pensionable pay increase of 6.5% per annum, pension increases of 4.0% per annum and, when considering the equity element of the assets, dividend growth of 4.25% per annum. The actuarial surpluses are being spread over the average expected future working lifetimes of current employees as a percentage of pensionable pay.

## 6 Pensions and other post retirement benefits continued

### US schemes

In the US, the Group has two 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 1998 using the projected unit credit method. Resulting from these valuations the profit before tax includes a pension credit of £0.3m (1997: £nil) which is net of a normal pension cost of £0.4m (1997: £0.7m).

| Analysis of the net pension credit included in the Group's profit and loss account | 1998 £m | 1997 £m |
|---|---|---|
| United Kingdom Fund and Scheme: | | |
| Normal pension cost | **(3.3)** | (4.1) |
| Amortisation of the surplus | **3.1** | 3.7 |
| Interest element on balance sheet prepayment | **0.9** | 0.9 |
| | **0.7** | 0.5 |
| Other pension arrangements | **0.2** | 0.3 |
| **Net pension credit** | **0.9** | 0.8 |

## 7 Emoluments of directors and interests in shares

Information on the emoluments of the directors, together with information regarding the beneficial interests of the directors and their families in the ordinary shares of the Company, is included in the Remuneration report on pages 21 to 24.

## 8 Net interest receivable/(payable)

| | 1998 £m | 1997 £m |
|---|---|---|
| **Receivable:** | | |
| Cash and other short-term investments | **0.7** | 0.4 |
| Other interest receivable | **0.3** | – |
| | **1.0** | 0.4 |
| **Payable:** | | |
| Amounts payable on bank loans and overdrafts | **(0.7)** | (2.2) |
| Amounts payable on other loans | **(0.2)** | (0.1) |
| | **(0.9)** | (2.3) |
| **Net interest receivable/(payable)** | **0.1** | (1.9) |

# Continued

## 9 Tax on loss on ordinary activities

| | 1998 £m | 1997 £m |
|---|---|---|
| UK Corporation tax at 31% (1997: 31%) on loss for year | | |
| – current year | **4.7** | 0.7 |
| – prior year | **(0.2)** | (0.1) |
| Advance corporation tax written off (net) | **0.1** | 1.3 |
| Less: double taxation relief | **(4.3)** | (0.6) |
| UK taxation | **0.3** | 1.3 |
| Overseas taxation | **6.0** | (1.8) |
| Deferred taxation | **–** | 1.0 |
| **Taxation charge** | **6.3** | 0.5 |

Taxation includes £3.3m in respect of the profit on the sale of Langston.

## 10 Loss attributable to parent company

| | 1998 £m | 1997 £m |
|---|---|---|
| The amount dealt with in the Company's accounts | **(8.5)** | (5.1) |

## 11 Basic and fully diluted earnings/(loss) per ordinary share

The calculations of (loss)/earnings per ordinary share are based upon losses after taxation (less preference dividends) of £12.9m (1997: £20.6m), and on the weighted average of 35,572,959 shares in issue during the year (1997: 34,968,954 shares).

**Reconciliation from basic and fully diluted loss per share to basic and fully diluted earnings per share before exceptional items**

| | 1998 pence | 1997 pence |
|---|---|---|
| Basic and fully diluted loss per share | **(36.2)** | (58.9) |
| Exceptional items | **52.5** | 75.2 |
| Basic and fully diluted earnings per share before exceptional items | **16.3** | 16.3 |

## 12 Fixed tangible assets

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Land & buildings £m | Plant & machinery £m | Fixtures fittings & vehicles £m | Total £m | Land & buildings £m | Plant & machinery £m | Fixtures fittings & vehicles £m | Total £m |
| **Cost or valuation:** | | | | | | | | |
| At beginning of year | 26.5 | 46.8 | 23.7 | 97.0 | 14.7 | 20.5 | 18.3 | 53.5 |
| Additions | – | 0.9 | 1.7 | 2.6 | – | 0.2 | 1.1 | 1.3 |
| Discontinued operations | (7.4) | (15.6) | (2.0) | (25.0) | – | – | (0.4) | (0.4) |
| Disposals | – | (7.6) | (1.4) | (9.0) | – | (4.6) | (1.3) | (5.9) |
| **At end of year** | **19.1** | **24.5** | **22.0** | **65.6** | **14.7** | **16.1** | **17.7** | **48.5** |
| **Depreciation:** | | | | | | | | |
| At beginning of year | 1.9 | 30.2 | 15.1 | 47.2 | 0.9 | 13.3 | 11.5 | 25.7 |
| Charge for year | 1.6 | 3.5 | 4.0 | 9.1 | 1.4 | 2.5 | 3.6 | 7.5 |
| Property revaluation | (1.4) | – | – | (1.4) | (0.8) | – | – | (0.8) |
| Discontinued operations | (0.7) | (9.3) | (1.4) | (11.4) | – | – | (0.3) | (0.3) |
| Disposals | – | (6.0) | (1.3) | (7.3) | – | (3.9) | (1.1) | (5.0) |
| **At end of year** | **1.4** | **18.4** | **16.4** | **36.2** | **1.5** | **11.9** | **13.7** | **27.1** |
| **Net book values:** | | | | | | | | |
| At beginning of year | 24.6 | 16.6 | 8.6 | 49.8 | 13.8 | 7.2 | 6.8 | 27.8 |
| **At end of year** | **17.7** | **6.1** | **5.6** | **29.4** | **13.2** | **4.2** | **4.0** | **21.4** |

The net book value of land and buildings based upon cost or valuation at 31 December 1998 comprises the following:

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | Cost £m | Valuation £m | Total £m | Cost £m | Valuation £m | Total £m |
| Freeholds | – | 16.0 | 16.0 | – | 11.5 | 11.5 |
| Long leaseholds | 1.7 | – | 1.7 | 1.7 | – | 1.7 |
| | 1.7 | 16.0 | 17.7 | 1.7 | 11.5 | 13.2 |

The depreciation charge for the Group and for the Company include £3.3m provision for a diminution in value of fixed assets following the Tobacco Machinery division restructuring.

The net book value of fixed assets for the Group includes £0.6m (1997: £1.0m) and for the Company includes £0.6m (1997: £1.0m) in respect of assets held under finance leases. Depreciation charged on finance leased assets in the year was £0.4m (1997: £0.4m). The net book value for the Group of assets held in the course of construction is £nil (1997: £0.3m).

The Group's principal properties were externally valued on an open market existing use basis by professional valuers as at 31 December 1998. The valuations were carried out by Messrs Wilks Head & Eve, Chartered Surveyors in accordance with the RICS Statements of Asset Valuation Practice and Guidance Notes.

The historical cost of land and buildings shown at valuation for the Group is estimated to be £11.6m (1997: £17.1m) and for the Company £9.5m (1997: £9.5m).

Depreciation is not charged on assets, which are included in land and buildings, with a gross value for the Group of £7.2m (1997: £8.0m) and for the Company of £5.9m (1997: £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 | 2.1 | (0.1) | 2.0 | 17.7 | (1.7) | 30.2 | 46.2 |
| Addition in year | 0.3 | – | 0.3 | 0.3 | – | – | 0.3 |
| Provisions in year | – | (0.2) | (0.2) | – | (0.2) | – | (0.2) |
| Disposals | (0.3) | 0.1 | (0.2) | – | – | – | – |
| **At end of year** | **2.1** | **(0.2)** | **1.9** | **18.0** | **(1.9)** | **30.2** | **46.3** |

The principal subsidiary and associated undertakings are shown on pages 50 and 51.

## 14 Stocks

| | Group 1998 £m | Group 1997 £m | Company 1998 £m | Company 1997 £m |
|---|---|---|---|---|
| Raw materials and consumables | **4.8** | 6.2 | **3.8** | 3.7 |
| Work in progress | **19.3** | 28.8 | **10.3** | 16.1 |
| Finished goods | **14.0** | 25.9 | **8.2** | 13.4 |
| | **38.1** | 60.9 | **22.3** | 33.2 |

## 15 Debtors

| | Group 1998 £m | Group 1997 £m | Company 1998 £m | Company 1997 £m |
|---|---|---|---|---|
| **Amounts falling due within one year:** | | | | |
| Trade debtors | **25.0** | 51.4 | **16.8** | 26.2 |
| Amounts owed by Group undertakings | – | – | **8.1** | 11.8 |
| Other debtors including taxation | **9.1** | 7.0 | **1.1** | 0.5 |
| Prepayments and accrued income | **2.8** | 3.2 | **1.9** | 2.0 |
| | **36.9** | 61.6 | **27.9** | 40.5 |
| **Amounts falling due after more than one year:** | | | | |
| Other debtors | **0.4** | 0.5 | **0.4** | 0.5 |
| Langston subordinated loan note (a) | **4.3** | – | – | – |
| Pension fund prepayment | **14.1** | 14.0 | **11.9** | 11.1 |
| | **18.8** | 14.5 | **12.3** | 11.6 |
| **Total debtors** | **55.7** | 76.1 | **40.2** | 52.1 |

(a) The Langston subordinated loan note is repayable in October 2003. It accrues interest at between 10% and 12.5%.

## 16 Borrowings

| | Group 1998 £m | Group 1997 £m | Company 1998 £m | Company 1997 £m |
|---|---|---|---|---|
| **Amounts falling due within one year:** | | | | |
| Overdrafts | **1.3** | 0.3 | – | 0.3 |
| Discounted bills of exchange and other borrowings | – | 0.1 | – | – |
| Sandiacre loan notes | **1.0** | 1.0 | **1.0** | 1.0 |
| Finance lease obligations | **0.1** | 0.1 | – | – |
| | **2.4** | 1.5 | **1.0** | 1.3 |
| **Amounts falling due after more than one year:** | | | | |
| Repayable between one and two years | **0.1** | 4.2 | – | 4.0 |
| Between two and five years | **0.1** | 8.3 | – | 7.0 |
| More than five years | **0.2** | 2.5 | – | – |
| | **0.4** | 15.0 | – | 11.0 |
| **Amounts falling due after more than one year comprise:** | | | | |
| Finance lease obligations | **0.1** | 0.1 | – | – |
| Multi-currency unsecured credit facilities at variable interest rates, repayable and renewable at borrower's option up to 2002 | – | 12.0 | – | 11.0 |
| Industrial Revenue US$ Bond at variable interest rates, repayable 1998-2018 (unsecured) | – | 2.5 | – | – |
| Mortgage (secured on property) | **0.3** | 0.4 | – | – |
| | **0.4** | 15.0 | – | 11.0 |

Interest rates on borrowings at the year end varied between 6.0% and 8.25%.

## 17 Other creditors

| | Group 1998 £m | Group 1997 £m | Company 1998 £m | Company 1997 £m |
|---|---|---|---|---|
| **Amounts falling due within one year:** | | | | |
| Deposits received on account | **11.9** | 21.8 | **3.7** | 7.5 |
| Trade creditors | **15.5** | 24.4 | **12.0** | 15.2 |
| Amounts owed to Group undertakings | – | – | **38.2** | 28.4 |
| Corporation tax including ACT | **4.1** | 4.6 | – | 1.2 |
| Other taxes and social security | **1.0** | 1.5 | **0.9** | 1.3 |
| Other creditors | **11.6** | 14.7 | **6.4** | 9.8 |
| Accruals and deferred income | **11.3** | 14.6 | **8.5** | 10.0 |
| | **55.4** | 81.6 | **69.7** | 73.4 |

# Continued

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

| | Group 1998 £m | Group 1997 £m | Company 1998 £m | Company 1997 £m |
|---|---|---|---|---|
| Pension fund accrual | **0.3** | 0.6 | **0.1** | – |
| Other creditors | **–** | 0.1 | **–** | – |
| | **0.3** | 0.7 | **0.1** | – |

## 19 Operating leases

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

| | Group 1998 Land and buildings £m | Group 1998 Other £m | Group 1997 Land and buildings £m | Group 1997 Other £m | Company 1998 Land and buildings £m | Company 1998 Other £m | Company 1997 Land and buildings £m | Company 1997 Other £m |
|---|---|---|---|---|---|---|---|---|
| **Operating leases which expire:** | | | | | | | | |
| Within one year | **0.1** | **0.1** | 0.1 | – | **0.1** | **0.1** | – | – |
| Between two and five years | **–** | **0.4** | – | 0.7 | **–** | **–** | – | – |
| More than five years | **0.3** | **–** | 0.3 | – | **0.3** | **–** | 0.3 | – |
| | **0.4** | **0.5** | 0.4 | 0.7 | **0.4** | **0.1** | 0.3 | – |

## 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 | 2.7 | 7.6 | 2.9 | 13.2 |
| Discontinued operations | (2.4) | – | (2.9) | (5.3) |
| Charge for the year | – | 16.0 | – | 16.0 |
| Utilised during the year | – | (14.7) | – | (14.7) |
| **At the end of the year** | **0.3** | **8.9** | **–** | **9.2** |

For the Company there are provisions for rationalisation costs of £8.9m (1997: £4.4m) and provisions for post retirement benefits of £nil (1997: £0.2m).

| 20 **Provisions for liabilities and charges** continued | Group 1998 £m | Group 1997 £m | Company 1998 £m | Company 1997 £m |
|---|---|---|---|---|
| **Deferred taxation comprises:** | | | | |
| Equalisation of capital allowances and depreciation | **0.3** | 2.7 | – | – |
| Other timing differences | – | – | – | – |
| | **0.3** | 2.7 | – | – |
| The amount of unprovided deferred taxation is as follows: | | | | |
| Equalisation of capital allowances and depreciation | **0.4** | 0.7 | **0.4** | 0.7 |
| US stock | **0.3** | 2.0 | – | – |
| Capital gains in respect of UK and overseas property revaluations | **4.7** | 4.4 | **3.5** | 3.2 |
| Other timing differences | **(6.6)** | (3.4) | **(4.7)** | (2.2) |
| | **(1.2)** | 3.7 | **(0.8)** | 1.7 |

In addition, unutilised advance corporation tax (ACT) of £6.1m (1997: £6.0m) is carried forward for potential offset against future UK tax liabilities. 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** | **1998 Authorised £m** | 1997 Authorised £m | **1998 Allotted called up and fully paid £m** | 1997 Allotted called up and fully paid £m |
|---|---|---|---|---|
| Ordinary shares of 25p each | **10.1** | 10.1 | **8.9** | 8.9 |
| Preference shares of £1 each (4.2%) | **0.9** | 0.9 | **0.9** | 0.9 |
| | **11.0** | 11.0 | **9.8** | 9.8 |

During the year 46,367 ordinary shares were issued following the exercise of share options.

There were 35,574,864 (1997: 35,528,497) 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 1998 | 305,055 | 398,780 |
| Granted | 250,662 | 326,500 |
| Exercised | (46,367) | – |
| Lapsed | (166,954) | (113,250) |
| **At 31 December 1998** | **342,396** | **612,030** |
| Option price per share | 210p – 702p | 130p – 904p |
| Exercise dates | 1999 – 2003 | 1998 – 2008 |

# Continued

## 21 Share capital continued

Options were exercised during 1998 at a price of 279p 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 (1997: £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 46,367 options exercised in the year under the savings related scheme, all have been satisfied through a Qualifying Employee Share Trust (QUEST) (1997: 917,593 options).

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 £8,810 (1997: £2.1m), which have been charged directly to reserves.

The market price subscription for shares by the QUEST in the year was 298p.

## 22 Share premium account and reserves

| | Share premium £m | Revaluation reserve £m | Profit & loss account £m | Total £m |
|---|---|---|---|---|
| **Group** | | | | |
| At 1 January 1998 | 25.5 | 18.3 | 29.2 | 73.0 |
| Charge from profit and loss account of the year | – | – | (15.8) | (15.8) |
| Property revaluation | – | 1.4 | – | 1.4 |
| Transfer between reserves | – | (1.9) | 1.9 | – |
| Goodwill adjustment on sale of Langston | – | – | 1.9 | 1.9 |
| Currency translation differences arising on foreign currency denominated net investments | – | (0.1) | 0.1 | – |
| Premium on shares issued during year | 0.1 | – | – | 0.1 |
| **At 31 December 1998** | **25.6** | **17.7** | **17.3** | **60.6** |
| **Company** | | | | |
| At 1 January 1998 | 25.5 | 5.2 | 27.1 | 57.8 |
| Charge from profit and loss account of the year | – | – | (11.4) | (11.4) |
| Property revaluation | – | 0.8 | – | 0.8 |
| Premium on shares issued during year | 0.1 | – | – | 0.1 |
| **At 31 December 1998** | **25.6** | **6.0** | **15.7** | **47.3** |

Reserves included in the profit and loss account in respect of pension fund net assets at 31 December 1998 are £13.8m (1997: £13.4m) for the Group and £11.8m (1997: £11.1m) for the Company.

Cumulative total amounts taken to reserves in respect of goodwill on acquisition of subsidiaries has amounted to £44.2m (1997: £46.1m) and for the Company £18.9m (1997: £18.9m).

## 23 Shareholders' funds

| | Group | | Company | |
|---|---|---|---|---|
| | 1998 £m | 1997 £m | 1998 £m | 1997 £m |
| Equity interests | **69.5** | 81.9 | **56.2** | 66.7 |
| Non-equity interests | **0.9** | 0.9 | **0.9** | 0.9 |
| | **70.4** | 82.8 | **57.1** | 67.6 |

## 24 Minority interests

| | Group | |
|---|---|---|
| | 1998 £m | 1997 £m |
| **At beginning and end of year (all equity)** | **0.2** | 0.2 |

# Continued

## 25 Disposal

The profit on disposal of discontinued operations relates to the sale of Molins' corrugated board machinery business, Langston. The business was sold for a total consideration of US$50.0m (£30.5m) with US$40.0m (£24.4m) paid in cash on 10 July 1998 and the balance in the form of a US$10.0m interest-bearing subordinated loan note, repayable on 10 October 2003. In view of the terms of the loan note its value has been discounted to US$7.0m (£4.3m). In addition to the sale proceeds, the purchaser repaid intercompany indebtedness of US$2.1m (£1.3m) on 10 July 1998.

The assets and liabilities sold, the proceeds and the profit on sale are shown below:

| | 1998 £m |
|---|---|
| **Net assets disposed of:** | |
| Tangible assets | **13.6** |
| Stocks | **20.6** |
| Debtors | **9.6** |
| Creditors and provisions | **(17.9)** |
| Creditor due to Molins | **(2.8)** |
| | **23.1** |
| Costs and provisions relating to the sale | **3.5** |
| Goodwill previously written off to reserves | **1.9** |
| | **28.5** |
| Profit on sale | **0.2** |
| Proceeds of sale | **28.7** |
| **Satisfied by:** | |
| Cash | **24.4** |
| Deferred consideration – loan note | **4.3** |
| | **28.7** |

Following the investigation into the accounting irregularities at Langston in 1997, discussions took place with the Group's auditor, KPMG Audit Plc. Although KPMG Audit Plc has not admitted liability, a negotiated settlement was reached for a total sum of US$3.0m (£1.8m). The exceptional pre-tax profit on disposal of Langston amounted to £0.2m, after taking account of the KPMG settlement, after making certain provisions and after charging £1.9m of goodwill previously written off to reserves.

The discontinued operations showed a £1.7m cash outflow (1997: £7.5m inflow) from operating activities.

## 26 Reconciliation of operating loss to operating cash flows

| | 1998 £m | 1997 £m |
|---|---|---|
| Operating loss | **(6.9)** | (18.2) |
| Depreciation | **5.8** | 6.9 |
| Movements in restructuring and rationalisation provisions: | | |
| – new provisions created | **16.0** | 17.9 |
| – cash movements | **(10.1)** | (7.2) |
| Non cash adjustments in respect of Langston | **–** | 12.2 |
| Working capital movements: | | |
| – stocks | **1.4** | 6.8 |
| – debtors | **12.1** | 8.5 |
| – creditors and other provisions | **(12.9)** | (4.2) |
| – other | **0.2** | – |
| **Net cash inflow from operating activities** | **5.6** | 22.7 |
| | | |
| Cash flows from exceptional items excluding tax effect (note 4) | **(10.3)** | (7.9) |
| Other cash flows | **15.9** | 30.6 |
| **Net cash inflow from operating activities** | **5.6** | 22.7 |

# Continued

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

| | 1998 £m | 1997 £m |
|---|---|---|
| **Returns on investments and servicing of finance** | | |
| Interest received | **0.8** | 0.4 |
| Interest paid | **(1.0)** | (2.2) |
| **Net cash outflow for returns on investment and servicing of finance** | **(0.2)** | (1.8) |
| **Taxation** | | |
| Taxation repaid | **2.1** | 0.8 |
| Taxation paid | **(8.1)** | (6.8) |
| **Net cash outflow for taxation** | **(6.0)** | (6.0) |
| **Capital expenditure** | | |
| Purchase of tangible fixed assets | **(2.6)** | (5.0) |
| Sale of tangible fixed assets | **2.9** | 1.2 |
| **Net cash inflow/(outflow) for capital expenditure** | **0.3** | (3.8) |
| **Acquisitions and disposals** | | |
| Purchase of subsidiary undertakings | **–** | (0.2) |
| Sale of business (note 25) | **24.4** | – |
| Investment in joint ventures | **(0.3)** | (0.8) |
| **Net cash inflow/(outflow) for acquisitions and disposals** | **24.1** | (1.0) |
| **Management of liquid resources** | | |
| Increase in short-term bank deposits | **(4.6)** | – |
| **Financing** | | |
| Issue of ordinary share capital | **0.1** | 4.8 |
| Contributions to Qualifying Employee Share Trust | **–** | (2.1) |
| Debt due within a year: | | |
| Decrease in short-term borrowings | **(0.1)** | (14.3) |
| Debt due beyond a year: | | |
| (Decrease)/increase in unsecured loans | **(14.5)** | 9.8 |
| Capital element of finance lease rental payments | **–** | (0.3) |
| **Net cash outflow from financing** | **(14.5)** | (2.1) |

Management of liquid resources includes movements in cash deposits which do not fall within the definition of cash for the purposes of FRS 1 (revised).

## 28 Analysis of net funds/(debt)

| | At 1 Jan 1998 £m | Cash flow £m | Exchange movement £m | **At 31 Dec 1998 £m** |
|---|---|---|---|---|
| Cash in hand, at bank | 9.2 | 0.2 | (0.2) | **9.2** |
| Overdrafts | (0.3) | (0.9) | (0.1) | **(1.3)** |
| Short-term bank deposits | – | 4.6 | (0.1) | **4.5** |
| | 8.9 | 3.9 | (0.4) | **12.4** |
| Debt due within 1 year | (1.1) | 0.1 | – | **(1.0)** |
| Debt due after 1 year | (14.9) | 14.5 | 0.1 | **(0.3)** |
| Finance leases | (0.2) | – | – | **(0.2)** |
| **Total net (debt)/funds** | (7.3) | 18.5 | (0.3) | **10.9** |

## 29 Capital commitments

| | Group | | Company | |
|---|---|---|---|---|
| | **1998 £m** | 1997 £m | **1998 £m** | 1997 £m |
| Capital investment contracted but not provided for | **0.1** | 1.3 | **0.1** | 1.3 |

## 30 Contingent liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **1998 £m** | 1997 £m | **1998 £m** | 1997 £m |
| Contingent liabilities in respect of indemnities in relation to sales and other contracts | **5.2** | 7.6 | **5.2** | 7.6 |

## 31 Related party transactions

Details of the principal subsidiary undertakings are shown on pages 50 and 51. In accordance with FRS 8, transactions or balances between Group entities that have been eliminated on consolidation are not reported.

# Principal subsidiaries, divisions and branches

### Tobacco Machinery

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

**Molins Tobacco Machinery Limited**
**Original Equipment and Service Divisions**
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Tel: +44(0)1844 343211
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Tlx: 838077
E-mail: mtm@molins.com
**M J R Saw** Chief Executive, Original Equipment
**F M Lockamy** Managing Director, Service
**M A Cooke** Commercial Director
**K A J Sheridan** Spares Director

**Molmac Engineering Limited**
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Fax: +44(0)1908 613857
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**R Higham** General Manager & Regional Director: Europe

**Molins Richmond Inc.**
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Fax: +1 804 321 5862
E-mail: molins.richmond@molins.com
**M J Bedford** President

**Molins do Brasil Maquinas Automaticas Ltda**
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Fax: +55 41 348 2456
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**S G McFarlane** President Director

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E-mail: mfe@molins.com
**A Wong** Director & General Manager

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**V I Babayev** General Manager

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Peoples Republic of China
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+ 86 871 351 5017
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E-mail: mksc@km.col.com.cn
**R Barnard** Manager

**Kunming Molins Tobacco Machinery Company Limited** (48%)
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Yunnan Province, Peoples Republic of China
Tel: + 86 871 726 2090
Fax: + 86 871 726 4427
E-mail: kmmolins@public.km.yn.cn
**C Wong** General Manager

### Packaging Machinery

Design, manufacture, marketing and servicing
of machinery for the fast moving consumer
goods industries.
**M I Tentori** Director: Packaging Machinery, Europe

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**D C Owen** Director and General Manager

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**G W Vernon** Business Manager

**Langen Packaging Inc.**
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Fax: + 1 905 670 5291
E-mail: langen.pack@molins.com
**J Whincup** President (Commenced 8 March 1999)
**P Langen** Senior Vice President: Sales & Marketing

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Fax: +31 24 648 6657
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**H J M Langen** Managing Director

**Molins (Australia) Pty Limited**
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Tel: +61 3 9457 7200
Fax: +61 3 9457 7211
E-mail: molinsaust@tpgi.com.au
**A C King** Managing Director

## Research and Development

Research services to all Molins' mainstream business activities.

**Molins International Technology Centre**
13-13(a) Westwood Way, Westwood Business Park
Coventry CV4 8HS
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E-mail: itc@molins.com
**M J Cahill** Director of Research

## Business Development

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Fax: +44 (0)1203 421255
E-mail: itc@molins.com
**A J Stroud** Director of Projects

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. A full list of subsidiaries will be included in the next annual return filed at Companies House.

# Five year record

| | 1998 £m | 1997 £m | 1996 £m | 1995 £m | 1994 £m |
|---|---|---|---|---|---|
| Turnover | **170.2** | 254.8 | 306.2 | 285.5 | 223.9 |
| Operating profit (before exceptional items) | **9.1** | 13.1 | 38.3 | 32.0 | 25.4 |
| Net interest receivable/(payable) | **0.1** | (1.9) | (1.0) | (2.2) | (1.4) |
| Profit before taxation (before exceptional items) | **9.2** | 11.2 | 37.3 | 29.8 | 24.0 |
| Exceptional items | **(15.8)** | (31.3) | (3.9) | – | – |
| (Loss)/profit before taxation | **(6.6)** | (20.1) | 33.4 | 29.8 | 24.0 |
| Taxation | **(6.3)** | (0.5) | (8.5) | (7.5) | (5.8) |
| (Loss)/profit after taxation | **(12.9)** | (20.6) | 24.9 | 22.3 | 18.2 |
| Return on sales | **5.3%** | 5.1% | 12.5% | 11.2% | 11.3% |
| Earnings per share (before exceptional items) | **16.3p** | 16.3p | 81.0p | 65.4p | 57.8p |
| (Loss)/earnings per share | **(36.2)p** | (58.9)p | 72.8p | 65.4p | 57.8p |
| Dividends per share | **8.0p** | 15.0p | 22.0p | 20.0p | 17.0p |
| Fixed assets and investments | **31.3** | 51.8 | 55.9 | 53.5 | 49.5 |
| Stocks | **38.1** | 60.9 | 78.1 | 76.8 | 65.0 |
| Debtors | **55.7** | 76.1 | 79.9 | 80.6 | 72.1 |
| Creditors and provisions | **(65.4)** | (98.5) | (96.1) | (106.3) | (84.8) |
| | **59.7** | 90.3 | 117.8 | 104.6 | 101.8 |
| Net cash/(borrowings) | **10.9** | (7.3) | (11.7) | 6.8 | (6.4) |
| Net assets | **70.6** | 83.0 | 106.1 | 111.4 | 95.4 |
| Share capital and premium account | **35.4** | 35.3 | 30.5 | 29.1 | 29.0 |
| Reserves and minority interests | **35.2** | 47.7 | 75.6 | 82.3 | 66.4 |
| Shareholders' funds (including non-equity and minorities) | **70.6** | 83.0 | 106.1 | 111.4 | 95.4 |
| Net assets per equity share | **196p** | 231p | 303p | 324p | 278p |

# Notice of meeting

The eighty-seventh Annual General Meeting of Molins PLC will be held at Painters' Hall, 9 Little Trinity Lane, London EC4V 2AD on Wednesday 21 April 1999 at 12.15pm for the following purposes:

1 To receive the directors' report and audited accounts for the year ended 31 December 1998. (Resolution No. 1)

2 To declare a final dividend on the ordinary shares. (Resolution No. 2)

3 To re-appoint Mr P W Grant, a director retiring by rotation. (Resolution No. 3)

4 To appoint Mr P J Byrom as a director. Mr Byrom was appointed to the Board since the last Annual General Meeting. (Resolution No. 4)

5 To appoint Mr D J Cowen as a director. Mr Cowen was appointed to the Board since the last Annual General Meeting. (Resolution No. 5)

6 To re-appoint KPMG Audit Plc as auditor and to authorise the directors to determine its remuneration. (Resolution No. 6)

**As special business:**

7 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, for the period beginning on 22 April 1999 and ending on 21 April 2000, 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. (Resolution No. 7)

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

**Special resolution**

Purchase of own shares

THAT

The directors be empowered in the terms of Article 39 of the Company's Articles of Association and pursuant to section 166 of the Companies Act 1985 to make market purchases (as defined in section 163(3) of that Act) of ordinary shares of 25p each in the capital of the Company, provided that:

A) the maximum aggregate number of shares which may be so purchased shall be 3,557,486 ordinary shares (representing a nominal amount of 10 per cent of the Company's issued ordinary share capital);

B) the maximum price which may be paid for an ordinary share shall be an amount equal to 105% of the average middle market quotations taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the shares in question are to be purchased (excluding expenses);

C) the minimum price which may be paid for an ordinary share shall be 25p (exclusive of expenses); and

D) this authority shall expire, unless previously revoked or varied, at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on 12 months from the date of the

# Continued

resolution (whichever is the earlier) provided that the Company may before this authority expires make contracts for purchases of ordinary shares under this authority which would or might be executed wholly or partly after this authority expires and may make a purchase or ordinary shares pursuant to any such contract. (Resolution No. 8)

9 To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

**Ordinary resolution**
Long-term incentive plan
THAT
The rules of the long term incentive plan produced to the meeting and initialled by the Chairman for identification, a summary of which is set out in the Chairman's letter to shareholders dated 25 March 1999, be approved and that the Remuneration Committee be authorised to take such steps as may be reasonably necessary to give effect to the scheme. (Resolution No.9)

By order of the Board
**C J Horton**
Secretary
11 March 1999

**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<br>31 December |

Subject to members' approval, the final dividend for 1998 will be paid on 19 May 1999 to ordinary shareholders registered at the close of business on 16 April 1999.

# Corporate information

## Registered and head office

**Molins PLC**
11 Tanners Drive
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Bucks MK14 5LU
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E-mail: molins.ho@molins.com

**Secretary**
C J Horton MA(Cantab)

**Registered Number**
124855

**Website**
Further information about the Company is available via the Internet on the Company's website at:
http://www.molins.com

**Auditors**
KPMG Audit Plc

**Stockbrokers**
Cazenove & Co

**Registrars**
IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

# Molins – our mission:

- a professional and innovative designer, manufacturer and supplier of quality machinery, related support services and systems, principally to the fast moving consumer goods industries, including tobacco, food and other high volume products;
- continually to improve our products and services, in partnership with our customers and suppliers, to meet customers' requirements and exceed their expectations, thereby commanding a sustainable and leading position in our chosen fields of activity;
- create and sustain organisational effectiveness and an environment in which innovation flourishes through teamwork, training and the development of employees, supported by professionally managed change and product development programmes;
- develop a carefully balanced business, which delivers sustainable growth, sound financial performance and enhanced shareholder value.

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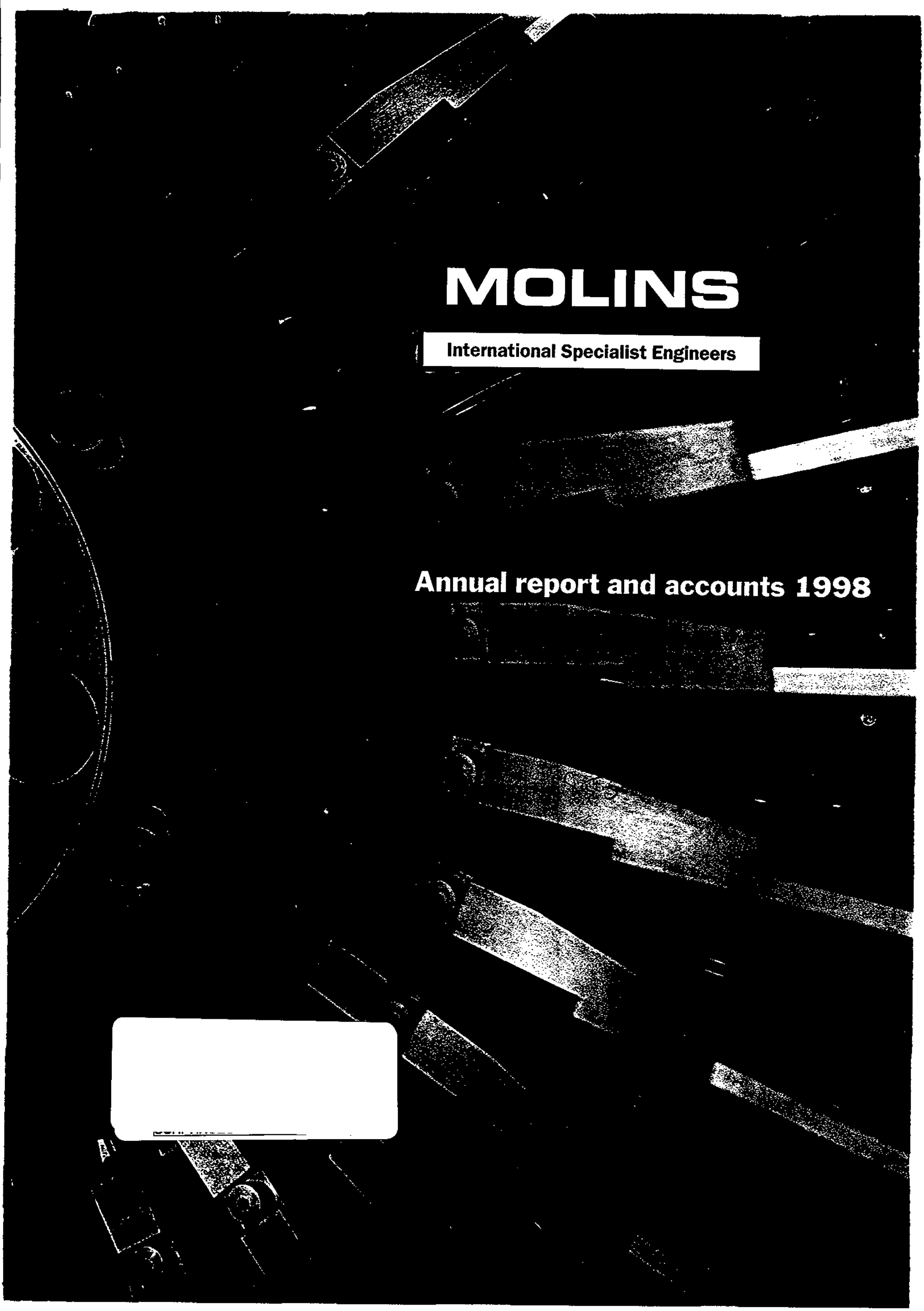
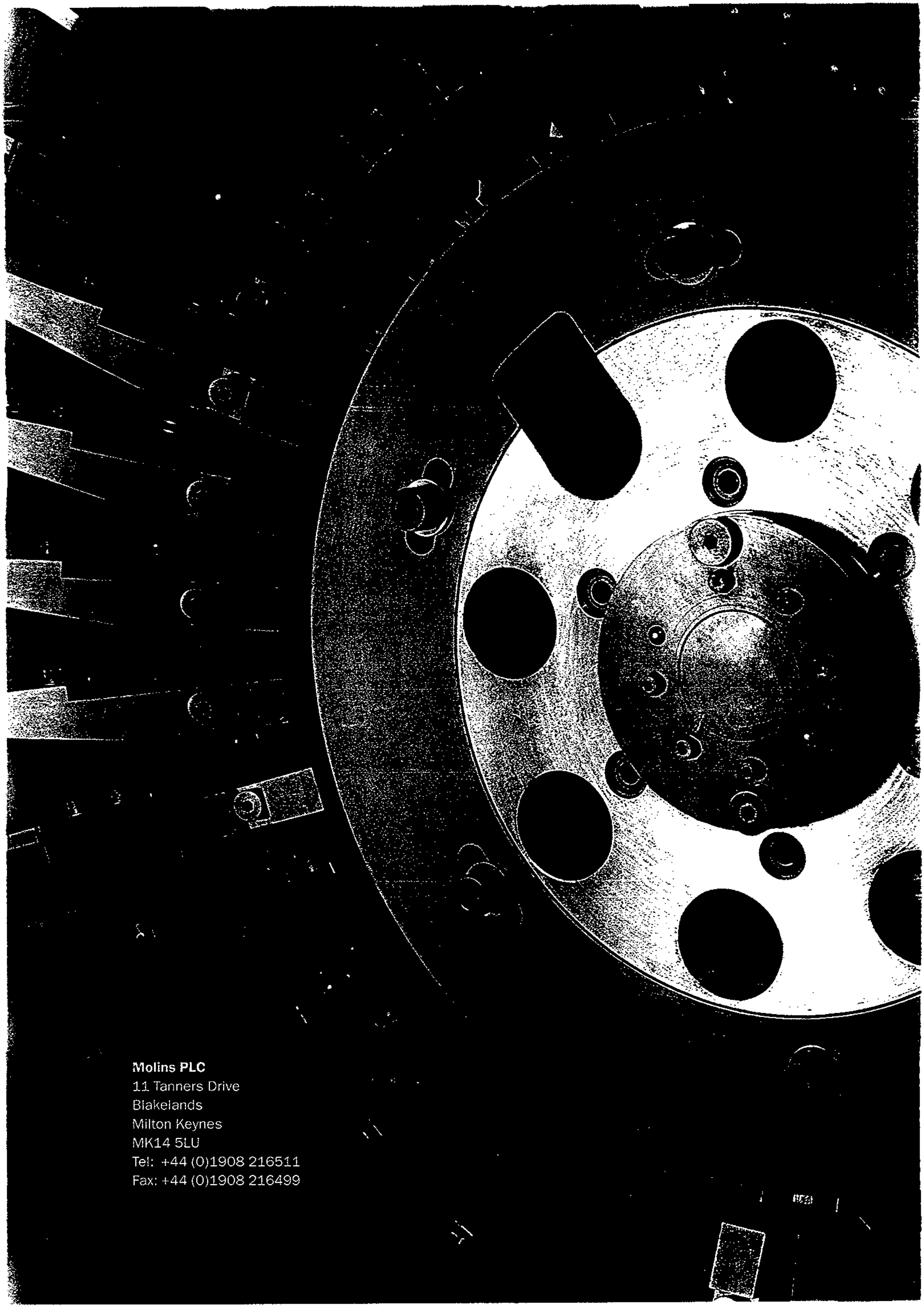
# MOLINS

International Specialist Engineers

## Annual report and accounts 1998





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