

2532854

TATEM LIMITED

REPORT AND ACCOUNTS

Year Ended 31 October 1997



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PROFESSIONAL ADVISERS

Bankers

Lloyds Bank plc
19 High Street
Southampton SO9 7HE

Solicitors

Morgan Bruce
Bradley Court
Park Place
Cardiff CF1 3DP

Auditors

Deloitte & Touche
Blenheim House
Fitzalan Court
Newport Road
Cardiff CF2 1TS

REGISTERED OFFICE

Durnsford Mill House, Mildenhall, Marlborough, Wiltshire SN8 2NG, UK
tel 01672 516617, fax 01672 516522, e-mail info@tatem.com
Registered in England and Wales, number 2532854

GROUP PROFILE

Tatem is an entrepreneurial engineering group founded and managed by a team who are committed to the development of high quality businesses through engineering excellence, high quality standards, and the training and development of its employees to enable them to perform beyond their expectations. We focus on long term achievement and the ability of our businesses to compete worldwide. Our companies have annual sales between £1.5 and £5 million.

Our aim is long term earnings per share growth of 15% per annum and added value for our shareholders by paying dividends and by obtaining marketability for our shares. We intend to achieve this by:

- ◆ becoming an international group of specialist engineering businesses in the field of control and measurement that have strong positions in their selected niches.
- ◆ delegating the management of individual operating companies locally and creating entrepreneurial spirit within them, but maintaining accurate performance measurement and financial control at group level.
- ◆ maximising the strengths of the group by creating teams drawn from across the Group, to address projects where an individual operating company might not have sufficient depth of resources.
- ◆ involving all employees in the success of the business through share ownership.
- ◆ keeping things simple.

FINANCIAL HIGHLIGHTS

	Change	1997	1996
	%	£000	£000
Turnover	+3.6%	9,880	9,536
Total UK exports	+6.3%	2,453	2,308
Total overseas sales	+3.9%	2,564	2,467
Operating profit	+4.6%	1,044	998
Profit before taxation	+7.3%	908	846
Ordinary dividends	+16.8%	125	107
Net assets	+11.4%	3,274	2,938
Basic earnings per ordinary share	-7.0%	13.2p	14.2p
Fully diluted earnings per ordinary share after 31% (33%) tax	+7.2%	13.4p	12.5p
Net assets per ordinary share	+16.3%	67.1p	57.7p
Operating profit as % of turnover		10.6%	10.5%
Turnover to net assets		3 times	3.2 times
Return on capital employed		27.7%	28.8%
Return on capital employed, adding back goodwill		14.8%	14.6%

GROUP BOARD

Chairman

Jeremy Leigh Pemberton⁺ CBE, MA, MBA, (64), Appointed to the Board in 1991 as a non executive director, and appointed as chairman in 1995. Formerly Managing Director of Whatman plc from 1975 to 1990. He is chairman of Mid Kent Holdings plc, Fleming Fledgeling Investment Trust plc and Morgan Grenfell Equity Income Trust plc, and a non executive director of Savoy Hotel plc and London and Manchester Group plc.

Executive Directors

Martin Gibson MA, ACA, (36), Chief Executive and Company Secretary
Founded Tatem in 1990. A Chartered Accountant and engineering graduate from Cambridge University. Chairman of the Executive Board.

Mark Ansell MA, MSc, MIMechE, MBA, (35), Managing Director
Appointed Managing Director in 1995. A Chartered Engineer and engineering graduate of Cambridge University. He has an MBA from Cranfield School of Management. A member of the Executive Board.

James McSweeney (52), RNA, HND(Mech), BA, Operations Director
Appointed as a Director in 1995. He formed Team Precision Engineering and Broadhaven Products, suppliers to Waverley for 15 years. A member of the Executive Board.

Non Executive Directors

Mark Nicholls^{**} MA, MBA (48)
Appointed 26 November 1997. He is a director of Royal Bank Development Capital. He is also a director of Bovis Homes Group plc and City of London Investment Trust plc, and was formerly a director of S G Warburg plc.

David Gibson (73)
Appointed director in 1990 and the former chairman of the Group. For many years he was chairman of Atlantic Shipping and Trading, and was a director of a number of racecourses and Racecourse Technical Services. A member of the Jockey Club since 1966.

John Homfray^{**} BSc(Econ), MBA (44)
Appointed director in 1990. He is a director of Pritchard Security Systems Limited.

Adrian Kyriazi⁺ MA, (37)
Appointed director in 1990. Chairman of the Audit Committee. He is a director of HSBC Investment Bank. A former barrister and a law graduate of Cambridge University.

^{*} Member of Audit Committee ⁺ Member of Remuneration Committee

EXECUTIVE MANAGEMENT

Group

Adrian Harvey (Financial Controller), Tim Pullen (Group Project Manager), Louisa Willmott (Human Resources)

Waverley

Watford, 01923 255433, David Conroy (Sales), Sanjay Purohit (Commercial), Adele Ralph (Production)

Conflow Inc

Pennsylvania, USA, 724 746 0200, Mike Goddard (President), Karin McKinney (Controller), Gary Conklin (Sales)

Conflow

Nottingham, 0115 928 2135, Mick Hollis (Sales), Derek Baxter (Production), Roger Creasey (Technical)

Veccer

Reading, 0118 950 0855, Richard Virgoe (Managing Director), Tom Williams (Production)

CHAIRMAN'S STATEMENT

After a poor first half I am pleased to report that a much improved second half performance has resulted in profits before taxation for the year ended 31 October 1997 of £907,798, some 7% ahead of last year. Turnover was 3% ahead at £9.8 million against £9.5 million last year. This is a considerably better performance than was indicated to you in our interim report in July but is disappointing when set against our target of achieving earnings per share growth of 15% per annum.

We are pleased to announce that a final ordinary dividend of 2.5p per share will be paid in April which, following the interim dividend of 1p paid in July 1997, makes a total of 3.5p. Our policy is to have a minimum dividend cover of 3 times but to move to that gradually. After excluding the preference dividend from both earnings and dividends, our ordinary cover currently stands at 3.7 times.

Operations

You will find a more detailed review of activities in Mark Ansell's Managing Director's report. We have been disappointed by our performance but, set against the performance of the British engineering sector as a whole, it is relatively satisfactory to have reported a slight improvement on last year. We are a significant exporter and conditions have been difficult in many of our existing markets and our target markets in developing economies. We have continued to invest in sales and marketing overheads to build these up but results have been slow in coming through. The strong currency has particularly impacted on Waverley and Veccer where our exporting customers have had a quiet time and there has been additional competition from imports.


Board and Corporate Governance

We are very sad to report that in June 1997 Tim Perkins died following a cruel illness. Tim was a wonderful Non Executive Director with great experience and a very incisive angle on many matters. He will be sadly missed not only in your company but in many others. Secondly, just after the year end, Tim Farazmand, a Director of Royal Bank Development Capital ("RBDC"), one of our larger shareholders, resigned. He was the appointee of RBDC and as his work load there has changed it is proposed that he be replaced by another Director of RBDC, Mark Nicholls. I would like to thank Tim Farazmand for his contribution since his appointment in 1995. Mark Nicholls has a strong background in corporate finance and is an experienced non executive director and we look forward to working with him. He will come up before shareholders for election at the forthcoming AGM.

Last year I referred in detail to our statement about corporate governance (see page 7). We have continued to focus on the running of our business along the lines of a public company where practical. We have focused this year on improving our performance in the area of Board practice and accounting controls and procedures and there will be continued developments in line with best practice. Tim Perkins was Chairman of our Audit Committee and Adrian Kyriazi has agreed to take over that role.

Prospects

Naturally I am inclined to be cautious after two years of mixed performance in markets that have been particularly harsh for a small UK based manufacturer in the engineering sector. Nevertheless I am confident that we are operating in product fields and geographical markets which offer opportunities for profitable expansion in the medium term and that your executive team are well able to exploit these opportunities and demonstrate above average growth. I would pay tribute to them and the staff of all the Tatem companies for their commitment and effort in what has been a difficult year.



Jeremy Leigh Pemberton
Chairman

MANAGING DIRECTOR'S REVIEW

1997 has been an challenging year for Tatem. The UK economy as a whole has performed well but the manufacturing sector, and particularly those companies dependent on exports, have struggled against a background of a strong currency and relative sluggishness in European markets. This has caused difficulties for us, particularly at Veccer and Waverley, especially in the first 6 months of our financial year. However, as the exchange rate stabilised and we and our customers adjusted to the new environment, business picked up.

In the second half profits have been much stronger and we have ended the year broadly in line with last year, although we are behind our target of 15% per annum earnings per share growth. We continue to believe that we can achieve annual growth of 15% and that this remains an appropriate target. We are actively looking to achieve this both through organic growth and by contribution from acquisitions.

One aspect of our results in 1997 was our high tax charge with an effective tax rate of over 39% compared with 32.5% last year. The high rate is caused principally by the high proportion of our profit made in America where we suffered an increased tax rate of 49% in 1997 compared with 46% in 1996. This change was caused by the increase in the proportion of our US profit being made in Pennsylvania, which has one of the highest corporate tax rates of any state in America. We also suffer a withholding tax of 5% on dividends remitted from our US subsidiary. In addition in the UK we have seen a higher tax rate as tax losses have been extinguished. Furthermore our prudent approach to provisions and to depreciation has meant that a significant part of our costs were not allowable in 1997 for corporation tax. In the longer term we expect to be able to have a tax rate closer to the UK average.

Waverley

Sales fell by 7% as our UK customers who are dependent on export sales suffered under the strong pound. Gross margins were unchanged but overheads were up by 6% due to the first full year with the strengthened sales team. Overall Waverley's operating profits fell by 25%. The exception was Waverley International where, despite losing our largest export customer to an Italian competitor on price, sales were up 32%. New distributors have been successfully established in Australia, Germany, Sweden and Norway.

Waverley's manufacturing division in Southend continues to be our best performing manufacturing unit, but it is dependent on increasing demand to generate additional profits.

Conflow

Conflow as a whole had a good year with sales up 4% at £5.6M, gross margins up slightly and operating profits up by 25%.

Conflow AAA had another excellent year with sales up 7%. As detailed in our interim report, we have successfully introduced a second factored product from South Africa into the US coal mining market. Sales were very strong into South Africa and Australia, although prospects in the latter are not good for 1998 given that the Australian coal industry is so dependent on exports to the Far East.

Conflow Eurasia also performed well with sales up 4% and gross margins significantly improved. We believe that developments in recent months in the UK mining industry are not as alarming as it would appear from the press reports, but clearly the opportunities for growth are overseas. Our business in China is developing steadily and we received our first significant order direct from a coal mine just before Christmas. Our Chinese sales agent is now working for the Shenhua Group, a new state-owned enterprise created to develop a large coalfield in central China.

The product mix at Conflow is gradually changing and demand on ConfloWorks for our own products is falling. ConfloWorks' output was down by 10%. Therefore, with regret, in early January 1998 we made 7 redundancies to bring capacity in line with requirements. We have actively sought other uses for our spare capacity and we have invested in the factory to improve our processes. The foundry has 2 new electric induction furnaces, and new fettling and shotblasting equipment. Quality standards and working practices have been dramatically improved. The foundry is now being actively promoted to third parties as a specialist in copper alloy casting and we already have one contract worth £200K per annum in sales.

Veccer

1997 has provided difficult conditions in Veccer's market. Sales were up 16% from last year, with most of that increase occurring in the first half of the year. A combination of the new low margin business under supply agreements with two weighing systems companies, and the strong currency caused a drop in gross margins resulting in only a small operating profit. The business is in much better shape than it was 12 months ago, with manufacturing broken down into three distinct areas, each with their own responsibilities. Despite market conditions remaining tough, we have several exciting opportunities we are currently pursuing.

Acquisitions

During 1997 Conflow acquired the designs and stock of a number of products from the new owners of a former competitor, Lindley Flowtech, who had gone into receivership earlier in the year.

Current trading

1998 has started slowly for us with especially difficult market conditions in the coal mining industry all over the world. The continuing strength of the pound has put our margins on exports under pressure, particularly in Europe. With many other British companies suffering from the same environment Waverley's UK sales remain slow. Overall for Tatem conditions are worse than they were in the first half of last year. However there are bright spots and we are taking action to maximise our profits whilst continuing to pursue all opportunities for growth.



Mark Ansell
Managing Director

TATEM LIMITED

REPORT AND ACCOUNTS

Year Ended 31 October 1997

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 October 1997, our seventh year.

1. ACTIVITY

The Group's principal activity during the year was the supply of high quality engineered products and specialist valves and control equipment for the process industries and for underground coal mining. The Company is a manufacturer of load cells and a management services and holding company.

2. REVIEW OF BUSINESS AND FUTURE ACTIVITIES

The review of the business is contained within the Managing Director's Review on page 4.

3. RESULTS, DIVIDENDS AND TRANSFERS TO RESERVES

The profit before tax was £907,798 compared with £846,172 achieved in 1996. The directors recommend the payment of a final dividend to ordinary shareholders of £89,375 being 2.5p a share, following an interim dividend of 1p, totalling £125,125. Preference dividends of £78,750 were paid during the year. An amount of £346,562 (1996 - £389,142) will be transferred to reserves.

5. DIRECTORS AND SHARE CAPITAL

Tim Perkins died in June 1997. His wonderful contribution will be much missed. Tim Farazmand, the appointee of our shareholder, Royal Bank Investments Limited, resigned on 26 November 1997, and was replaced by another director of Royal Bank Development Capital, Mark Nicholls. He comes up for election at the forthcoming AGM.

The director's interests in the share capital are as follows. There have been no changes since the year end.

	Held at 31 October 1996	% of issued share capital	Held at 31 October 1997	% of issued share capital
M P Ansell	50,000	1.4%	50,000	1.4%
W D Gibson	775,000	21.7%	775,000	21.7%
M G S Gibson	645,000	18.0%	645,000	18.0%
J G R Homfray	45,000	1.3%	45,000	1.3%
J J J McSweeney	20,000	0.6%	20,000	0.6%
J Leigh Pemberton	10,000	0.3%	10,000	0.3%

J G R Homfray's interests are held by a trust of which he is a beneficiary. J J J McSweeney's interests are held by Team Precision Engineering Limited, of which company he is the controlling shareholder. Other than as noted above and on page 8 no director had any interest in the shares of the Company or any group company. Royal Bank Investments Limited hold all 875,000 5p 9% cumulative convertible redeemable preference shares. These carry one vote for each share and represent 19.7% of the votes.

6. RESEARCH AND DEVELOPMENT

The company is committed to the continual development of new products and processes in each business. The engineering department in each group company is given the same status as the production and distribution functions and engineering team leaders are supported by a central team called TIME Services. The team leader of TIME Services sits on the Executive Board.

7. EMPLOYEES

The company is committed to the development and training of its employees and operates an equal opportunities policy of employment without regard to race, age or sex. Where possible positions are provided to disabled persons. We are currently working towards accreditation under the Investors in People Standard.

8. AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors on 26 February 1998 and signed on behalf of the Board.



M G S Gibson
Company Secretary

CORPORATE GOVERNANCE

The directors strongly believe that a policy of openness and integrity is essential for the health and success of our business. Therefore we endeavour to comply as far as we are able with the recommendations of the "Cadbury Code of Best Practice".

Going concern

The directors consider that after a critical review of the Group's 1998 budget and medium term plans the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Internal financial control

The overall responsibility for the Group's system of financial control rests with the directors. The Group maintains a system of internal financial controls designed to provide reasonable but not absolute assurance that assets are safeguarded against unauthorised use or disposition and that proper accounting records are maintained to ensure the reliability of financial information used within the business or for publication.

The key features of the Group's internal financial control system are:

1. Internal controls - are established by the Executive Board and approved by the Audit Committee.
2. Board Meetings - are held a minimum of 6 times a year.
3. Budgets - are prepared annually.
4. Management accounts - are prepared monthly and monitored against budget.
5. Forecasts - short term and full year forecasts for cash flow and profits are prepared regularly
6. Capital expenditure - is approved by the Executive Board up to £20,000 and the Board above this level.
7. Authority for loans, guarantees, and indemnities - is provided by the Board.
8. Organisation structure - each business has a defined structure detailing responsibilities and authorities.

Audit committee

The Group has an audit committee chaired by Adrian Kyriazi which reviews the financial statements and monitors the scope, efficiency and outcome of any audit.

Remuneration committee

The Group remuneration committee is chaired by Jeremy Leigh Pemberton and sets the salaries of all senior executives in the group. Its report is set out on page 8.

TATEM LIMITED

REPORT AND ACCOUNTS

Year Ended 31 October 1997

REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee was formed in 1995 and comprises myself and the non executive directors. The members have no personal financial interest, other than as shareholders, in the matters to be decided, and no day to day involvement in the running of the business. As well as the terms of employment and remuneration of the executive directors we are responsible for setting and approving the remuneration for all employees with total earnings over £25,000. We are not responsible for setting the fees of the non executive directors which are decided by the full Board.

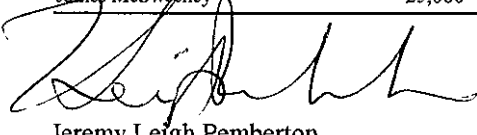
The policy of the committee is to reward the key executives of the group with proper regard to their responsibilities and performance. Salaries are reviewed annually taking into account equivalent rates in other organisations. Various bonus schemes are in place for executive directors and senior managers which are based mainly on financial criteria with the balance based on a subjective assessment of each individual's achievements and contribution to the success of the business. Each executive director has a service contract to ensure continuity and commitment. The contract terms and current annual salary or fee are set out below. James McSweeney is employed by Team Precision Engineering Limited ("Team") which provides his services to the group as a director and also provides engineering and administration services to the Group under a three year agreement. Full details of this contract are set out in note 9, Related Party Transactions.

The Company has an executive share option scheme, and details of options granted are set out below. Non executive directors and the chairman are not entitled to participate in the Company's share option schemes and do not have service contracts nor pension rights. Their current annual fees are set out below. Mark Nicholls', and previously Tim Farazmand's, services as a director are provided by Royal Bank Development Capital Limited for an annual fee of £5,000.

£	Salary	Other receipt	Bonus	Benefit	Total 1997	Total 1996	Pension 1997	Pension 1996	Term of contract	Current Salary or fee
Jeremy Leigh Pemberton	9,000	-	-	-	9,000	9,000	-	-	-	9,000
Executive directors										
Martin Gibson (p)	43,057	-	5,000	7,338	55,395	49,569	3,315	3,006	1 year	50,000
Mark Ansell (p)	46,056	-	5,000	9,219	60,275	50,713	2,303	2,165	1 year	50,000
James McSweeney*	-	147,649	5,000	-	152,649	144,400	-	-	1 year	155,545
Non executive directors										
John Homfray	3,000	-	-	-	3,000	3,000	-	-	-	4,000
Tim Farazmand† (resigned 26 November 1997)	5,000	-	-	-	5,000	5,000	-	-	-	-
Mark Nicholls+ (appointed 26 November 1997)	-	-	-	-	-	-	-	-	-	5,000
David Gibson	3,000	-	-	-	3,000	3,000	-	-	-	4,000
Adrian Kyriazi	3,000	-	-	-	3,000	3,000	-	-	-	4,000
Tim Perkins (died in June 1997)	2,250	-	-	-	2,250	3,000	-	-	-	-
Total	114,363	147,649	15,000	16,557	293,569	270,682	5,618	5,171	-	281,545

* Contract amount paid by group companies to Team Precision Engineering Limited for a variety of services + Fee paid to Royal Bank Development Capital Limited p Members of a group money purchase pension scheme. No other directors are members of a group pension scheme

Executive share options	Number of options	Date of Grant	Exercise dates	Option price	Performance criteria for exercise
Mark Ansell	135,000	10/95	10/1998 to 10/2005	£1	None
	135,000	10/95	10/1998 to 10/2005	£1	EPS of 22.4p before 10/1998
	130,000	10/95	10/1998 to 10/2005	£1	EPS of 29.8p before 10/2000
James McSweeney	25,000	1/96	1/1998 to 1/2006	£1	None


Jeremy Leigh Pemberton
Chairman

TATEM LIMITED

REPORT AND ACCOUNTS

Year Ended 31 October 1997

DIRECTORS' STATEMENT OF 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 as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- ♦ select suitable accounting policies and then apply them consistently;
- ♦ make judgements and estimates that are reasonable and prudent;
- ♦ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 10 to 25, which have been prepared under the accounting policies set out on page 15, and the detailed information disclosed in respect of any directors' remuneration set out in the report of the Remuneration Committee on page 8.

Respective responsibilities of Directors and Auditors

As described above the directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you.

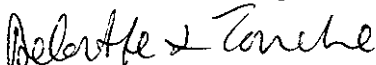
Basis of opinion

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



Deloitte & Touche

Chartered Accountants and Registered Auditors

Blenheim House

Fitzalan Court

Newport Road

Cardiff CF2 1TS

26 February 1998

TATEM LIMITED**GROUP PROFIT AND LOSS ACCOUNT****Year Ended 31 October 1997**

	<u>Notes</u>	1997 £	1996 £
Turnover	1	9,879,556	9,535,985
Cost of sales		<u>(6,427,139)</u>	<u>(6,241,332)</u>
Gross profit		3,452,417	3,294,653
Distribution costs		(1,243,884)	(1,114,888)
Administrative expenses		<u>(1,164,467)</u>	<u>(1,182,100)</u>
Operating profit		1,044,066	997,665
Net interest payable and similar charges	3	<u>(136,268)</u>	<u>(151,493)</u>
Profit on ordinary activities before taxation	4	907,798	846,172
Tax on profit on ordinary activities	5	<u>(357,361)</u>	<u>(274,806)</u>
Profit for the financial year		550,437	571,366
Dividends paid and proposed	6	<u>(203,875)</u>	<u>(182,224)</u>
Retained profit transferred to reserves	20	<u><u>346,562</u></u>	<u><u>389,142</u></u>

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Profit for the financial year	550,437	571,366
Foreign currency difference arising on consolidation	<u>(10,661)</u>	<u>(11,974)</u>
Total gains or losses relating to the year	<u><u>539,776</u></u>	<u><u>559,392</u></u>

EARNINGS PER SHARE (see note 7)

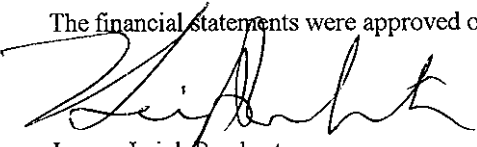
Basic assuming actual tax charge	13.2p	14.2p
Basic assuming 31% (1996-33%) tax charge	15.3p	14.1p
Fully diluted assuming 31% (1996-33%) tax charge	<u><u>13.4p</u></u>	<u><u>12.5p</u></u>

TATEM LIMITED

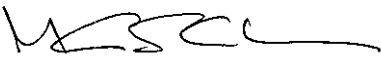
GROUP BALANCE SHEET
at 31 October 1997

	Notes	£	1997 £	£	1996 £
FIXED ASSETS					
Tangible assets	10		<u>2,099,504</u>		<u>1,730,284</u>
			2,099,504		1,730,284
CURRENT ASSETS					
Stocks	12	2,423,328		2,276,353	
Debtors	13	2,406,456		2,126,330	
Cash at bank and in hand	14	<u>1,091,190</u>		<u>695,053</u>	
		<u>5,920,974</u>		<u>5,097,736</u>	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR					
Bank overdrafts	14	(1,585,921)		(858,365)	
Creditors	15	<u>(2,404,137)</u>		<u>(2,416,230)</u>	
		<u>(3,990,058)</u>		<u>(3,274,595)</u>	
NET CURRENT ASSETS			<u>1,930,916</u>		<u>1,823,141</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			4,030,420		3,553,425
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	16		(738,331)		(597,237)
PROVISIONS FOR LIABILITIES AND CHARGES	18		<u>(18,371)</u>		<u>(18,371)</u>
			<u>3,273,718</u>		<u>2,937,817</u>
CAPITAL AND RESERVES					
Called up share capital	19		222,500		222,500
Share premium account	20		4,114,370		4,114,370
Other reserves	20		(31,881)		(21,220)
Profit and loss account	20		1,822,487		1,475,925
Goodwill written off	20		<u>(2,853,758)</u>		<u>(2,853,758)</u>
TOTAL SHAREHOLDERS' FUNDS			<u>3,273,718</u>		<u>2,937,817</u>
Attributed to:					
EQUITY SHAREHOLDERS			2,398,718		2,062,817
NON EQUITY SHAREHOLDERS			<u>875,000</u>		<u>875,000</u>
TOTAL SHAREHOLDERS' FUNDS			<u>3,273,718</u>		<u>2,937,817</u>

The financial statements were approved on 26 February 1998 and signed on behalf of the Board of directors.


Jeremy Leigh Pemberton

Chairman


Martin Gibson

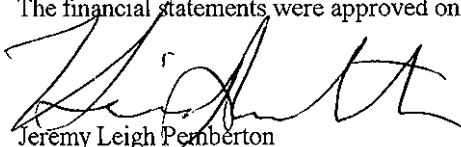
Chief Executive

TATEM LIMITED


COMPANY BALANCE SHEET
at 31 October 1997

	Notes	1997 £	1996 £
FIXED ASSETS			
Tangible assets	10	258,276	290,907
Investment in subsidiary companies	11	<u>3,794,504</u>	<u>3,794,504</u>
		4,052,780	4,085,411
CURRENT ASSETS			
Stocks	12	372,851	434,622
Debtors	13	1,595,492	1,654,457
Cash at bank and in hand	14	<u>1,065,149</u>	<u>672,536</u>
		<u>3,033,492</u>	<u>2,761,615</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Bank overdrafts	14	(690,400)	(361,759)
Creditors	15	<u>(825,747)</u>	<u>(1,099,697)</u>
		<u>(1,516,147)</u>	<u>(1,461,456)</u>
NET CURRENT ASSETS		<u>1,517,345</u>	<u>1,300,159</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		5,570,125	5,385,570
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	16	<u>(148,327)</u>	<u>(148,331)</u>
		<u>5,421,798</u>	<u>5,237,239</u>
CAPITAL AND RESERVES			
Called up share capital	19	222,500	222,500
Share premium account	20	4,114,370	4,114,370
Profit and loss account	20	<u>1,084,928</u>	<u>900,369</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>5,421,798</u>	<u>5,237,239</u>
<u>Attributed to:</u>			
EQUITY SHAREHOLDERS		4,546,798	4,362,239
NON EQUITY SHAREHOLDERS		<u>875,000</u>	<u>875,000</u>
TOTAL SHAREHOLDERS' FUNDS		<u>5,421,798</u>	<u>5,237,239</u>

The financial statements were approved on 26 February 1998 and signed on behalf of the Board of directors.


Jeremy Leigh Pemberton

Chairman


Martin Gibson

Chief Executive

TATEM LIMITED

GROUP CASH FLOW STATEMENT

Year Ended 31 October 1997

	<u>Notes to cashflow</u>	1997 £	1996 (revised) £
OPERATING ACTIVITIES			
Net cash inflow from operating activities	1	902,923	995,303
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Preference dividends paid		(78,750)	(35,599)
Net interest paid		<u>(136,268)</u>	<u>(151,493)</u>
Net cash outflow from servicing of financing		(215,018)	(187,092)
TAXATION			
Taxation paid		(335,030)	(155,032)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of tangible fixed assets		(524,865)	(286,194)
Sale of tangible fixed assets		19,949	17,584
Foreign exchange difference arising on consolidation		<u>(10,661)</u>	<u>(11,974)</u>
Net cash outflow from capital expenditure and financial investment		<u>(515,577)</u>	<u>(280,584)</u>
ACQUISITIONS			
Purchases of subsidiary companies		-	(925,401)
EQUITY DIVIDENDS PAID		(107,250)	(35,750)
FINANCING			
Share issues		-	2,281,870
Net repayment of bank loans	2	(5,577)	(663,807)
Capital element of hire purchase rentals	2	<u>(55,889)</u>	<u>(36,083)</u>
Net cash (outflow)/inflow from financing		<u>(61,466)</u>	<u>1,581,980</u>
(DECREASE)/INCREASE IN CASH	3	<u>(331,419)</u>	<u>993,424</u>

TATEM LIMITED

GROUP CASH FLOW STATEMENT

Year Ended 31 October 1997

NOTES TO THE GROUP CASH FLOW STATEMENT

1997
£

1996
£

1. Reconciliation of operating profit to net cash inflow from operating activities

Operating profit before interest	1,044,066	997,665
Depreciation	330,839	278,288
Profit on disposal of fixed assets	(319)	(13,084)
Changes in the following categories - inflow/(outflow)		
Stock	(146,975)	(291,605)
Debtors	(276,463)	(84,874)
Creditors	(48,225)	108,913
Cash inflow from operating activities	<u>902,923</u>	<u>995,303</u>

2. Reconciliation of cashflow movement to movement in net debt

(Decrease)/increase in cash in year	(331,419)	993,424
Debt repayments	5,577	663,807
Hire purchase repayments	55,889	36,083
Changes in net debt resulting from cashflows	(269,953)	1,693,314
New hire purchase	(194,822)	(74,918)
Movement in net debt in period	(464,775)	1,618,396
Net debt at 1 November	(1,096,857)	(2,715,253)
Net debt at 31 October	<u>(1,561,632)</u>	<u>(1,096,857)</u>

3. Analysis of changes in net debt

	At 1 November 1996 £	Cash flows £	Other non cash changes £	At 31 October 1997 £
Cash at bank and in hand	695,053	396,137	-	1,091,190
Overdrafts	(858,365)	(727,556)	-	(1,585,921)
Total cashflows	(163,312)	(331,419)	-	(494,731)
Debt due within 1 year	(299,556)	155,577	(125,885)	(269,864)
Debt due after 1 year	(549,597)	(150,000)	125,885	(573,712)
Hire purchase	(84,392)	55,889	(194,822)	(223,325)
	<u>(1,096,857)</u>	<u>(269,953)</u>	<u>(194,822)</u>	<u>(1,561,632)</u>

TATEM LIMITED

NOTES TO THE ACCOUNTS

Year Ended 31 October 1997

ACCOUNTING POLICIES

The accounts have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

(a) Accounting convention

The accounts are prepared under the historical cost convention.

(b) Investments

Investments in subsidiary companies are held at cost less provision for any permanent diminution in value. Goodwill arising on consolidation is written off against reserves.

(c) Basis of consolidation

The group's financial statements consolidate the financial statements of the company and its subsidiaries for the year to 31 October 1997.

(d) Tangible fixed assets

Depreciation is provided over the estimated useful life of the assets and is calculated on the cost of the assets. The following annual rates are used:

Land and buildings	4%
Plant and machinery	10-25%
Office equipment, computers	10-25%
Motor vehicles	25%

(e) Deferred taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements, to the extent that it is probable that a liability or asset will crystallise in the future.

(f) Stock

Stock is valued at the lower of cost and net realisable value. Cost represents materials and, where appropriate, direct labour and production overheads.

(g) Turnover

Turnover represents sales to third parties by the group excluding value added tax.

(h) Pension

The group operates four contributory pension schemes covering certain employees. The schemes are administered on a money purchase basis and are therefore fully funded. Payments to the schemes are charged to the profit and loss account as they are incurred.

(i) Hire purchase and leases

Assets held under hire purchase contracts, and the related hire purchase contract obligations, are recorded in the balance sheet at their fair value at the inception of the hire purchase contracts. The excess of the hire purchase payments over the recorded hire purchase obligations are treated as finance charges which are amortised over each hire purchase term to give a constant rate of charge on the remaining balance of the obligations.

Rental costs under operating leases are charged to the profit and loss account in equal amounts over the period of the individual lease.

(j) Foreign Exchange

The profit and loss items of overseas subsidiary undertakings are translated into sterling using average exchange rates. Any exchange difference arising on the translation of overseas subsidiary undertakings is taken direct to reserves.

Receipts and payments denominated in foreign currencies are converted into sterling at the rate of exchange ruling on the day of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the year end. Gains and losses arising are dealt with through the profit and loss account.

(k) Goodwill

Goodwill represents the excess of the purchase cost of shares in subsidiaries over the fair value of net assets at the date of acquisition and is charged direct to reserves in the year of acquisition.

TATEM LIMITED

NOTES TO THE ACCOUNTS

Year Ended 31 October 1997

1. TURNOVER

The turnover derives from the main activities of the group, detailed in the Directors' report. The results of the group are analysed as follows:

	Turnover 1997	Profit 1997	Turnover 1996	Profit 1996
Class of business:	£	£	£	£
Engineering	9,879,556	1,299,596	9,535,985	1,261,543
Central overheads and interest paid	-	(391,798)	-	(415,371)
	<u>9,879,556</u>	<u>907,798</u>	<u>9,535,985</u>	<u>846,172</u>

	1997	1996
Turnover by region:	£	£
UK	5,552,652	5,407,807
North America	2,564,277	2,426,382
European Community	1,024,683	1,034,311
Other Europe	68,043	79,672
Australia	308,189	226,280
Asia	51,566	75,763
Africa	293,289	285,770
Other	16,856	-
	<u>9,879,556</u>	<u>9,535,985</u>

2. INFORMATION REGARDING EMPLOYEES

	1997	1996
Employee costs during the year in the group (including Directors):	£	£
Wages and salaries	2,715,675	2,586,635
Social security costs	260,286	237,379
Other pension costs	149,176	122,131
	<u>3,125,137</u>	<u>2,946,145</u>

Average number of persons employed in the group, excluding non executive Directors:

	No.	No.
Production	106	111
Sales and distribution	26	26
Administration and management	16	15
	<u>148</u>	<u>152</u>

Details of the emoluments of Directors are given in the Report of the Remuneration Committee to the shareholders of the Company on page 8.

TATEM LIMITED

NOTES TO THE ACCOUNTS

Year Ended 31 October 1997

3. NET INTEREST PAYABLE AND SIMILAR CHARGES

	1997	1996
	£	£
Bank loans and overdrafts:		
- repayable within five years	83,400	83,807
- repayable after more than five years	16,320	23,179
Hire purchase interest	15,950	7,911
Bank charges	18,206	17,574
Exchange (gains)/losses	(6,609)	2,825
Other interest payable	9,001	14,597
Shareholders' loan	-	1,600
	<u>136,268</u>	<u>151,493</u>
Total interest payable and similar charges		

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is after charging:

Depreciation on owned assets	298,257	262,608
Depreciation on hire purchase assets	32,582	15,680
Profit on sale of fixed assets	(319)	(13,084)
Auditors' remuneration	32,154	25,057
Audit fees paid by the holding company	5,500	5,500
Fees paid to the group auditors for other services	-	22,450
Operating lease payments	<u>195,347</u>	<u>176,064</u>

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

United Kingdom corporation tax at 32.5% (1996-32.5%)	186,065	63,181
Overseas taxation	193,095	193,254
Deferred taxation	-	18,371
Prior year adjustments	<u>(21,799)</u>	<u>-</u>
	<u>357,361</u>	<u>274,806</u>

6. DIVIDENDS

	1997	1996	1997	1996
	p	p	£	£
Net ordinary dividends				
Interim paid	1.000	1.000	35,750	35,750
Final proposed	<u>2.500</u>	<u>2.000</u>	<u>89,375</u>	<u>71,500</u>
Total ordinary dividend	<u>3.500</u>	<u>3.000</u>	<u>125,125</u>	<u>107,250</u>
Net preference dividends				
Interim	4.500	4.068	39,375	35,599
Final	<u>4.500</u>	<u>4.500</u>	<u>39,375</u>	<u>39,375</u>
Total preference dividends	<u>9.000</u>	<u>8.568</u>	<u>78,750</u>	<u>74,974</u>
Total dividends paid and proposed			<u>203,875</u>	<u>182,224</u>

TATEM LIMITED

NOTES TO THE ACCOUNTS

Year Ended 31 October 1997

7. EARNINGS PER SHARE

Basic earnings per ordinary share are calculated by taking the profit for the financial year of £550,437 (1996 - £571,366) and deducting the preference shareholder's dividend of £78,750 (1996 - £74,974), to leave £471,687 (1996 - £496,392), divided by the average number of ordinary shares in issue, 3,575,000 (1996 - 3,495,877).

The earnings per share after a 31% (1996-33%) tax charge is shown for long term comparison purposes as our tax charge is distorted by the higher rate of tax suffered in our US subsidiary, the smaller companies rate and by brought forward tax losses. We believe that we can attain a normal rate in the long term and monitor earnings accordingly. It is calculated by deducting tax at 31% (1996-33%) from the profits before tax to get to a figure for adjusted profit for the financial year which is divided by the same number of shares.

Fully diluted earnings per share assumes full conversion of preference shares and that all share options have been exercised and is based on a tax charge of 31% (1996-33%). The full profit before tax of £907,798 (1996 - £846,172) is used and tax is deducted at 31% (1996-33%), to give adjusted earnings of £626,380 (1996 - £566,935), to which is added £26,440 to allow for the increase of earnings resulting from the cash received on the taking up of options. The fully diluted number of ordinary shares in issue is 4,871,544 (1996 - 4,752,465).

8. RESULT OF PARENT COMPANY

As permitted by s.230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The consolidated profit after tax for the year of £550,437 (1996 - £571,366) includes a profit of £89,213 (1996 - loss £49,077) which is dealt with in the financial statements of the parent company.

9. RELATED PARTY TRANSACTIONS

The following transactions were undertaken with related parties. In the Directors' opinion all were conducted at arms length.

(i) A group company acquired a long leasehold property in Watford from a company controlled by the Gibson family, for £230,000 on 1 July 1997. Until that date the property had been leased from that company at a annual rent of £50,000. No balances were outstanding at 31 October 1997.

(ii) The Group pays fees to Team Precision Engineering Limited, a company controlled by a director, James McSweeney, under arms length contracts for rent, management services and engineering services. The following amounts were paid during the year. No amounts were outstanding at the year end.

	£
Rent	27,504
Engineering services	79,755
Management services	72,894
Expenses reimbursed	12,962
	<hr/>
Total	<u>193,115</u>

TATEM LIMITED

NOTES TO THE ACCOUNTS

Year Ended 31 October 1997

10. TANGIBLE FIXED ASSETS

THE GROUP	Freehold land and buildings £	Computers, fixtures and fittings £	Vehicles, plant and equipment £	Total £
Cost at 1 November 1996	611,000	392,659	1,521,194	2,524,853
Capital expenditure	237,275	44,816	437,596	719,687
Disposals	-	(63,466)	(120,953)	(184,419)
At 31 October 1997	<u>848,275</u>	<u>374,009</u>	<u>1,837,837</u>	<u>3,060,121</u>
Depreciation at 1 November 1996	88,043	267,994	438,532	794,569
Charge for the year	25,976	58,403	246,460	330,839
Disposals	-	(71,535)	(93,256)	(164,791)
At 31 October 1997	<u>114,019</u>	<u>254,862</u>	<u>591,736</u>	<u>960,617</u>
Net book value at 31 October 1997	<u>734,256</u>	<u>119,147</u>	<u>1,246,101</u>	<u>2,099,504</u>
Net book value at 31 October 1996	<u>522,957</u>	<u>124,665</u>	<u>1,082,662</u>	<u>1,730,284</u>

THE COMPANY	Computers, fixtures and fittings £	Vehicles, plant and equipment £	Total £
Cost at 1 November 1996	65,534	274,478	340,012
Capital expenditure	15,604	3,500	19,104
Disposals	-	(9,980)	(9,980)
At 31 October 1997	<u>81,138</u>	<u>267,998</u>	<u>349,136</u>
Depreciation at 1 November 1996	21,484	27,621	49,105
Charge for the year	18,514	31,032	49,546
Disposals	-	(7,791)	(7,791)
At 31 October 1997	<u>39,998</u>	<u>50,862</u>	<u>90,860</u>
Net book value			
At 31 October 1997	<u>41,140</u>	<u>217,136</u>	<u>258,276</u>
At 31 October 1996	<u>44,050</u>	<u>246,857</u>	<u>290,907</u>

The net book value of the Group's fixed assets includes £403,588 (1996 - £95,031) in respect of assets held under hire purchase contracts. £nil (1996 - £1,025) of the Company's assets were held under hire purchase contracts.

TATEM LIMITED

NOTES TO THE ACCOUNTS

Year Ended 31 October 1997

11. INVESTMENTS HELD AS FIXED ASSETS

	THE COMPANY	
	1997	1996
	£	£
Investments in subsidiaries		
Balance at 1 November	3,794,504	2,761,940
Acquisitions	-	1,311,432
Transferred to trade loans	-	(278,868)
Balance at 31 October	<u>3,794,504</u>	<u>3,794,504</u>

	THE GROUP	
	1997	1996
	£	£
Shares in associated companies		
At 1 November		
Cost	-	44,302
Group share of undistributed post acquisition profits brought forward	-	52,297
Investment in new shares	-	133,200
Transfer to investments in subsidiaries after purchase of remainder of shares	-	(229,799)
Total at 31 October	<u>-</u>	<u>-</u>

Details on subsidiary companies are set out in note 24.

12. STOCKS

	THE COMPANY		THE GROUP	
	1997	1996	1997	1996
	£	£	£	£
Raw materials and consumables	95,145	216,526	739,907	631,445
Work in progress	180,891	133,387	236,766	211,472
Finished goods and goods for resale	<u>96,815</u>	<u>84,709</u>	<u>1,446,655</u>	<u>1,433,436</u>
	<u>372,851</u>	<u>434,622</u>	<u>2,423,328</u>	<u>2,276,353</u>

The replacement cost of stock is not considered by the directors to be materially different from the costs shown above.

13. DEBTORS

	THE COMPANY		THE GROUP	
	1997	1996	1997	1996
	£	£	£	£
Trade debtors	610,126	508,694	2,295,472	2,002,718
Other debtors	1,260	1,952	12,249	27,437
ACT reclaimable	21,501	30,337	34,916	31,253
Amounts owed by subsidiaries	933,456	1,088,196	-	-
Prepayments and accrued income	<u>29,149</u>	<u>25,278</u>	<u>63,819</u>	<u>64,922</u>
	<u>1,595,492</u>	<u>1,654,457</u>	<u>2,406,456</u>	<u>2,126,330</u>

TATEM LIMITED

NOTES TO THE ACCOUNTS

Year Ended 31 October 1997

14. BANK LOANS AND OVERDRAFTS

	THE COMPANY		THE GROUP	
	1997	1996	1997	1996
	£	£	£	£
<u>Cash at bank and in hand:</u>				
Cash at bank	1,065,149	672,514	1,090,734	694,485
Petty cash	-	22	456	568
	<u>1,065,149</u>	<u>672,536</u>	<u>1,091,190</u>	<u>695,053</u>
 <u>Bank loans and overdrafts:</u>				
Overdraft	<u>690,400</u>	<u>361,759</u>	<u>1,585,921</u>	<u>858,365</u>
Total overdrafts	<u>690,400</u>	<u>361,759</u>	<u>1,585,921</u>	<u>858,365</u>

These obligations are secured over the stocks, book debts and other assets of the group and on a personal guarantee from a Director.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	THE COMPANY		THE GROUP	
	1997	1996	1997	1996
	£	£	£	£
Bank loans	20,000	40,000	260,282	290,326
Other loan	-	-	9,582	9,230
Trade creditors	251,177	478,425	805,498	1,014,522
Amounts owed to subsidiary company	93,114	194,319	-	-
Corporation tax	39,939	-	189,660	193,651
ACT payable	24,156	6,670	36,656	6,670
Other taxation	30,363	8,127	151,810	96,302
Other creditors	67,292	75,161	168,495	80,973
Dividends payable	128,750	110,875	128,750	110,875
Obligations under hire purchase contracts	-	3,021	58,706	36,752
Accruals and deferred income	<u>170,956</u>	<u>183,099</u>	<u>594,698</u>	<u>576,929</u>
	<u>825,747</u>	<u>1,099,697</u>	<u>2,404,137</u>	<u>2,416,230</u>

The bank loans carry interest at the rate of 2.25% above Lloyds Bank base rate and are being repaid over 3 to 10 years. They are secured on a mortgage over property, by fixed and floating charges over the assets of the company, on a cross guarantee from subsidiary companies and on a personal guarantee provided by a Director.

TATEM LIMITED

NOTES TO THE ACCOUNTS

Year Ended 31 October 1997

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	THE COMPANY		THE GROUP	
	1997	1996	1997	1996
	£	£	£	£
Bank loans repayable greater than 1 year	148,327	148,331	358,799	294,347
Long term bank loans	-	-	192,290	223,045
Other loan	-	-	22,623	32,205
Obligations under hire purchase contracts	-	-	164,619	47,640
	<u>148,327</u>	<u>148,331</u>	<u>738,331</u>	<u>597,237</u>

The hire purchase creditors are payable within one to five years of the balance sheet date and those above and in current liabilities are secured on the assets acquired under those agreements.

The long term bank loans carry interest at the rate of 2.25% above Lloyds Bank base rate and are being repaid over 3 to 10 years. They are secured on a mortgage over property, by fixed and floating charges over the assets of the company and on cross guarantees from subsidiary companies.

The other loan shown above and in current liabilities is a loan of £50,000 provided by Nottingham City Council at an interest rate of 7.5%, repayable over 5 years by equal monthly instalments.

17. ANALYSIS OF BANK LOANS AND OVERDRAFTS

	THE COMPANY		THE GROUP	
	1997	1996	1997	1996
	£	£	£	£
Bank overdrafts	690,400	361,759	1,585,921	858,365
Bank loans	168,327	188,331	811,371	807,718
Other loan	-	-	32,205	41,435
Obligations due under hire purchase agreements	-	3,021	223,325	84,392
	<u>858,727</u>	<u>553,111</u>	<u>2,652,822</u>	<u>1,791,910</u>

ANALYSIS OF LOAN REPAYMENTS

	1997	1996	1997	1996
	£	£	£	£
<u>Bank loans and overdrafts</u>				
Payable within one year	710,400	401,759	1,846,243	1,148,691
Between 1 and 2 years	40,000	40,000	162,750	162,750
Between 2 and 5 years	108,327	108,331	358,249	293,797
More than 5 years	-	-	30,050	60,845
<u>Other borrowing</u>				
Payable within one year	-	3,021	68,892	45,982
Between 1 and 2 years	-	-	60,876	32,372
Between 2 and 5 years	-	-	125,762	47,473
	<u>858,727</u>	<u>553,111</u>	<u>2,652,822</u>	<u>1,791,910</u>

TATEM LIMITED

NOTES TO THE ACCOUNTS

Year Ended 31 October 1997

18. PROVISIONS FOR LIABILITIES AND CHARGES	THE COMPANY		THE GROUP	
	1997	1996	1997	1996
	£	£	£	£
<u>DEFERRED TAXATION - provided</u>				
Capital allowances in excess of depreciation	9,900	-	77,456	46,195
Other timing differences	(9,900)	-	(59,085)	(27,824)
	<u>-</u>	<u>-</u>	<u>18,371</u>	<u>18,371</u>
<u>DEFERRED TAXATION - not provided</u>				
Capital allowances in excess of depreciation	9,933	8,165	9,933	27,038
Surplus on revaluation	-	-	30,359	0
Other timing differences	-	-	1,881	(22,978)
	<u>9,933</u>	<u>8,165</u>	<u>42,173</u>	<u>4,060</u>

The movement on group deferred taxation during the year was as follows:

	£	£
At 1 November	18,371	-
Movements:		
Profit and loss account	-	18,371
Current year	-	-
Prior year	-	-
At 31 October	<u>18,371</u>	<u>18,371</u>

19. CALLED UP SHARE CAPITAL	Authorised		Allotted and fully paid	
	1997	1996	1997	1996
	£	£	£	£
Ordinary shares of 5p each	229,000	229,000	178,750	178,750
Preference shares of 5p each	<u>43,750</u>	<u>43,750</u>	<u>43,750</u>	<u>43,750</u>
	<u>272,750</u>	<u>272,750</u>	<u>222,500</u>	<u>222,500</u>

At 31 October 1997 and 1996 there were 3,575,000 ordinary shares and 875,000 preference shares in issue.

The convertible redeemable preference shares have the right to receive a cumulative dividend of 9p per annum, paid half yearly. In addition, if the annual dividend per ordinary share is greater than the annual preference dividend per share, the preference dividend can be increased to equal the ordinary dividend per share.

The preference shares are convertible at the option of their holders at any time prior to 31 October 1999 into ordinary shares at a rate of 100 ordinary shares for every 114 preference shares. If they have not been converted by the 31 October 1999, the preference shares are redeemable by the company, or on demand by the preference shareholder, at any time thereafter. The redemption price will be the amount credited as paid up on the preference shares plus any arrears or accrual of preference dividends.

On a return of capital the assets of the company available for distribution shall be applied first in payment in full, including any arrears of dividend, to holders of the preference shares, and finally in paying any balance to the ordinary shareholders.

The preference shares carry the right to vote at general meetings of the company. On a show of hands a preference shareholder shall have one vote and, on a poll, will have the number of votes equivalent to those which would be exercisable if the preference shares had been converted in accordance with their terms.

TATEM LIMITED

NOTES TO THE ACCOUNTS

Year Ended 31 October 1997

20. RESERVES AND SHAREHOLDERS' FUNDS

	Share premium £	Goodwill write off £	Other reserves £	Profit and loss account £
THE GROUP				
Balance at 1 November 1996	4,114,370	(2,853,758)	(21,220)	1,475,925
Foreign currency difference arising on consolidation	-	-	(10,661)	-
Profit for the year	-	-	-	346,562
	<u>4,114,370</u>	<u>(2,853,758)</u>	<u>(31,881)</u>	<u>1,822,487</u>
Balance at 31 October 1997				

	Share premium £	Profit and loss account £
THE COMPANY		
Balance at 1 November 1996	4,114,370	900,369
Profit for the year	-	184,559
	<u>4,114,370</u>	<u>1,084,928</u>
Balance at 31 October 1997		

RECONCILIATION OF THE MOVEMENT IN SHAREHOLDERS' FUNDS

	1997 £	1996 £
Profit for the financial year	346,562	389,142
Share issues net of costs	-	2,281,870
Foreign currency difference arising on consolidation	(10,661)	(11,974)
Goodwill arising in the year written off	-	(461,530)
Movement in shareholders' funds in the year	335,901	2,197,508
Shareholders' funds at 1 November	<u>2,937,817</u>	<u>740,309</u>
Shareholders' funds at 31 October	<u>3,273,718</u>	<u>2,937,817</u>

TATEM LIMITED

NOTES TO THE ACCOUNTS

Year Ended 31 October 1997

21. OPERATING LEASE COMMITMENTS

At 31 October 1997 the group was committed to making the following payments during the next year in respect of operating leases.

	1997 £
Leases which expire:	
Within one year	-
Within one to five years	119,249
After five years	<u>75,706</u>
	<u>194,955</u>

22. CAPITAL COMMITMENTS

	1997 £	1996 £
At 31 October the Group had outstanding the following capital commitments:		
Contracted for but not yet incurred	<u>-</u>	<u>146,297</u>

23. CROSS GUARANTEE

The company is party to a cross guarantee covering the group overdraft and term bank loans. At 31 October 1997 the contingent liability amounted to £1,440,800 (1996 - £970,800).

24. SUBSIDIARY COMPANIES

At the balance sheet date the company held 100% of the share capital of:

Waverley Components and Products Limited, a company registered in England and Wales, whose principal activity is the production of stainless steel pipeline fittings and valves;

Conflow Limited, a company registered in England and Wales, whose principal activity is the production of flow control products for underground mining;

Conflow Inc., a company incorporated in the USA, whose principal activity is the sale of flow control products for underground mining.

The company also held 100% of the share capital of the following dormant companies: Veccer Limited, VCL (Holdings) Limited and Broadhaven Products Limited.