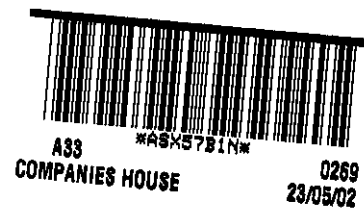


IMI Marston Limited

**Directors' report and financial
statements**

Registered number 155987

31 December 2001



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Directors

Directors

NC Paul (retired 31 January 2001)
KR Collie
GV Tranter (appointed 19 April 2001)

Secretary

JR Perkins

Registered office

Wobaston Road
Fordhouses
Wolverhampton
WV10 6QJ

Auditor

KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

Directors' report

The directors present their annual report to the shareholders, together with the financial statements for the year ended 31 December 2001.

Results for the year

	2001 £000	2000 £000
Turnover	3,163	5,326
Operating profit	692	639
Profit on disposal of discontinued operations	1,625	-
Net interest receivable	99	51
Profit on ordinary activities before taxation	2,416	690
Taxation charge	(751)	(221)
Profit on ordinary activities after taxation and for the financial year	1,665	469
Dividends proposed	-	(450)
Transfer to reserves for the financial year	1,665	19

Dividends and transfers to reserves

The directors propose that a dividend of £Nil (2000: £450,000) be declared for the year ended 31 December 2001, leaving £1,665,000 (2000: £19,000) to be transferred to reserves.

Principal activity

The principal activity of the company is the provision of components, assemblies and systems to the chemical, process and electronics industries.

Review of the business

The directors continue to be satisfied with the performance of the business, which has been in line with expectations.

In June 2001, the bursting discs business was sold.

In September 2001, the electronic cooling business was sold and the company ceased trading.

Research and development

Throughout 2001 the company has continued its policy of investment in research and development.

Policy on the payment of creditors

The company policy is to make its suppliers aware of the terms of payment, to agree such terms with its suppliers for each business transaction and to make payments to suppliers in accordance with these terms, provided that the supplier is also complying with all relevant terms.

Directors' report *(continued)*

Employees' development

The company has maintained its policy of making full use of training facilities provided both by IMI and by external training bodies, in particular to retrain employees in a variety of different, more relevant skills.

The company continues to participate in the IMI EPS scheme which provides an annual profit related bonus to employees. An option to take the bonus in the form of IMI shares has remained part of the scheme.

Each employee has available to him a summary of the IMI annual report through IMI's in-house news sheet and a copy of the full IMI annual report is available on request to any employee.

Employment of disabled people

During the year the company continued to give full and fair consideration to applications for employment from disabled persons and wherever practicable to retain, by arranging appropriate re-training, any employees who became disabled. Disabled employees share equally in training, career development and promotion programmes.

Directors

A list of the directors in office at the date of this report and who have held office during the year is given on page 1.

Directors' interests

The interests of persons (including their families), who were directors at the end of the year, in the shares and debentures of the ultimate holding company, IMI plc, are shown below. None of the directors (or their families) had any interest in the share capital of the company or any other subsidiaries of IMI plc.

	IMI plc ordinary shares of 25p each	
	At 31 December 2001 Number	At 1 January 2001 Number
KR Collie	3,962	3,962
GV Tranter	2,122	1,870
	<hr/>	<hr/>

The directors had no beneficial interest in shares of any other group company.

During the year, options on ordinary shares were granted to, and exercised by, the directors as follows under the IMI Savings-Related Share Option Scheme and the IMI Executive Share Option (1985) Scheme:

	Options granted Number	Options exercised Number
KR Collie	18,149	-
GV Tranter	10,635	252
	<hr/>	<hr/>

Notes (continued)

Statement of directors' responsibilities

The directors are required to prepare financial statements for each financial period which comply with the provisions of the Companies Act 1985 and give a true and fair view of the state of affairs of the company as at the end of the accounting period and of the profit or loss for that period. Suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements. Applicable Accounting Standards have been followed and the financial statements have been prepared on a going concern basis. The directors are responsible for maintaining adequate accounting records, for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



KR Collie
Director

4 March 2002



2 Cornwall Street
Birmingham
B3 2DL

Independent auditor's report to the members of IMI Marston Limited

We have audited the financial statements on pages 6 to 15.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board 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 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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 company'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 the company's affairs as at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

4 March 2002

Profit and loss account
for the year ended 31 December 2001

	<i>Note</i>	2001 £000	2000 £000
Turnover – discontinued operations	2	3,163	5,326
Operating profit – discontinued operations	2	692	639
Profit on disposal of discontinued operations		1,625	-
Profit on ordinary activities before interest		2,317	639
Net interest receivable	3	99	51
Profit on ordinary activities before taxation	4	2,416	690
Taxation on profit on ordinary activities	5	(751)	(221)
Profit on ordinary activities after taxation for the financial year		1,665	469
Dividends proposed		-	(450)
Transfer to reserves for the financial year	13	1,665	19

A statement of movements on reserves is set out in note 13 on page 14.

There are no other recognised gains or losses in either the current or preceding year other than the retained profit for the year.

In both the current and preceding years, there was no difference between the profit before taxation and the retained profit for the year as shown in the company profit and loss account and their historical cost equivalents.

Balance sheet
at 31 December 2001

	<i>Note</i>	2001 £000	2000 £000	2000 £000
Fixed assets				
Tangible assets	6	-		395
Current assets				
Stocks	7	-	719	
Debtors	8	14,977	12,854	
Cash at bank and in hand		-	1	
		<u>14,977</u>	<u>13,574</u>	
Creditors: Amounts falling due within one year	9	<u>(1,271)</u>	<u>(1,847)</u>	
Net current assets			<u>13,706</u>	<u>11,727</u>
Total assets less current liabilities			<u>13,706</u>	<u>12,122</u>
Creditors: Amounts falling due after more than one year	10	-		(66)
Provisions for liabilities and charges	11	-		(15)
Net assets			<u>13,706</u>	<u>12,041</u>
Capital and reserves				
Called up share capital	12	67		67
Share premium account		3,120		3,120
Other reserves		8,000		8,000
Profit and loss account	13	2,519		854
Equity shareholders' funds			<u>13,706</u>	<u>12,041</u>

These financial statements were approved by the board of directors on 4 March 2002 and were signed on its behalf by:



KR Collie
Director

Reconciliation of movement in shareholders' funds
at 31 December 2001

	2001 £000	2000 £000
Profit on ordinary activities after taxation	1,665	469
Dividends	-	(450)
Net increase in shareholders' funds for the year	1,665	19
Shareholders' funds at 1 January	12,041	12,022
Shareholders' funds at 31 December	13,706	12,041

Notes

(forming part of the financial statements)

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

Basis of accounting

The financial statements have been prepared in accordance with applicable Accounting Standards and under the historical cost convention, modified to include the revaluation of certain plant and machinery.

Depreciation

Depreciation is calculated so as to write off the cost of tangible fixed assets, net of any estimated residual value, by equal instalments over their estimated useful economic lives as follows:

Plant	-	5-15 years
Tools	-	3-10 years
Fixtures and fittings	-	3-10 years
Computer equipment	-	3-5 years

Stocks and work in progress

Stocks are valued on the following bases:

Raw materials	-	at cost
Work in progress and finished goods	-	at cost of production, including related production overheads less any progress payments that have been received or are receivable

For this purpose, cost of production excludes selling, distribution and administrative costs. If the cost of any item exceeds its net realisable value it is written down to the lower value.

Research and development

Expenditure on research and development is charged against profits in the year in which it is incurred, except for expenditure on tangible assets which is depreciated in the normal manner.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Balances denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the balance sheet date. Exchange differences arising in respect of transactions and balances denominated in foreign currencies are reflected in the results for the year.

Pensions

The company is a member of a pension scheme providing benefits based on final pensionable pay. Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 "Retirement Benefits", the scheme will be accounted for by the company when the accounting standard is fully adopted by the company as if the scheme was a defined contribution scheme. Further information on the funding status of the scheme and the latest full actuarial valuation and FRS 17 update are disclosed in the accounts of IMI plc.

Notes (continued)

1 Principal accounting policies (continued)

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.

Leasing

Operating lease rentals are charged to the profit and loss account on a straight line basis.

Cash flow statement

A group cash flow statement in accordance with Financial Reporting Standard 1 (Revised) is included in the IMI plc annual report and, accordingly, no cash flow statement is shown in these financial statements.

Contingent liabilities

Some of the company's products are sold with the benefit of guarantees or warranties. In addition, certain contracts undertaken by the company contain penalty clauses for late delivery. The company's accounting policy in respect of these matters is specifically to provide for any liabilities under guarantees, warranties or penalty clauses as and when the probability of any liability becomes apparent.

Related party transactions

The company, being a wholly owned subsidiary of IMI plc, is exempt from the requirement to disclose transactions with entities that are part of the IMI group or investees of the IMI Group qualifying as related parties.

2 Turnover and operating profit

Turnover represents amounts invoiced, excluding value added tax, less allowances and returns.

The analysis of turnover of the company by geographical area is as follows:

	2001 £000	2000 £000
United Kingdom	2,236	3,599
Rest of Europe	514	1,202
Australasia	26	20
North America	15	69
Africa	36	75
Asia	274	319
Central and South America	62	42
	<hr/> 3,163 <hr/>	<hr/> 5,326 <hr/>

The directors consider that there is only one class of business, as described in the directors' report.

All operations were discontinued during the year, with the sale of the bursting disc and electronic cooling businesses.

Notes (continued)

2 Turnover and operating profit (continued)

	Discontinued operations	
	2001	2000
	£000	£000
Turnover	3,163	5,326
Cost of sales	(2,046)	(3,542)
Gross profit	1,117	1,784
Distribution costs	(324)	(963)
Administrative expenses	(101)	(92)
Other operating expenditure	-	(90)
Operating profit	692	639

3 Net interest receivable

	2001	2000
	£000	£000
Interest received from group undertakings	108	61
Interest payable on bank loans and overdrafts	(9)	(10)
	99	51

4 Profit on ordinary activities before taxation

	2001	2000
	£000	£000
<i>Profit on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Depreciation on tangible fixed assets	108	179
Hire of plant and machinery	1	4
Auditor's remuneration:		
Audit	10	12
Research and development	11	26

5 Taxation on profit on ordinary activities

The taxation charge based on the profit for the year comprises:

	2001	2000
	£000	£000
Corporation tax	740	220
Deferred taxation	(14)	(5)
Adjustment relating to prior years:		
Corporation tax	25	6
	751	221

Notes (continued)

6 Tangible fixed assets

	Plant, tools fixtures, fittings and equipment £000
Gross book value	
At beginning of year	1,568
Additions	52
Disposals	(1,620)
At end of year	-
Depreciation	
At beginning of year	1,173
Charged in year	108
Disposals	(1,281)
At end of year	-
Net book value	
At 31 December 2001	-
At 31 December 2000	395

7 Stocks and work in progress

	2001 £000	2000 £000
Raw materials and consumables	-	193
Work in progress	-	499
Finished goods and goods for resale	-	27
	-	719

8 Debtors

	2001 £000	2000 £000
Trade debtors	504	1,067
Amounts owed by group undertakings	14,473	11,787
	14,977	12,854

Notes (continued)

9 Creditors: Amounts falling due within one year

	2001	2000
	£000	£000
Bank overdraft	152	227
Payments received on account	-	29
Trade creditors	-	527
Amounts owed to group undertakings	15	219
Other creditors including taxation and social security	663	290
Accruals and deferred income	441	105
Proposed dividend	-	450
	1,271	1,847

Other creditors including taxation and social security comprise:

Corporation tax	649	168
Other taxes	14	85
Social security	-	17
	663	270
Other creditors	-	20
	663	290

10 Creditors: Amounts falling due after one year

	2001	2000
	£000	£000
Payments received on account	-	66

11 Provisions for liabilities and charges

	Deferred taxation £000
At beginning of year	15
Transfer to profit and loss account	(15)
At end of year	-

Deferred tax is set out below:

	2001		2000	
	Provided £000	Not provided £000	Provided £000	Not provided £000
Accelerated capital allowances	-	-	15	9

Notes (continued)

12 Called up share capital

	2001 £000	2000 £000
<i>Authorised:</i>		
75,000 ordinary shares of £1 each	75	75
<i>Allotted, called up and fully paid:</i>		
66,667 ordinary shares of £1 each	67	67

13 Profit and loss account

	£000
Balance at 1 January 2001	854
Retained profit for the year	1,665
Balance at 31 December 2001	2,519

14 Commitments

There were no capital commitments at either 31 December 2000 or 2001.

15 Emoluments of the directors

Directors of the company received the following emoluments:

	2001 £000	2000 £000
Remuneration	-	9
Pensions	-	-
	-	9

16 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2001	2000
Management	5	6
Administration	6	7
Production	27	38
Selling	10	15
	48	66

Notes (continued)

16 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2001 £000	2000 £000
Wages and salaries	1,028	1,477
Social security costs	80	120
Other pension costs	227	181
	<hr/> 1,335	<hr/> 1,778

17 Ultimate holding company

IMI plc, incorporated in Great Britain and registered in England and Wales, is the company's ultimate holding company.

A copy of the financial statements of that company can be obtained from:

The Company Secretary
IMI plc
PO Box 216
Witton
Birmingham
B6 7BA

The immediate holding company is IMI Kynoch Limited which is incorporated in Great Britain and registered in England and Wales.