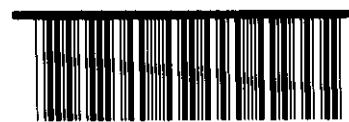


PALL EUROPE LIMITED

**Director's report and consolidated
financial statements
for the year ended 31 July 2004**

Registered number 769075



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PALL EUROPE LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2004

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PALL EUROPE LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 July 2004.

Principal activities

The principal activity of the group is the supply of proprietary fine and ultra fine filters, filter systems and ancillary equipment.

Review of business and future developments

The level of business is satisfactory and shows growth over the previous year.

On 31 July 2004, Pall Filtration and Separations GmbH, a subsidiary of the company, transferred its 100% interest in Pall SeitzSchenk Filtersystems GmbH to Pall Deutschland Holding GmbH & Co KG for a consideration of 60,000,000 euros, which resulted in a loss of £2,773,000, details of which are shown in note 4.

The financial position at the year end was satisfactory.

Research and Development

The company continued to undertake research and development of fluid clarification products for European and Worldwide markets. Expenditure on research and development projects for the year amounted to £1,971,000 (2003: £1,534,000)

Results and dividends

The group profit for the year after tax amounted to £6,919,000 (2003: £4,570,000 loss). Details are contained in the profit and loss account on page 6 and an analysis of turnover by geographical area is shown in note 2 to the financial statements.

The directors recommend that no dividend be paid.

Transfer to reserves

The retained profit for the year of £6,919,000 (2003: £4,570,000 loss) was transferred to reserves.

Significant changes in fixed assets

All changes in tangible fixed assets are shown in note 12 to the financial statements. In the opinion of the directors, the market value of the land and buildings as at 31 July 2004 was in excess of the book value.

PALL EUROPE LIMITED

DIRECTORS' REPORT

Directors and directors' interests

The directors who held office during the year were as follows:

E Krasnoff - Chairman
N MacDonald – Managing Director
H U Hensgen – appointed 12 February 2004
E J Pearson
R Perales – resigned 30 September 2004
A T Scully

According to the register of directors' interests, no director who held office at the end of the financial year held any disclosable interests in the shares of the group.

Employees

The group recognises the benefits of keeping employees informed of the progress of the business. During the year the employees were regularly provided with information regarding the financial and economic factors affecting the performance of the group and on other matters of concern to them as employees, through the medium of regular employee briefings.

The group's policy with regard to the employment of disabled persons is that equal consideration is given to all applications from both able and disabled persons, subject only to the overriding consideration of safety. The special needs of disabled employees for training and advancement are kept under review.

Health and Safety

The group has continued to follow the requirements of the Health and Safety at Work Act 1974 and its associated provisions.

Charitable contributions

Contributions and donations made by the group during the year for charitable purposes were:

	2004	2003
	£	£
Charitable donations	15,528	17,519

There were no political contributions (2003:£nil).

PALL EUROPE LIMITED

DIRECTORS' REPORT

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 to 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.

This report was approved by the board of directors on 18th January 2005.



D M Louch
Secretary
Europa House
Portsmouth

PALL EUROPE LIMITED

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF PALL EUROPE LIMITED

We have audited the financial statements on pages 6 to 41.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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 group 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 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 July 2004 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG LLP
Chartered Accountants
Registered Auditor
Southampton

Date: 18th January 2005

PALL EUROPE LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 JULY 2004

	Note	2004 £000	2004 £000	2003 £000	2003 £000
Turnover	2,3				
Continuing operations		227,135		225,544	
Discontinued operations	3	59,912		-	
		<u>287,047</u>		<u>225,544</u>	
Cost of sales			(196,074)		(143,179)
Gross profit			<u>90,973</u>		<u>82,365</u>
Administrative expenses including exceptional item of £nil (2003:£35,310,000)			(73,025)		(88,505)
Other operating income			<u>2,253</u>		<u>371</u>
Operating profit/(loss)	3				
Continuing operations		18,439		(5,759)	
Discontinued operations		1,762		-	
Total operating profit/(loss)		<u>20,201</u>		<u>(5,769)</u>	
Loss on sale of subsidiary undertaking	4		(2,773)		-
Net interest payable	5		<u>(3,634)</u>		<u>(699)</u>
Profit/(loss) on ordinary activities before taxation	6		<u>13,794</u>		<u>(6,468)</u>
Tax on profit/(loss) on ordinary activities	9		<u>(6,864)</u>		<u>1,898</u>
Profit/(loss) on ordinary activities after taxation			<u>6,930</u>		<u>(4,570)</u>
Minority Interests	21		<u>(11)</u>		<u>-</u>
Retained profit/(loss) for the financial year	10		<u><u>6,919</u></u>		<u><u>(4,570)</u></u>

The financial statements are prepared on an unmodified historical cost basis and therefore the profit on ordinary activities before taxation and retained profit for the financial year reported is based on historical cost. Movements on reserves are shown in note 20.

PALL EUROPE LIMITED

CONSOLIDATED BALANCE SHEET

AS AT 31 JULY 2004

	Note	2004		2003	
		£000	£000	Restated (note 15) £000	£000
Fixed assets					
Intangible assets - goodwill	11	557		11,269	
Tangible assets	12	57,123		89,983	
Investments	13	66		170	
			57,746		101,422
Current assets					
Stocks	14	32,694		44,624	
Debtors	15	122,733		106,043	
Cash at bank and in hand		10,959		12,181	
		166,386		162,848	
Creditors: amounts falling due within one year	16	(66,144)		(94,853)	
Net current assets			100,242		67,995
Total assets less current liabilities			157,988		169,417
Creditors: amounts falling due after more than one year	17		(70,153)		(82,138)
Provisions for liabilities and charges	18		(7,170)		(13,907)
Net assets			80,665		73,372
Capital and reserves					
Called up share capital	19,20		21,000		21,000
Capital reserve	20		3,219		2,742
Profit and loss account	20		56,446		49,527
Equity shareholder's funds			80,665		73,269
Minority Interests	21		-		103
			80,665		73,372

These financial statements were approved by the board of directors on 18th January 2005 and were signed on its behalf by:

A T Scully

N MacDonald

Directors

PALL EUROPE LIMITED

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 JULY 2004

	2004	2003
	£000	£000
Profit/(loss) for the financial year	6,919	(4,570)
Exchange differences	477	75
	<hr/>	<hr/>
Total recognised gains and losses	7,396	(4,495)
	<hr/>	<hr/>

PALL EUROPE LIMITED

BALANCE SHEET

AS AT 31 JULY 2004

	Note	2004	2003
		£000	Restated (note 15) £000
Fixed assets			
Intangible assets - goodwill	11	557	647
Tangible assets	12	53,746	59,328
Investments	13	<u>65,793</u>	<u>65,897</u>
		120,096	125,872
Current assets			
Stocks	14	32,694	33,614
Debtors	15	61,674	61,481
Cash at bank and in hand		<u>5,376</u>	<u>2,105</u>
		99,744	97,200
Creditors: amounts falling due within one year	16	<u>(67,567)</u>	<u>(78,144)</u>
Net current assets		<u>32,177</u>	<u>19,056</u>
Total assets less current liabilities		152,273	144,928
Creditors: amounts falling due after more than one year	17	<u>(66,968)</u>	<u>(67,197)</u>
Provisions for liabilities and charges	18	<u>(7,170)</u>	<u>(4,967)</u>
Net assets		<u>78,135</u>	<u>72,764</u>
Capital and reserves			
Called up share capital	19,20	21,000	21,000
Capital reserve	20	2,469	2,469
Profit and loss account	20	<u>54,666</u>	<u>49,295</u>
Equity shareholder's funds		<u>78,135</u>	<u>72,764</u>

These financial statements were approved by the board of directors on 18th January 2005 and were signed on its behalf by:

A T Scully

N MacDonald

Directors

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's and the group's financial statements. The group has followed the transitional arrangements of FRS17 "Retirement benefits" in these financial statements.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial statements incorporate the results of the company and all its subsidiaries for the year ended 31 July 2004.

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of Pall Europe Limited is not separately presented.

Under Financial Reporting Standard 1 (Revised 1996), the company is exempt from the requirement to prepare a cashflow statement on the grounds that a parent undertaking includes the company in its own published financial statements.

In addition advantage has been taken of the exception available under Financial Reporting Standard 8 not to disclose details of transactions with Pall Corporation or other group undertakings as the consolidated financial statements of Pall Corporation in which the company is included are publicly available.

Turnover

Turnover represents the amounts (excluding value added tax and trade discounts) derived from the provision of goods and services to customers during the year.

Revenue is recognised when title and risk of loss have transferred to the customer and when contractual terms have been fulfilled. Long-term contracts are accounted for under the percentage of completion method based upon the ratio of costs incurred to date compared with estimated costs to complete. The cumulative impact of revisions to total estimated costs is reflected in the period of the change.

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of accounting policies *(continued)*

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value, except in the case of work in progress in respect of certain long term contracts which are stated at cost together with a proportion of profit appropriate to the stage of completion of each contract. In these cases, full provision is made for anticipated losses. In general, cost is determined on a first in first out basis and includes transport and handling costs. For work in progress and finished goods manufactured by the company, cost includes all direct expenditure and production overheads based on the normal level of activity.

Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of conversion from the existing state to a finished condition. Provision is made where necessary for obsolete, slow moving and defective stocks.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Results of the foreign subsidiary company are translated at the average rate of exchange for the year. Differences on exchange arising from the re-translation of the opening assets and liabilities are taken to reserves. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:-

Freehold buildings	-	50 years	(2% per annum)
Manufacturing equipment	-	10 years	(10% per annum)
Fixtures, fittings, etc	-	10 years	(10% per annum)
Motor vehicles	-	5 years	(20% per annum)
Computer software and hardware	-	5 years	(20% per annum)

No depreciation is provided on freehold land.

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of accounting policies *(continued)*

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Regional Development grants

Capital based Regional Development grants are credited to the profit and loss account over the estimated useful economic lives of the assets to which they relate. The grants shown in the balance sheet under 'Creditors: amounts falling due within one year' and 'Creditors: amounts falling due after more than one year' comprise the total grants received to date less amounts so far credited to the profit and loss account.

Research and development expenditure

Expenditure on research and development is written off against profits in the year in which it is incurred.

Pension costs

The group operates a number of pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the group. Contributions to the schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group.

The group also operates a defined contribution scheme. The assets of the scheme are held separately from those of the group. The amount charged to the profit and loss account represents the contributions payable to this scheme in respect of the accounting period.

Taxation

The charge for taxation is based on the profit for the year. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of accounting policies *(continued)*

Investments

Investments are stated at cost less any provisions for permanent diminution in value.

At the close of business on 31 March 2001 the trade and net assets of Hughes Whitlock Limited were transferred to the Company at net asset value. Hughes Whitlock Limited became dormant on 1 April 2001. The residual net assets were not sufficient to support the carrying value of the investment as shown by the Company's records and consequently the values have been impaired. However, the directors consider that to charge an impairment to the Company's profit and loss account would not reflect the substance of the transaction, as the Company's overall position is unchanged.

The difference of £894,000 between the carrying value of the investment and the net assets of the subsidiary was therefore transferred to goodwill and is being amortised over its estimated useful life of 10 years, with a charge of £90,000 arising in 2004 (2003:£90,000). Under the specific requirements of the Companies Act, only purchased goodwill should be reflected in a company's balance sheet and consequently the Act does not permit this transfer. Accordingly the directors have departed from the requirements of the Act in order that a true and fair view is given of the Company's financial position and results.

Goodwill

Purchased goodwill (both positive and negative) arising on consolidation/business combinations in respect of acquisitions before 1 January 1998, when FRS 10 Goodwill and intangible assets was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation/business combinations in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life. The directors consider that the economic life of the purchased goodwill is 10 years however each acquisition is reviewed on an individual basis.

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. Geographical analysis of turnover

Turnover, which is all in respect of filtration sales is attributable as follows:-

Group	United Kingdom		Rest of Europe		Other		Total	
	2004 £000	2003 £000	2004 £000	2003 £000	2004 £000	2003 £000	2004 £000	2003 £000
Turnover								
By destination								
Sales to third parties	<u>42648</u>	<u>50661</u>	<u>182314</u>	<u>128575</u>	<u>62085</u>	<u>46308</u>	<u>287047</u>	<u>225544</u>
By origin								
Total sales	<u>227135</u>	<u>225544</u>	<u>59912</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>287047</u>	<u>225544</u>
Profit before taxation								
By origin								
Segment profit / (loss)	<u>15598</u>	<u>(6065)</u>	<u>4603</u>	<u>296</u>	<u>-</u>	<u>-</u>	<u>20201</u>	<u>(5769)</u>
Loss on sale of subsidiary undertaking							(2773)	-
Net interest							(3634)	(699)
Group profit / (loss) before taxation							<u>13794</u>	<u>(6468)</u>
Net assets	<u>32913</u>	<u>29363</u>	<u>47752</u>	<u>44009</u>	<u>-</u>	<u>-</u>	<u>80665</u>	<u>73372</u>

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Analysis of continuing and discontinued operations

	2004			2003		
	Continuing	Dis-	Total	Continuing	Dis-	Total
		continued			continued	
	£000	(note 4)	£000	£000	£000	£000
		£000	£000			
Turnover	227,135	59,912	287,047	225,544	-	225,544
Cost of sales	(152,484)	(43,590)	(196,074)	(143,179)	-	(143,179)
Gross profit	74,651	16,322	90,973	82,365	-	82,365
Administrative expenses	(57,222)	(15,803)	(73,025)	(88,505)	-	(88,505)
Other operating income	1,010	1,243	2,253	371	-	371
Operating profit/(loss)	18,439	1,762	20,201	(5,769)	-	(5,769)

On 31 July 2003 the company acquired Pall Filtration and Separations Holding BV and subsidiaries. On 31 July 2004 the group disposed of Pall SeitzSchenk Filtersystems GmbH as described below.

4. Sale of subsidiary undertaking

On 31 July 2004, Pall Filtration and Separations GmbH, a subsidiary of the company, transferred its 100% interest in Pall SeitzSchenk Filtersystems GmbH to Pall Deutschland Holding GmbH & Co KG for a consideration of 60,000,000 euros resulting in a loss on disposal of £2,773,000.

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5. Net interest payable

	2004 £000	2003 £000
Interest payable:		
On bank loans and overdrafts wholly repayable within 5 years	(41)	(327)
On amounts due to group undertakings	(5,591)	(695)
Finance charges payable in respect of finance leases and hire purchase contracts	(123)	(30)
Interest receivable	2,121	353
	<u> </u>	<u> </u>
	(3,634)	(699)
	<u> </u>	<u> </u>

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. Profit/(loss) on ordinary activities before taxation

	2004		2003	
	£000	£000	£000	£000
Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):				
Auditors' remuneration:				
Audit	154		97	
Other services – fees paid to the auditor and its associates	<u>29</u>		<u>106</u>	
		183		203
Research and development expenditure		3,359		2,228
Depreciation of tangible fixed assets:				
Owned	10,963		9,046	
Leased	295		320	
Less amortisation of regional development grants	<u>(47)</u>		<u>(47)</u>	
		11,211		9,319
Amortisation of goodwill		90		90
Exceptional item – royalties (see below)		-		35,310
Exchange gains/(losses):				
Realised		(138)		(16)
Unrealised		57		(284)

Exceptional item

In May 2004, at the conclusion of an audit of royalty payments made by the group to Pall Corporation between 1996 and 1998, the Internal Revenue Service, in the USA, proposed that additional royalties of £13,017,000, before any tax relief, should be payable in respect of those years. The Internal Revenue Service will, in due course, investigate the payments made in subsequent years. Whilst it is not possible to predict the eventual outcome of that process full provision has been made in these financial statements in the amount of £3,561,000 (2003: £22,293,000) calculated on the same basis as the additional royalties for 1996 to 1998.

The directors have applied for relief from UK taxation under the Competent Authority procedure provided for in the Double Taxation Agreement between the United Kingdom and the United States of America. Accordingly a deferred tax credit of £1,068,000 (2003: £10,593,000) has been recognised (see note 9).

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7. Remuneration of directors

	2004 £000	2003 £000
Directors' emoluments	492	627

The emoluments of the office of Chairman during the year was £nil (2003: £nil) and the emoluments of the office of highest paid UK director during the year was £215,000 (2003: £219,000). The highest paid director is a member of a defined benefit scheme, under which his accrued pension at the year end was £71,011 (2003: £70,434).

Number of directors

	2004	2003
Retirement benefits accruing to UK directors under defined benefit schemes	3	4
The number of UK directors who exercised share options in the parent company was	3	3

8. Staff numbers and costs

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

	United Kingdom		Overseas		Total	
	2004	2003	2004	2003	2004	2003
Productive departments	1,390	1,391	344	-	1,734	1,391
Marketing and sales	207	222	72	-	279	222
General administration	169	166	97	-	266	166
	1,766	1,779	513	-	2,279	1,779

The aggregate payroll costs of these persons were as follows:

	2004 £000	2003 £000
Wages and salaries	65,342	49,383
Social Security costs	7,219	3,663
Other pension costs (see note 24)	3,172	2,366
	75,733	55,412

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Taxation

	2004		2003	
	£000	£000	£000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	7,492		9,259	
Adjustments in respect of prior periods	<u>(179)</u>		<u>(175)</u>	
		7,313		9,084
<i>Foreign tax</i>				
Current tax on income for the period	467		51	
Adjustments in respect of prior periods	<u>45</u>		<u>5</u>	
		<u>512</u>		<u>56</u>
Total current tax		7,825		9,140
<i>Deferred tax (see note 15)</i>				
Origination/reversal of timing differences	(831)		(2,202)	
Adjustments in respect of previous years	<u>(130)</u>		<u>(8,836)</u>	
Total deferred tax		(961)		(11,038)
Tax on profit/(loss) on ordinary activities		<u>6,864</u>		<u>(1,898)</u>

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2003:higher) than the standard rate of corporation tax in the UK (30%, 2003:30%). The differences are explained below.

	2004	2003
	£000	£000
<i>Current tax reconciliation</i>		
Profit/(loss) on ordinary activities before tax	<u>13,794</u>	<u>(6,468)</u>
Current tax at 30% (2003:30%)	4,138	(1,940)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	2,664	166
Short term timing differences	23	583
Short term timing differences regarding exceptional items (note 6)	1,068	10,593
Capital allowances for period in excess of depreciation	(10)	(83)
Higher/(lower) tax rates on overseas earnings	76	(9)
Adjustment to tax charge in respect of previous periods	<u>(134)</u>	<u>(170)</u>
Total current tax charge (see above)	<u>7,825</u>	<u>9,140</u>

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10. Profit for the year

The consolidated profit for the financial year is attributable as follows:

	2004	2003
	£000	£000
Profit/(loss) dealt within the financial statements of the company	5,371	(4,711)
Profit retained by subsidiaries	1,548	141
	<hr/>	<hr/>
	6,919	(4,570)
	<hr/>	<hr/>

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Intangible fixed assets

Group

Goodwill

£000

Cost

At beginning of year

11,516

Disposals (note 4)

(10,622)

At end of year

894

Amortisation

At beginning of year

247

Charged in year

90

At end of year

337

Net book value

At 31 July 2004

557

At 31 July 2003

11,269

Goodwill consists of purchased goodwill and is being amortised evenly over its useful economic life.

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Intangible fixed assets *(continued)*

Company	Goodwill £000
Cost	
At beginning of year	894
	=====
At end of year	894
	=====
Amortisation	
At beginning of year	247
Charged in year	90

At end of year	337
	=====
Net book value	
At 31 July 2004	557
	=====
At 31 July 2003	647
	=====

Goodwill consists of purchased goodwill and is being amortised evenly over its useful economic life.

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12. Tangible fixed assets

Group	Freehold Land and Buildings	Fixtures, Fittings, Plant and Machinery	Total
	£000	£000	£000
Cost			
At beginning of year	51,978	112,453	164,431
Additions	421	5,680	6,101
Disposals	(19,909)	(9,789)	(29,698)
Exchange rate adjustment	(1,287)	(342)	(1,629)
At end of year	<u>31,203</u>	<u>108,002</u>	<u>139,205</u>
Depreciation			
At beginning of year	8,714	65,734	74,448
Charge for the year	1,130	10,128	11,258
Disposals	(516)	(3,020)	(3,536)
Exchange rate adjustment	(54)	(34)	(88)
At end of year	<u>9,274</u>	<u>72,808</u>	<u>82,082</u>
Net book value			
At 31 July 2004	<u>21,929</u>	<u>35,194</u>	<u>57,123</u>
At 31 July 2003	<u>43,264</u>	<u>46,719</u>	<u>89,983</u>

The net book value of freehold land and buildings is made up as follows:

	2004 £000	2003 £000
Freehold land	1,672	6,249
Freehold buildings	<u>20,257</u>	<u>37,015</u>
	<u>21,929</u>	<u>43,264</u>

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12. Tangible fixed assets (*continued*)

Group

Included in the total net book value of Freehold Land and Buildings is £511,000 (2003: £559,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £18,000 (2003: £nil).

Included in the total net book value of Fixture, Fittings, Plant and Machinery is £539,000 (2003: £784,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £295,000 (2003: £320,000).

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12. Tangible fixed assets (continued)

Company	Freehold Land and Buildings	Fixtures, Fittings, Plant and Machinery	Total
	£000	£000	£000
Cost			
At beginning of year	27,238	105,866	133,104
Additions	28	4,208	4,236
Disposals	-	(2,284)	(2,284)
	<u>27,266</u>	<u>107,790</u>	<u>135,056</u>
Depreciation			
At beginning of year	8,042	65,734	73,776
Charge for the period	520	9,021	9,541
Disposals	-	(2,007)	(2,007)
	<u>8,562</u>	<u>72,748</u>	<u>81,310</u>
Net book value			
At 31 July 2004	<u>18,704</u>	<u>35,042</u>	<u>53,746</u>
At 31 July 2003	<u>19,196</u>	<u>40,132</u>	<u>59,328</u>

The net book value of freehold land and buildings is made up as follows:

	2004 £000	2003 £000
Freehold land	1,468	1,468
Freehold buildings	<u>17,236</u>	<u>17,728</u>
	<u>18,704</u>	<u>19,196</u>

Included in the total net book value of Fixture, Fittings, Plant and Machinery is £539,000 (2003: £772,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £295,000 (2003: £320,000).

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Fixed asset investments

	Interests in associated undertakings
	£000
Group	
Cost	
At beginning of year	250
	—
At end of year	250
	==
Share of post acquisition reserves	
At beginning of year	(80)
Retained loss for the year	(104)
At end of year	(184)
	==
Net book value	
At 31 July 2004	66
	==
At 31 July 2003	170
	==

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Fixed asset investments *(continued)*

	Share in group undertakings
	£000
Company	
Cost	
At beginning of year	65,977
	<u> </u>
At end of year	65,977
	<u> </u>
Provisions	
At beginning of year	(80)
Impairment losses in respect of Euroflow (UK) Limited's trading result for the year ended 31 July 2004	(104)
	<u> </u>
At end of year	(184)
	<u> </u>
Net book value	
At 31 July 2004	65,793
	<u> </u>
At 31 July 2003	65,897
	<u> </u>

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Fixed asset investments *(continued)*

At 31 July 2004 the company held direct interests in the following subsidiaries:

	Country of incorporation	Principal activity	Class of shares held	Percentage of shares held
Pall Biomedical Limited	England	Dormant	Ordinary	100%
Pall Verwaltungsgesellschaft mbH.	Germany	Investment	Ordinary	100%
Pall Filtration and Separations BV Holding	Netherlands	Investment	Ordinary	100%

In addition to the above, through its directly held interests, the company has the following principal subsidiaries:

	Country of incorporation	Principal activity	Class of shares held	Percentage of shares held
Pall Filtration and Separations Limited	England	Investment	Ordinary	100%
Cord Chemical Company Limited	England	Dormant	Ordinary	100%
Pall Seitz Filterite Limited	England	Filtration	Ordinary	100%
Pall Filtration and Separations GmbH	Germany	Investment	Ordinary	100%
Pall Filtration and Separations Group SAS	France	Investment	Ordinary	100%
Pall Filtration France SAS	France	Filtration	Ordinary	100%

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14. Stocks

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Raw materials and consumables	15,196	17,909	15,195	14,128
Work in progress	3,904	6,871	3,904	3,448
Finished goods and goods for resale	13,594	19,844	13,595	16,038
	<u>32,694</u>	<u>44,624</u>	<u>32,694</u>	<u>33,614</u>

There is no material difference between the replacement cost of stocks and their balance sheet amounts.

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15. Debtors

	Group		Company	
	2004	2003 Restated	2004	2003 Restated
	£000	£000	£000	£000
<i>Amounts falling due within one year</i>				
Trade debtors	20,669	28,994	20,664	23,006
Amounts owed by group undertakings	87,355	59,913	23,053	25,533
Deferred tax assets	8,159	8,400	8,139	6,269
Overseas taxation	192	300	-	-
Other debtors	2,610	4,124	6,090	3,796
Prepayments and accrued income	3,748	3,235	3,728	2,877
Pension fund prepayment	-	1,077	-	-
	<u>122,733</u>	<u>106,043</u>	<u>61,674</u>	<u>61,481</u>

Amounts owed by group undertakings includes a loan of £9,330,000 (2003: £9,330,000) due after more than one year.

The prior year has been restated to include deferred taxation, previously shown under Provision for liabilities and charges (note 18).

The elements of deferred taxation are as follows:

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Difference between accumulated depreciation and amortisation and capital allowances	(5,816)	(7,753)	(5,836)	(6,145)
Additional royalties (note 6)	11,661	10,593	11,661	10,593
Other timing differences	2,314	4,209	2,314	1,821
Tax losses	-	1,351	-	-
	<u>8,159</u>	<u>8,400</u>	<u>8,139</u>	<u>6,269</u>

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16. Creditors: amounts falling due within one year

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Unsecured bank loans and overdrafts	5,517	6,118	5,516	6,118
Payments received on account	282	3,788	282	375
Trade creditors	14,576	13,230	14,566	12,420
Obligations under finance leases	253	449	210	367
Amounts owed to group undertakings	38,271	51,817	40,234	48,930
Corporation tax	3,138	5,245	2,758	4,756
Social security	849	786	849	786
Other creditors	1,364	6,131	1,348	1,189
Accrued expenses	1,847	7,242	1,757	3,156
Deferred income	47	47	47	47
	<u>66,144</u>	<u>94,853</u>	<u>67,567</u>	<u>78,144</u>

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Creditors: amounts falling due after more than one year

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Amounts owed to group undertakings	68,357	80,059	65,367	65,367
Deferred income	1,548	1,594	1,548	1,594
Obligations under finance leases	248	485	53	236
	<u>70,153</u>	<u>82,138</u>	<u>66,968</u>	<u>67,197</u>

The amounts owed to group undertakings are not repayable in the foreseeable future.

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Within one year	323	509	236	396
In the second to fifth years	234	549	63	267
	<u>557</u>	<u>1,058</u>	<u>299</u>	<u>663</u>
Less future finance charges	(56)	(124)	(36)	(60)
	<u>501</u>	<u>934</u>	<u>263</u>	<u>603</u>

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18. Provision for liabilities and charges

	Group £000	Company £000
Pensions and similar obligations		
At beginning of year	13,907	4,967
Charge to the profit and loss for the year	2,112	2,203
Amounts arising from the disposal of a subsidiary undertaking	(8,849)	-
At end of year	<u>7,170</u>	<u>7,170</u>

Deferred taxation is shown under debtors (note 15).

19. Called up share capital

	2004 £000	2003 £000
Authorised:		
25,000,000 (2003: 25,000,000) ordinary shares of £1 each	<u>25,000</u>	<u>25,000</u>
Allotted, called up and fully paid:		
21,000,000 (2003: 21,000,000) ordinary shares of £1 each	<u>21,000</u>	<u>21,000</u>

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20. Reconciliation of movements in shareholder's funds

	Share capital	Capital reserve	Profit & loss account	Total Shareholder's funds
	£000	£000	£000	£000
Group				
At 1 August 2003	21,000	2,742	49,527	73,269
Exchange movement on foreign subsidiary	-	477	-	477
Profit for the financial year	-	-	6,919	6,919
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 July 2004	<u>21,000</u>	<u>3,219</u>	<u>56,446</u>	<u>80,665</u>
	Share capital	Capital reserve	Profit & loss account	Total shareholder's funds
	£000	£000	£000	£000
Company				
At 1 August 2003	21,000	2,469	49,295	72,764
Profit for the financial year	-	-	5,371	5,371
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 July 2004	<u>21,000</u>	<u>2,469</u>	<u>54,666</u>	<u>78,135</u>

21. Minority interests

	2004 £000	2003 £000
Group		
At beginning of year	103	-
Profit on ordinary activities after taxation	11	-
Acquisition of subsidiary undertakings	-	103
Disposal of subsidiary undertakings	(114)	-
	<u> </u>	<u> </u>
At end of year	<u>-</u>	<u>103</u>

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

22. Contingent liabilities

(a) Distributor Agreements

Repurchase of inventory from distributors if agreements were terminated.

(b) Regional Development Grants

Government grants which become repayable if:

- (i) qualifying jobs are not maintained in the development area for a minimum of eighteen months following payment of grant, and
- (ii) qualifying assets are taken out of the development area, sold or taken out of use within thirty-six months from payment of grant.

(c) Pension Fund

Possible shortfall in the actuarial valuation of the Pall (UK) Pension Fund, see note 24.

(d) Royalties

The Internal Revenue Service, in the United States of America, has been investigating royalty payments made by the group to Pall Corporation between 1996 and 1998 (see note 6).

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23. Commitments

Capital expenditure commitments - group and company

Capital expenditure commitments at 31 July 2004, for which no provision has been made in these financial statements are as follows:

	2004 £000	2003 £000
Contracted	<u>1,110</u>	<u>2,071</u>

Trade guarantees and indemnities

At 31 July 2004, the group and the company had continuing financial commitments in respect of trade guarantees and indemnities amounting to £1,215,000 (2003 - £5,888,000) and £1,215,000 (2003 - £4,868,000) respectively.

Non-cancellable operating leases

Annual commitments under non-cancellable operating leases are as follows:

	2004		2003	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Group				
Operating leases which expire:				
Within one year	-	-	27	413
In the second to fifth years inclusive	-	-	45	27
Over five years	-	-	89	23
	<u>-</u>	<u>-</u>	<u>161</u>	<u>463</u>
	<u>-</u>	<u>-</u>	<u>161</u>	<u>463</u>

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24. Pension arrangements

Pall (UK) Pension Fund

The group operates a contributory pension scheme with a defined benefits and a defined contribution section applicable to all its UK subsidiaries. The defined contribution section of the Fund was established on 1 August 1997. The funds of the scheme are administered by the Trustees and are separate from the group's finances. The rate at which the group contributes to the defined benefits section of the Fund has been determined in accordance with the advice of independent qualified actuaries. The rate at which the group contributes to the defined contribution section of the Fund is set out in the rules of that section.

The pension cost charge for the year was £4,659,000 (2003 - £4,879,000) after allowing for interest on the provision, and the group has a pension provision deficit shown under creditors of £7,111,000 (2003 - £4,955,000). The related deferred tax credit is £2,133,000 (2003 - £1,486,500)

The pension cost is assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The principal assumptions were a long-term rate of return on the scheme's investments of 6.75% per annum pre retirement and 5.75% per annum post retirement, and salary increases of 4.0% per annum (plus a promotional scale). Pensions which accrued before 5 April 1997 are not assumed to increase in payment (other than the Guaranteed Minimum Pension elements which are subject to statutory increases), whilst pensions which accrued after 5 April 1997 are assumed to increase at the rate of 3.0% per annum in payment.

The most recent ongoing actuarial valuation of the Fund was carried out as at 31 March 2002 using the projected unit method. For the purposes of funding the principal assumptions in this valuation were a long-term rate of return on the scheme's investments of 6.75% per annum pre retirement and 5.75% post retirement, and salary increases of 4.0% per annum (plus a promotional scale). No allowance was made for pensions which accrued before 5 April 1997 to increase in payment (other than the Guaranteed Minimum Pension elements which are subject to statutory increases), whilst pensions which accrued after 5 April 1997 are assumed to increase at the rate of 3.0% per annum in payment.

The market value of the fund's assets at 31 March 2002 was £68,772,000 which represented 100% of the value of the benefits accrued to members after allowing for expected future increase in earnings.

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24. Pension arrangements *(continued)*

Pall Supplementary Scheme

The group also operates a non-contributory defined benefits pension scheme. The funds of the scheme are administered by the Trustees and are separate from the group's finances. The rate at which the group contributes has been determined in accordance with the advice of a qualified actuary. The pension cost charge for the year was £175,000 (2003 - £171,000) after allowing for interest on the prepayment, and the group has a pension provision deficit shown under creditors of £59,000 (2003 - £12,000). The related deferred tax credit is £18,000 (2003 - £4,000).

The pension cost is assessed on the same basis as for The Pall (UK) Pension Fund above.

The most recent ongoing actuarial valuation of the scheme was carried out as at 1 August 2002 using the attained age method. For the purposes of funding the principal assumptions in this valuation were a long term rate of return on the scheme's investments of 7% per annum pre retirement and 5.5% per annum post retirement, salary increases of 4.4% per annum and increases to pensions in payment at the rate of 2.4% per annum. The market value of the scheme's assets at 1 August 2002 was £1,167,000 and the value of those assets represented 69% of the value of the benefits accrued to members after allowing for expected future increases in earnings.

FRS 17 Disclosure

Whilst the group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs' under FRS 17 'Retirement benefits' the following transitional disclosures are required:

The group operates two defined benefit schemes in the UK. Actuarial valuations were carried out at 31 March 2002 for the Pall (UK) Pension Fund and 1 August 2002 for the Pall Supplementary Pension Scheme and were updated to 31 July 2004 by a qualified independent actuary. The major assumptions used by the actuary were:

	31 July 2004	31 July 2003	31 July 2002
Rate of increase in salaries	4.25%	4.00%	4.00%
Rate of increase in pensions in payment	2.75%	2.50%	2.50%
Rate of increase in pensions in deferment	2.75%	2.50%	2.50%
Discount rate	5.75%	5.50%	6.00%
Inflation assumption	2.75%	2.50%	2.50%

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24. Pension arrangements *(continued)*

FRS 17 Disclosure *(continued)*

The assets in the scheme and the expected rate of return were:

	Value at 31 July 2004 £000	Value at 31 July 2003 £000	Value at 31 July 2002 £000
Equities	51,101	48,601	47,839
Bonds	16,965	15,720	13,150
	68,066	64,321	60,989
Present value of scheme liabilities	(93,433)	(88,259)	(72,831)
Deficit in the scheme	(25,367)	(23,938)	(11,842)
Related deferred tax asset	7,610	7,181	3,553
Net pension liability	(17,757)	(16,757)	(8,289)
	<u> </u>	<u> </u>	<u> </u>
	Long term rate of return 31 July 2004	Long term rate of return 31 July 2003	Long term rate of return 31 July 2002
Equities	6.5%	6.5%	6.5%
Bonds	5.5%	5.5%	5.5%

Analysis of the amount charged to operating profit

	Year to 31 July 2004 £000	Year to 31 July 2003 £000
Service cost	2,141	2,256
Past service cost	-	-
Total operating charge	2,141	2,256
	<u> </u>	<u> </u>

Analysis of net (deficit)/return

	Year to 31 July 2004 £000	Year to 31 July 2003 £000
Expected return on pension scheme assets	4,057	3,861
Interest on pension liabilities	(4,888)	(4,409)
Net (deficit)/return	(831)	(548)
	<u> </u>	<u> </u>

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24. Pension arrangements (continued)

FRS 17 Disclosure (continued)

Analysis of amount to be recognised in statement of total recognised gains and losses ("STRGL")

	Year to 31 July 2004	Year to 31 July 2003
	£000	£000
Actual return less expected return on assets	(1,401)	(1,423)
Experience losses on liabilities	(224)	(1,521)
Changes in assumptions	<u>1,134</u>	<u>(8,170)</u>
Actuarial loss recognised in STRGL	(491)	(11,114)
Adjustment due to surplus cap	-	-
Net loss recognised	<u>(491)</u>	<u>(11,114)</u>

Movement in deficit during the year

	£000	£000
Deficit in scheme at beginning of the year	(23,938)	(11,842)
Movement in the year:		
(Current service cost)	(2,141)	(2,256)
Contributions	2,034	1,822
(Past service costs)	-	-
Other financial (cost)/income	(831)	(548)
Actuarial loss	<u>(491)</u>	<u>(11,114)</u>
Deficit in scheme at end of year	<u>(25,367)</u>	<u>(23,938)</u>

The actuarial valuation at 31 July 2004 showed an increase in the deficit from £23,900,000 to £25,400,000. Contributions were £2,000,000 (11 % of pensionable pay).

History of experience gains and losses

	Financial year ending in		
	2004	2003	2002
Difference between expected and actual return on scheme assets:			
amount (£000's)	(1,401)	(1,423)	(18,024)
percentage of scheme assets	2%	2%	30%
Experience gains and losses on scheme liabilities:			
amount (£000's)	(224)	(1,520)	2,515
percentage of scheme liabilities	0%	2%	3%
Total amount recognised in STRGL:			
amount (£000's)	(491)	(11,114)	(13,082)
percentage of scheme liabilities	1%	13%	18%

PALL EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25. Ultimate holding company

The company is a subsidiary undertaking of Pall Corporation which is the ultimate parent company incorporated in the United States of America. The largest group in which the results of the company are consolidated is that headed by Pall Corporation. The consolidated accounts of this company are available to the public and may be obtained from:

2200 Northern Boulevard
East Hills
NY 11548
USA