**Malvern Instruments Limited**

# Annual report and financial statements

Registered number 1020602

For the year ended 31 December 2015

## Contents

## Strategic report

The Directors present the strategic report, the director's report and the financial statements for the year ended 31 December 2015.

**Review of the Company's business**

Sales increased in the UK and North America helping to lift the total to £97,298,000 *(2014: £90,343,000)* as the respective economic activity in those territories improved combined with the full year benefit of the Microcal acquisition. Gross profit increased to £52,603,000 *(2014: £52,170,000)* but with the inclusion of more US manufactured product the Gross Profit percentage decreased to 54% *(2014: 58%)*. The Operating profit declined to £11,466,000 *(2014: £16,106,000)* as a result of the lower average gross margins (product mix) and the fall out of grant income in 2014 plus reorganisation costs in respect of consolidating more of our global operations in the UK.

The Company will continue with its strategy to broaden and expand its market footprint through product development and technology acquisition in support of its customer's evolving needs. The acquisitions in 2013 and 2014, combined with new product launches, are and will enhance our ability to build market share in both traditional industrial markets as well as the bioscience arena.

**Principal risks and uncertainties facing the Company**

Risk management is a high priority. Processes are designed to identify, mitigate and manage risk. The board are ultimately responsible for risk management.

The key risks to our business, in terms of opportunity and threat are still centred around the developments within the emerging markets of Asia and Latin America as well as and combined with our ability to recognise and harness new technologies for existing and new applications.

*Trading risks*

The successful launch of new products and expansion into new markets and applications is key to obtaining growth and fending off increasing competition around traditional core technologies.

*Exchange risks*

The Company seeks to mitigate this risk through the provision of forward contracts.

*Financial risks*

The Company generates cash and is part of the global bank pooling arrangements of its parent company which provides sufficient working capital for its business needs; there is no exposure to future debt repayments or interest demands.

*Intellectual property risks*

Malvern Instruments Limited protects its intellectual property through patents registered in key geographical markets and by monitoring infringements and challenges within those markets.

Approved by order of the board of directors on 27 September 2016 and signed on its behalf by:

**RW Prestidge**
*Director*

Enigma Business Park
Grovewood Road
Malvern
Worcestershire
WR14 1XZ

# Directors' report

**Results and dividends**

The Company made a profit after tax in the year of £10,395,000 *(2014: £14,847,000)*.

The Director's do not recommend a payment of a dividend.

**Directors**

The Directors who held office during the year were

Dr DJ Bishop
PI Walker
RW Prestidge
DM Roberts
G Simcock
J Martin
R Innocent
EP O'Lionaird

**Disclosure of information to auditor**

The Directors who held office at the date of approval of the director's report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**Political and charitable donations**

No political donations were made in the year.

A total of £5,947 was donated to registered charities during 2015.

**Auditor**

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by order of the board of directors on 27 September 2016 and signed on its behalf by:

**RW Prestidge**
*Director*

Enigma Business Park
Grovewood Road
Malvern
Worcestershire
WR14 1XZ

## Statement of directors' responsibilities in respect of the Strategic report, Directors' report and financial statements

The Directors are responsible for preparing the Strategic report, Directors' report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), *including FRS 101 Reduced Disclosure Framework.*

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Profit or Loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

## Independent auditor's report to the members of Malvern Instruments Limited

We have audited the financial statements of Malvern Instruments Limited for the year ended 31 December 2015 set out on pages 6 to 27. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including *FRS 101 Reduced Disclosure Framework.*

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor**

As explained more fully in the directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

**Opinion on financial statements**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Independent auditor's report to the members of Malvern Instruments Limited *(continued)*

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Xavier Timmermans (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
*Chartered Accountants*

28 September 2016

## Profit and loss account
*for the year ended 31 December 2015*

| | Note | 2015 £000 | 2014 £000 |
|---|---|---|---|
| Turnover | | 97,298 | 90,343 |
| Cost of sales | | (44,695) | (38,173) |
| **Gross profit** | | 52,603 | 52,170 |
| Distribution costs | | (1,163) | (1,082) |
| Administrative expenses | | (39,267) | (37,970) |
| Other operating expenses | | (707) | (12) |
| Other operating income | | - | 3,000 |
| **Operating profit** | 3 | 11,466 | 16,106 |
| Income from shares in group undertakings | | - | - |
| Interest receivable and similar income | 6 | 162 | 127 |
| **Profit on ordinary activities before taxation** | | 11,628 | 16,234 |
| Tax on profit on ordinary activities | 7 | (1,233) | (1,387) |
| **Profit for the financial year** | | 10,395 | 14,847 |

All results in the current and preceding financial year relate to continuing activities.

The notes on pages 10 to 27 form an integral part of these financial statements.

# Statement of Comprehensive Income

*for year ended 31 December 2015*

| | 2015<br>£000 | 2014<br>£000 |
|---|---|---|
| **Profit for the financial year** | 10,395 | 14,847 |
| **Other comprehensive income** | | |
| **Items that can not be reclassified to profit or loss:** | - | - |
| **Items that are or may be reclassified subsequently to profit or loss:** | | |
| Net loss on effective portion of changes in fair value of cash flow hedges | (119) | (871) |
| Net change in fair value of cash flow hedges reclassified to profit or loss | - | - |
| Tax on items above | 24 | 174 |
| **Other comprehensive income for the year, net of tax** | (95) | (697) |
| **Total comprehensive income for the year** | 10,300 | 14,150 |

# Balance sheet

*at 31 December 2015*

| | Note | 2015<br>£000 | 2014<br>£000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible fixed assets | *8* | 19,917 | 25,039 |
| Tangible fixed assets | *9* | 8,187 | 6,494 |
| Investments | *10* | 3,007 | 3,000 |
| | | 31,111 | 34,533 |
| **Current assets** | | | |
| Stocks | *11* | 10,228 | 10,378 |
| Debtors (including £Nil *(2014: £3,000)* due after more than one year) | *12* | 65,789 | 61,099 |
| Cash at bank and in hand and short term deposits | | 5,396 | 820 |
| | | 81,413 | 72,297 |
| **Creditors: Amounts falling due within one year** | | | |
| Creditors | *13* | (13,816) | (18,482) |
| Financial instruments | | (319) | (121) |
| **Net current assets** | | 67,278 | 53,694 |
| **Total assets less current liabilities** | | 98,389 | 88,227 |
| **Creditors: amounts falling due after more than one year** | *13* | (937) | (404) |
| **Provisions for Liabilities and changes** | | | |
| Deferred tax liability | *7* | (1,197) | (1,527) |
| **Net assets** | | 96,255 | 86,296 |
| **Capital and reserves** | | | |
| Share capital | *14* | 272 | 272 |
| Capital redemption reserve | | 109 | 109 |
| Cash flow hedge reserve | | (189) | (94) |
| Profit and loss account | | 96,063 | 86,009 |
| **Shareholders' funds** | | 96,255 | 86,296 |

The notes on pages 10 to 27 form an integral part of these financial statements.

These financial statements were approved by the board of directors on 27 September 2016 and were signed on its behalf by:

**RW Prestidge**
*Director*

Company number: 1020602

# Statement of Changes in Equity
*for the year ended 31 December 2015*

| | Share capital | Capital redemption reserve | Cash flow hedge reserve | Profit and loss account | Total equity |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Balance at 1 January 2014** | 272 | 109 | 603 | 70,711 | 71,695 |
| Profit for the year | - | - | - | 14,847 | 14,847 |
| Other comprehensive income: | | | | | |
| Net loss/gain on effective portion on changes in fair value of cash flow hedges, net of tax | - | - | (697) | - | (697) |
| **Total comprehensive income for the year** | - | - | (697) | 14,847 | 14,150 |
| Transactions with owners recorded directly in equity: | | | | | |
| Share based payments | - | - | - | 451 | 451 |
| **Balance at 31 December 2014** | 272 | 109 | (94) | 86,009 | 86,296 |
| Profit for the year | - | - | - | 10,395 | 10,395 |
| Other comprehensive income: | | | | | |
| Net loss/gain on effective portion of changes in fair value of cash flow hedges, net of tax | - | - | (95) | - | (95) |
| **Total comprehensive income for the year** | - | - | (95) | 10,395 | 10,300 |
| Transactions with owners recorded directly in equity: | | | | | |
| Share based payments | - | - | - | (341) | (341) |
| **Balance at 31 December 2015** | 272 | 109 | (189) | 96,063 | 96,255 |

# Notes
*(forming part of the financial statements)*

## 1 Accounting policies

Malvern Instruments Limited (the "Company") is a company incorporated and domiciled in the UK.

***Basis of preparation***

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The Company's shareholders were notified of, and did not object to, the use of the EU-adopted IFRS disclosure exemptions.

In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's sole shareholder SGHL, was notified of and did not object to the use of the disclosure exemptions. In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position, financial performance and cash flows of the Company is provided in note 19.

The Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of Spectris plc are available to the public as set out in note 19, include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share-based payments;
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company in the current and prior periods including the comparative period reconciliation for goodwill; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Financial Statements have been prepared on the historical cost basis, except for revaluation of certain properties and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies are set out below.

## Notes *(continued)*

### 1 Accounting policies *(continued)*

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

*Going concern*

The Company is expected to continue to generate positive cash flows on its own account for the foreseeable future.

On the basis of their assessment of the Company's financial position the Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis of accounting in preparing the annual Financial Statements.

*Consolidation*

The Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These Financial Statements present information about the Company as an individual undertaking and not about its group.

*Significant accounting judgements and estimates*

In preparing the Financial Statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an on-going basis and are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

Information about the significant areas of judgements, estimates and assumptions are as follows:

*Deferred tax*

The recognition of deferred tax assets is dependent on assessments of future taxable income.

*Impairment of intangible assets*

Determining whether the carrying value of intangible assets have been impaired requires estimations of the assets' values in use. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the intangible assets and suitable discount rates in order to calculate present values. The carrying amount of intangible assets was £24,494,000 *(2014: £31,615,000)*.

*Intangible assets*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets, is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

The Company does not amortise goodwill, but reviews it for impairment on an annual basis or whenever there are indicators of impairment. This is not in accordance with the UK Companies Act which requires goodwill to be amortised over its useful economic life. The Company is therefore invoking a 'true and fair view override' to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. The Company is not able to reliably estimate the impact on the Financial Statements of the true and fair override on the basis that the useful life of goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which goodwill diminishes be known.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

# Notes *(continued)*

## 1 Accounting policies *(continued)*

***Intangible assets (continued)***

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units (or groups of cash generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the Profit and Loss Account in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Profit and Loss Account when the asset is derecognised.

***Tangible assets***

Tangible assets are stated at cost less accumulated depreciation and impairment losses. The cost comprises the purchase price paid and any costs directly attributable to bringing it into working condition for its intended use.

Depreciation is recognised in the Profit and Loss Account on a straight-line basis to write off the cost, less the estimated residual value (which is reviewed annually), of property, plant and equipment over its estimated useful economic life. Depreciation commences on the date the assets are ready for use within the business and the asset carrying values are reviewed for impairment when there is an indication that they may be impaired. The depreciation charge is revised where useful lives are different from those previously estimated, or where technically obsolete assets are required to be written down. Where parts of an item of plant and equipment have separate lives, they are accounted for and depreciated as separate items. Land is not depreciated. Estimated useful lives are as follows:

| | |
|---|---|
| Freehold and long leasehold property | – 50 years. |
| Plant and equipment | – 3 to 10 years. |

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that take a substantial period of time to get ready for their intended use are capitalised as part of the cost of the respective asset.

***Investments***

Investments in subsidiaries and other investments are stated at historical cost, less provision for any impairment in value.

# Notes *(continued)*

## 1 Accounting policies *(continued)*

*Stocks*

Stocks and work in progress are carried at the lower of cost and net realisable value. Stock acquired as part of business combinations is valued at fair value less cost to sell. Cost represents direct costs incurred and, where appropriate, production or conversion costs and other costs to bring the stock to its existing location and condition. In the case of manufacturing stock and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Stock is accounted for on a first-in, first-out basis or, in some cases, a weighted average basis is used if deemed more appropriate for the business. Provisions are made to write down slow-moving, excess and obsolete items to net realisable value, based on an assessment of technological and market developments and on an analysis of historic and projected usage with regard to quantities on hand.

*Trade and other debtors*

Trade and other debtors are carried at original invoice amount which is considered a reasonable proxy for fair value, less provision made for impairment of these debtors. A provision for impairment of trade debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the debtors. The amount of the provision is the difference between the original carrying amount and the recoverable amount, being the present value of expected cash flows receivable. The amount of the provision is recognised in the Profit and Loss Account.

*Cash at bank and in hand and short term deposits*

Comprises cash at bank and in hand and short-term deposits held on call or with maturities of less than three months at inception.

*Trade and other creditors*

Trade and other creditors are carried at the amounts expected to be paid to counterparties.

*Provisions*

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources, that can be reliably measured, will be required to settle the obligation. In respect of warranties, a provision is recognised when the underlying products or services are sold. Provisions are recognised at an amount equal to the best estimate of the expenditure required to settle the Company's liability. A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognised, but are disclosed where an inflow of economic benefit is probable. Obligations arising from restructuring plans are recognised when detailed formal plans have been established and when there is a valid expectation that such a plan will be carried out.

*Leasing*

Rentals payable under operating leases are charged to the Profit and Loss Account on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

## Notes *(continued)*

### 1 Accounting policies *(continued)*

*Taxation*

Tax on the profit or loss for the year comprises both current and deferred tax. Tax is recognised in the Profit and Loss Account except to the extent that it relates to items recognised either in other comprehensive income or directly in equity, in which case tax is recognised in the Statement of Comprehensive Income or the Statement of Changes in Equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of prior years.

Deferred tax is provided on taxable temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and their corresponding tax bases. Deferred tax is measured using the tax rates expected to apply when the asset is realised or the liability settled based on tax rates enacted or substantively enacted by the Balance Sheet date.

However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

*Foreign currency translation*

The functional currency for the Company is determined with reference to the currency of the primary economic environment in which it operates. Transactions in currencies other than the functional currency are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange gains and losses on settlement of foreign currency transactions are translated at the rate prevailing at the date of the transactions, or the translation of monetary assets and liabilities at period end exchange rates, and are charged/credited to the Profit and Loss Account. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction.

*Financial instruments*

*Recognition*

The company recognises financial assets and liabilities on its balance sheet when it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amount is reported in the Balance Sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

## Notes *(continued)*

### 1 Accounting policies *(continued)*

***Financial instruments (continued)***

*Measurement*

When financial assets and liabilities are initially recognised, they are measured at fair value, being the consideration given or received plus directly attributable transaction costs.

In determining estimated fair value, investments are valued at quoted bid prices on the trade date. When quoted prices on an active market are not available, fair value is determined by reference to price quotations for similar instruments traded.

Loans and debtors comprise loans and advances other than purchased loans. Originated loans and debtors are initially recognised in accordance with the policy stated above and subsequently re-measured at amortised cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.

The Company uses derivative financial instruments such as forward foreign exchange contracts to hedge risks associated with foreign exchange fluctuations. These are designated as cash flow hedges. At the inception of the hedge relationship, the company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an on-going basis, the Company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Profit and Loss Account.

Amounts deferred in equity are recycled to the Profit and Loss Account in the periods when the hedged item is recognised in the Profit and Loss Account, in the same line of the Profit and Loss Account as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the Profit and Loss Account.

*Derecognition*

A financial asset is derecognised when the Company loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished. Originated loans and debtors are derecognised on the date they are transferred by the Company.

*Impairment of financial assets*

The Company assesses at each Balance Sheet reporting date whether there is any objective evidence that a financial asset, or group of financial assets, is impaired. A financial asset, or group of financial assets, is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

***Employee benefits***

The Company operates defined benefit post-retirement benefit schemes and defined contribution pension schemes.

*Defined contribution scheme*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised in the Profit and Loss Account in the periods during which services are rendered by employees.

## Notes *(continued)*

### 1 Accounting policies *(continued)*

*Employee benefits (continued)*

*Short term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

*Share based payments*

Certain employees of the Company receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). The cost of equity-settled transactions with employees is measured at fair value at the date at which they are granted. The fair value of share awards with market-related vesting conditions is determined by an external consultant and the fair value at the grant date is expensed on a straight-line basis over the vesting period based on the Company's estimate of shares that will eventually vest. The estimate of the number of awards likely to vest is reviewed at each balance sheet reporting date up to the vesting date, at which point the estimate is adjusted to reflect the actual outcome of awards which have vested. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

Where it is not possible to incentivise managers of the company with equity-settled options, they are issued with cash-settled options. The charge for these awards is adjusted to reflect the expected and actual levels of options that vest and the fair value is based on either the share price at date of exercise or the share price at the balance sheet date if sooner.

***Dividends***

Dividends are recognised as a liability in the period in which they are approved by shareholders.

***Turnover***

Revenue is measured at the fair value of the right to consideration and represents amounts receivable for goods and services provided in the normal course of business to external customers net of returns and discounts, excluding value added tax and other sales-related taxes

Revenue from the sale of goods is recognised in the profit and loss account when the significant risks and rewards of ownership of the goods have been transferred to the customer, recovery of the consideration is probable, the cost and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. This is typically on delivery when legal title transfers to the customer. If it is probable that discounts will be granted and the amount cane be measured reliably, the discount is recognised as a reduction of revenue as the sales are recognised.

For contracts that involve a significant element of installation or testing of equipment, revenue is recognised at the point of customer acceptance.

Revenue from services rendered is recognised in the profit and loss account in proportion to the measurement of the stage of completion of services rendered as at the Balance Sheet date. This is assessed by reference to the amount of time incurred in proportion to the total expected time to be taken to deliver the service.

Occasionally, the initial contract covers both the supply of goods and on-going support, servicing and maintenance. For such contracts revenue is allocated across each of the individual components in line with their relative value and each element is accounted for as described above.

***Interest payable and similar charges and interest receivable and similar income***

Interest payable and similar charges comprises the interest payable on borrowings calculated using the effective interest method. Interest receivable and similar income comprises interest income on cash and funds invested and is recognised in the profit and loss account as it accrues.

# Notes *(continued)*

## 1 Accounting policies *(continued)*

***Government grants***

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment. Government grants in respect of capital expenditure are credited to a deferred income account and are released as income by equal annual amounts over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

***Defined benefit scheme***

The Company participates in a group defined benefit scheme. The scheme provides pensions in retirement, death in service and in some cases disability benefits to members. The pension benefit is linked to members' final salary at retirement and their service life. Since 31 December 2009, the UK plan has been closed to new members.

There is no contractual agreement or stated policy for charging the net defined benefit cost within the group. Under FRS 101, the full defined benefit surplus/obligation has been recognised by the sponsoring employer, Spectris plc. The Company contributions made to the defined benefit plan during the year ended 31 December 2015 was £1,387,400 *(2014: £1,083,030)*.

Further details of the UK Spectris Pension Plan are contained in the financial statements of Spectris plc.

## 2 Turnover

An analysis of the Company's turnover is as follows:

| | 2015<br>£000 | 2014<br>£000 |
|---|---|---|
| Sale of goods | **94,267** | 88,435 |
| Services rendered | **2,913** | 1,707 |
| Rental income | **118** | 201 |
| Turnover from continuing operations | **97,298** | 90,343 |

An analysis of the Company's turnover by geographical area:

| | 2015<br>£000 | 2014<br>£000 |
|---|---|---|
| United Kingdom | **9,615** | 8,342 |
| Rest of Europe | **28,016** | 27,101 |
| Asia and Australia | **37,160** | 37,161 |
| Americas | **20,971** | 16,591 |
| Africa | **1,536** | 1,148 |
| | **97,298** | 90,343 |

## Notes *(continued)*

### 3 Operating profit

Operating profit has been arrived at after charging/(crediting):

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Net foreign exchange losses | 26 | 209 |
| Research and development expenditure | 6,469 | 8,299 |
| Depreciation of property, plant and equipment | 952 | 783 |
| Amortisation of intangible assets | 5,103 | 2,518 |
| Operating lease payments | 285 | 272 |
| (Profit)/loss on sale of property, plant and equipment | 2 | - |
| Government grants | - | (3,000) |

### 4 Auditor's remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company.

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Audit of the company's financial statements | 34 | 36 |

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the group accounts of its parent, Spectris plc.

### 5 Employee 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 2015 | 2014 |
|---|---|---|
| Production and engineering | 91 | 89 |
| Sales and marketing | 60 | 69 |
| Administrative | 190 | 223 |
| | 341 | 381 |

The aggregate payroll costs of these persons, including Directors' remuneration, were as follows:

| | £000 | £000 |
|---|---|---|
| Wages and salaries | 12,539 | 12,328 |
| Social security costs | 1,467 | 1,477 |
| Contributions to defined contribution plans | 1,348 | 1,387 |
| Equity-settled share-based payment expense | 341 | 451 |
| | 15,695 | 15,643 |

## Notes *(continued)*

### 5 Employee numbers and costs *(continued)*

Directors' remuneration:

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Short term benefits | 846 | 968 |
| Equity-settled share based payment expense | 58 | 267 |
| Company contributions to money purchase pension scheme | 139 | 130 |
| | 1,043 | 1,365 |

Retirement benefits are accruing to the following number of directors under:

| | Number 2015 | 2014 |
|---|---|---|
| Defined benefit schemes | - | - |
| Money purchase schemes | - | - |
| The number of Directors who exercised share options: | 1 | 2 |
| The number of Directors in respect of whose services shares were received or received under long term incentive schemes was: | 1 | 2 |

In respect of the highest paid directors:

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Aggregate remuneration | 172 | 329 |
| Company contributions to money purchase pension scheme | 39 | 36 |

### 6 Interest receivable and similar income

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Interest receivable | - | 7 |
| Interest receivable from group undertakings | 162 | 121 |
| | 162 | 128 |

## Notes *(continued)*

### 7 Taxation

#### (a) Tax charged in the profit and loss account

| | 2015 £000 | 2014 £000 |
|---|---|---|
| *UK corporation tax* | | |
| Current tax on income in year | 1,710 | 2,501 |
| Adjustments in respect of prior years | (151) | (266) |
| Total current tax charge | 1,559 | 2,235 |
| *Deferred tax* | | |
| Origination and reversal of temporary differences | (507) | (919) |
| Adjustments in respect of prior years | 181 | 71 |
| Charge resulting from reduction in tax rate | - | - |
| | (326) | (848) |
| Tax on profit on ordinary activities | 1,233 | 1,387 |

#### (b) Tax relating to items charged/(credited) to other comprehensive income

| | 2015 £000 | 2014 £000 |
|---|---|---|
| *Deferred tax* | | |
| Tax on effective portion of change in fair value of cash flow hedges | (24) | (174) |
| Total deferred tax charge | (24) | (174) |
| Total tax charge | (24) | (174) |

#### (c) Reconciliation of the tax charge

The tax charge in the profit and loss account for the year is lower *(2014: lower)* than the standard rate of corporation tax in the UK of 20.25% *(2014: 21.5%)*. The difference is explained below:

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Profit on ordinary activities before tax | 11,628 | 16,234 |
| Corporation tax at standard rate of 20.25% *(2014: 21.5%)* | 2,355 | 3,490 |
| *Effects of:* | | |
| Non-taxable (income)/ non deductible expenditure | (3) | 454 |
| UK patent box incentives | (1,244) | (1,212) |
| Other current year items | 95 | (1,150) |
| Adjustments in respect of prior years | 30 | (195) |
| Total tax charge reported in the profit and loss account | 1,233 | 1,387 |

## Notes *(continued)*

### 7 Taxation *(continued)*

### (d) Change in corporation tax rate

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. Deferred tax at 31 December 2015 has been calculated based on these rates. An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current tax charge and deferred tax balance accordingly.

### (e) Deferred tax

The deferred tax included in the balance sheet is as follows:

| | 2015 £000 | 2014 £000 |
|---|---|---|
| *Deferred tax liability* | | |
| Temporary differences relating to tangible assets | - | (41) |
| Temporary differences relating to intangible assets | (1,257) | (1,658) |
| | (1,257) | (1,699) |
| *Deferred tax asset* | | |
| Temporary differences relating to tangible assets | 13 | - |
| Temporary differences relating to tax losses | - | 148 |
| Cash flow hedges | 47 | 24 |
| Disclosed on the balance sheet | 60 | 172 |
| Deferred tax liability | (1,197) | (1,527) |

**Deferred tax in the profit and loss account**

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Temporary differences relating to intangible assets | (578) | (946) |
| Temporary differences relating to tangible assets | 27 | 175 |
| Other temporary differences | 44 | (148) |
| Adjustment in respect of prior year | 181 | 71 |
| Deferred tax (credit) to the profit and loss account | (326) | (848) |

## Notes *(continued)*

### 8 Intangible assets

| | Goodwill | Technology | Patents | Other intangible assets | Software | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| *Cost* | | | | | | |
| At beginning of year | 14,299 | 13,599 | 2,234 | 6,307 | 5,051 | 41,490 |
| Additions | - | - | - | - | 557 | 557 |
| Reduction | (575) | - | - | - | - | (575) |
| At end of year | 13,724 | 13,599 | 2,234 | 6,307 | 5,608 | 41,472 |
| *Amortisation* | | | | | | |
| At beginning of year | 6,639 | 3,117 | 2,234 | 766 | 3,695 | 16,451 |
| Charged in year | - | 2,488 | - | 1,790 | 826 | 5,104 |
| At end of year | 6,639 | 5,605 | 2,234 | 2,556 | 4,521 | 21,555 |
| ***Net book value*** | | | | | | |
| **At 31 December 2015** | 7,085 | 7,994 | - | 3,751 | 1,087 | 19,917 |
| At 31 December 2014 | 7,660 | 10,482 | - | 5,541 | 1,356 | 25,039 |

Intangible assets other than goodwill are being amortised over a period between 5 and 7 years, being the directors' estimate of the useful economic lives.

**Goodwill**

Goodwill is allocated to four cash-generating units that are anticipated to benefit from the acquisition. These were:

| | 2015 | 2014 |
|---|---|---|
| | £000 | £000 |
| Analytical imaging | - | - |
| Resonant mass | 3,921 | 4,406 |
| Rheological properties | - | - |
| Nano particle tracking | 3,164 | 3,164 |
| | 7,085 | 7,660 |

# Notes *(continued)*

## 9 Tangible assets

| | Freehold land and buildings £000 | Leasehold property £000 | Plant, equipment and motor vehicles £000 | Total £000 |
|---|---|---|---|---|
| *Cost* | | | | |
| At beginning of year | 6,546 | 14 | 6,385 | 12,945 |
| Additions | 1,730 | - | 916 | 2,646 |
| Disposals | - | - | (186) | (186) |
| At end of year | 8,276 | 14 | 7,115 | 15,405 |
| *Depreciation* | | | | |
| At beginning of year | 1,859 | 5 | 4,587 | 6,451 |
| Charge for the year | 123 | 9 | 820 | 952 |
| Disposals | - | - | (185) | (185) |
| At end of year | 1,982 | 14 | 5,222 | 7,218 |
| *Net book value* | | | | |
| **At 31 December 2015** | 6,294 | - | 1,893 | 8,187 |
| At 31 December 2014 | 4,687 | 9 | 1,798 | 6,494 |

Included in the total net book value of freehold land and buildings is £1,875,000 *(2014: £1,504,000)* in respect of freehold land which is not depreciated.

No borrowing costs met the required criteria for capitalisation during the year *(2014: £Nil)*.

## 10 Investments

| | £000 |
|---|---|
| *Cost* | |
| At beginning of year | 16,381 |
| Additions | 7 |
| At end of year | 16,388 |
| *Impairment* | |
| At beginning and end of year | (13,381) |
| As at 31 December 2014 | 3,007 |

In 2014 the trade and certain assets of NanoSight Limited, a subsidiary of the company, were transferred to the company at their book value, which was less than their fair value. The cost of the company's investments in NanoSight Limited reflected the underlying fair value of its net assets, goodwill and intangible assets at the time of acquisition. As a result of this transfer, the value of the company's investment in NanoSight Limited fell below the amount at which it was stated in the company's accounting records and so has been impaired. The 2014 charge in respect of this impairment in the profit and loss account has been offset by the negative goodwill arising from accounting for this transaction as a common ownership transaction at group book value, leaving a net charge in that year of £263,000.

Details of the Company's subsidiary undertakings at 31 December 2015 are given in note 20.

## Notes *(continued)*

### 11 Stocks

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Raw materials | 7,336 | 6,885 |
| Work in progress | 677 | 1,115 |
| Finished stocks | 2,215 | 2,378 |
| | 10,228 | 10,378 |

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £44,695,000 *(2014: £38,173,000)*. The write-down of stocks to net realisable value amounted to £7,239,000 *(2014: £6,796,000)*.

### 12 Debtors

| | 2015 £000 | 2014 £000 |
|---|---|---|
| *Amounts falling due within one year* | | |
| Trade debtors | 10,752 | 9,239 |
| Amounts owed by group undertakings | 52,413 | 49,334 |
| Other debtors | 2,178 | 937 |
| Prepayments and accrued income | 446 | 1,588 |
| | 65,789 | 61,098 |
| *Amounts falling due after more than one year* | | |
| Trade debtors | - | 3 |

All amounts owed by Group undertakings are in relation to interest bearing intra-group loans which are financial arrangements on an arm's length basis.

### 13 Creditors

| | 2015 £000 | 2014 £000 |
|---|---|---|
| *Amounts falling due within one year* | | |
| Trade creditors | 5,248 | 5,535 |
| Amounts owed to group undertakings | - | 5,082 |
| Corporation tax | 1,710 | 2,501 |
| Other creditors including taxation and social security | 2,308 | 194 |
| Accruals and deferred income | 4,550 | 5,169 |
| | 13,816 | 18,481 |
| *Amounts falling due after more than one year* | | |
| Trade creditors | 559 | 404 |
| Other creditors | 378 | - |
| | 937 | 404 |

# Notes *(continued)*

## 14 Share capital

| | 2015<br>£000 | 2014<br>£000 |
|---|---|---|
| ***Allotted, called up and fully paid:*** | | |
| 272,290 ordinary shares of £1 each | 272 | 272 |

## 15 Commitments

*Capital commitments*

During the year ended 31 December 2015, the Company entered into a contract to purchase, plant and equipment for £68,000 (2014: £356,000). These commitments are expected to be settled in the following financial year.

Future capital expenditure commitments for which no provision has been made in these financial statements are as follows:

| | 2015<br>£000 | 2014<br>£000 |
|---|---|---|
| Contracted | 68 | 356 |

## 16 Operating leases

Total commitments under non-cancellable operating lease rentals are as follows:

| | Plant and equipment | |
|---|---|---|
| | 2015<br>£000 | 2014<br>£000 |
| Expiring: | | |
| Within one year | 200 | 106 |
| Between two and five years | 318 | 66 |
| | 518 | 172 |

During the year £285k was recognised as an expense in the Profit and Loss Account in respect of operating leases *(2014: £272,000)*.

## 17 Contingent liabilities

With certain other members of the Spectris Group, the Company has guaranteed facilities made available to Spectris plc, in respect of which the following amounts were outstanding at 31 December 2015:

| | 2015<br>£000 | 2014<br>£000 |
|---|---|---|
| Royal Bank of Scotland | 165 | 199 |

Where the Company enters into financial guarantee contract to guarantee the indebtedness of other companies within its group the Company considers these to be insurance arrangements in accordance with the requirements of IFRS 4 and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Malvern Instruments Limited and other UK subsidiaries of the Spectris Group are party to a cross-guarantee arrangement to support trade finance facilities entered into in the normal course of business. They are also party to a cross-guarantee arrangement that allows individual subsidiaries to borrow from the bank on overdraft within the overall borrowing limit of the Spectris Group.

## Notes *(continued)*

### 18 Ultimate parent company

The company's ultimate holding company is Spectris plc which is incorporated in Great Britain.

The largest and smallest group in which the results of the company are consolidated is that headed by Spectris plc, incorporated in Great Britain. The consolidated accounts of this company may be obtained from Spectris plc, Heritage House, Church Road, Egham, Surrey, TW20 9QD.

### 19 Explanation of transition to FRS 101

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2015, the comparative information presented in these financial statements for the year ended 31 December 2014 and in the preparation of an opening FRS 101 balance sheet at 1 January 2014 (the Company's date of transition).

In preparing its FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

*Reconciliation of equity*

| | | | 1 January 2014 | | | 31 December 2014 | |
|---|---|---|---|---|---|---|---|
| | | UK GAAP | Effect of transition to FRS 101 | FRS 101 | UK GAAP | Effect of transition to FRS 101 | FRS 101 |
| | Note | £000 | £000 | £000 | £000 | £000 | £000 |
| **Fixed assets** | | | | | | | |
| Intangible assets | a,b, | 96 | - | 96 | 21,272 | 3,767 | 25,039 |
| Tangible fixed assets | b | 6,962 | - | 6,962 | 7,850 | (1,356) | 6,494 |
| Investments | | 16,377 | - | 16,377 | 2,624 | 376 | 3,000 |
| | | 23,435 | - | 23,435 | 31,746 | 2,787 | 34,533 |
| **Current assets** | | | | | | | |
| Stocks | | 8,584 | - | 8,584 | 10,378 | - | 10,378 |
| Debtors (due with one year) | C | 55,765 | 809 | 56,574 | 61,640 | (544) | 61,096 |
| Debtors (due after more than one year) | | - | - | - | - | 3 | 3 |
| Cash at bank and in hand | | 1,929 | - | 1,929 | 820 | - | 820 |
| | | 66,278 | 809 | 67,087 | 72,838 | (541) | 72,297 |
| **Creditors: amounts due within one year** | C | (18,827) | - | (18,827) | (18,886) | 283 | (18,603) |
| **Net current assets** | | 47,451 | 809 | 48,260 | 53,952 | (258) | 53,694 |
| **Creditors: amounts falling due after more than one year** | | - | - | - | - | (404) | (404) |
| **Provision for liabilities and charges** | c,d | - | - | - | - | (1,527) | (1,527) |
| **Net assets** | | 70,886 | 809 | 71,695 | 85,698 | 598 | 86,296 |
| **Capital and reserves** | | | | | | | |
| Share capital | | 272 | - | 272 | 272 | - | 272 |
| Capital redemption reserve | | 109 | - | 109 | 109 | - | 109 |
| Cash flow hedge reserve | | - | 603 | 603 | - | (94) | (94) |
| Profit and loss account | | 70,505 | 206 | 70,711 | 85,317 | 692 | 86,009 |
| **Shareholders' equity** | | 70,886 | 809 | 71,695 | 85,698 | 598 | 86,296 |

## Notes *(continued)*

### 19 Explanation of transition to FRS 101 *(continued)*

*Notes to the reconciliation of equity*

a) Goodwill resulting from acquisition of Nanosight trade and assets
b) Reclassification of software costs from tangible to intangible fixed assets
c) FRS101 hedge accounting
d) Deferred tax liability resulting from acquisition of Nanosight trade and assets.

*Reconciliation of profit for 2014*

| | Note | UK GAAP £000 | 2014 Effect of transition to FRS 101 £000 | FRS 101 £000 |
|---|---|---|---|---|
| **Turnover** | | 90,343 | - | 90,343 |
| Cost of sales | | (38,173) | - | (38,173) |
| **Gross profit** | | 52,170 | - | 52,170 |
| Distribution costs | | (1,082) | - | (1,082) |
| Administrative expenses | *a,b* | (34,565) | (3,405) | (37,970) |
| Other operating expenses | | - | (12) | (12) |
| Other operating income | *a* | - | 3,000 | 3,000 |
| **Operating profit** | | 16,523 | (417) | 16,106 |
| Interest receivable | | 127 | - | 127 |
| **Profit on ordinary activities before taxation** | | 16,650 | (417) | 16,234 |
| Tax on profit on ordinary activities | *c* | (2,289) | 902 | (1,387) |
| **Profit for the year** | | 14,361 | 485 | 14,847 |

*Notes to the reconciliation of profit*

a) Re-allocation of grants received to other operating income
b) Impairment of Nanosight investment value
c) Deferred tax on intangibles

### 20 Group undertakings

The following is a full list of the subsidiary undertakings, the country of registration and percentage of equity owned directly or indirectly by Malvern Instruments Limited, as at 31 December 2015. This information is provided in accordance with section 409 of the Companies Act 2009.

| Name of company | Country of incorporation | Proportion held % |
|---|---|---|
| Malvern-Aimil Instruments Private Limited | India | 99.9 |
| NanoSight Limited | UK | 100 |