

**Malvern Instruments Limited**

**Directors' report and financial  
statements**

**Registered number 1020602**

**For the year ended 31 December 2001**



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## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

### Review of the business

The principal activity of the company is the sale of laboratory equipment for the measurement of particle characterisation to a wide variety of industries.

### Results and dividends

The profit after taxation for the year ended 31 December 2001 was £2,613,000 (2000: £2,610,000). Further details for the year are shown in the profit and loss account on page 6.

The directors do not recommend the payment of a dividend.

### Directors

The directors who served during the year were as follows:

PI Walker  
Dr D Jane Bishop  
AR Bragginton  
RW Prestidge  
DM Roberts  
JC Webster  
CT Howarth (appointed 8 March 2001)

### Directors' interests

The interests of JC Webster in the shares and share options of Spectris plc, the ultimate parent company, are disclosed in the financial statements of that company. None of the other directors had any interest in the shares of Spectris plc.

At 31 December 2001 the other directors held the following share options in the shares of Spectris plc:

Directors	At 01.01.01 or date of appointment	Number of options During the year			At 31.12.01	Exercise price (p)	Market price at date of exercise	Usual date from which exercisable	Expiry date
		Options granted	Exercised	Lapsed					
PI Walker	16,731	-	-	-	16,731	349.3p	-	Apr 99	Apr 06
	6,155	-	-	-	6,155	550.7p	-	Mar 01	Mar 08
	6,155	-	-	-	6,155	5.0p	-	Mar 02	Mar 05
	10,259	-	-	-	10,259	238.8p	-	Sep 01	Sep 08
	10,259	-	-	-	10,259	5.0p	-	Mar 02	Sep 05
	15,000	-	-	-	15,000	525p	-	Oct 03	Oct 10
	-	15,000	-	-	15,000	357.5p	-	Oct 04	Oct 11
SAYE	2,744	-	-	-	2,744	238.8p	-	Dec 03	Jun 04
SAYE	1,144	-	-	1,144	-	-	-	-	-
SAYE	-	1,647	-	-	1,647	357.5p	-	Dec 04	Jun 05
DJ Bishop	4,616	-	-	-	4,616	550.7p	-	Mar 01	Mar 08
	5,129	-	-	-	5,129	238.8p	-	Sep 01	Sep 08
	7,000	-	-	-	7,000	525.0p	-	Oct 03	Oct 10
	-	7,000	-	-	7,000	357.5p	-	Oct 04	Oct 11
SAYE	2,744	-	-	-	2,744	238.8p	-	Dec 03	Jun 04
SAYE	-	1,647	-	-	1,647	357.5p	-	Dec 04	Jun 05
AR Bragginton	4,616	-	-	-	4,616	550.7p	-	Mar 01	Mar 08
	5,129	-	-	-	5,129	238.8p	-	Sep 01	Sep 08
	5,000	-	-	-	5,000	525.0p	-	Oct 03	Oct 10
	-	5,000	-	-	5,000	357.5p	-	Oct 04	Oct 11
SAYE	6,124	-	-	-	6,124	238.8p	-	Dec 03	Jun 04
SAYE	-	372	-	-	372	357.5p	-	Dec 04	Jun 05

## Directors' report (continued)

### Directors' interests (continued)

Directors	Number of options				Exercise price (p)	Market price at date of exercise	Usual date from which exercisable	Expiry date
	At 01.01.01	During the year Options granted	Exercised	Lapsed				
DM Roberts	5,129	-	-	-	5,129	238.8p	-	Sep 01
	5,000	-	-	-	5,000	525.0p	-	Oct 03
	-	5,000	-	-	5,000	357.5p	-	Oct 04
	2,889	-	-	-	2,889	238.8p	-	Dec 03
SAYE	738	-	-	738	-	-	-	-
SAYE	-	1,594	-	-	1,594	357.5p	-	Dec 04
RW Prestidge	4,846	-	-	-	4,846	618.9p	-	Oct 00
	5,129	-	-	-	5,129	238.8p	-	Sep 01
	5,000	-	-	-	5,000	525.0p	-	Oct 03
	-	5,000	-	-	5,000	357.5p	-	Oct 04
SAYE	2,889	-	-	-	2,889	238.8p	-	Dec 03
SAYE	510	-	-	-	510	395.7p	-	Dec 04
SAYE	258	-	-	-	258	525.0p	-	Dec 03
SAYE	-	903	-	-	903	357.5p	-	Dec 04
CT Howarth	-	5,000	-	-	5,000	357.5p	-	Oct 04
SAYE	-	2,657	-	-	2,657	357.5p	-	Dec 04

The mid-market price of Spectris plc shares at 31 December 2001 was 481p. The highest share price in the year was 605p and the lowest was 333.5p.

Except where shown as SAYE above, the above relates to the Group's Executive Share Option Schemes.

Entitlement to exercise options granted under the Spectris 1996 Executive Share Plan is conditional upon the achievement of growth in normalised earnings per share (EPS) over three consecutive financial years between grant and exercise of at least 2% per annum in excess of growth in the retail price index. Entitlement to exercise Matching Options (5p) is conditional upon a performance criterion which requires compound growth in EPS over the three consecutive financial years following grant of the qualifying option of between 2% and 10% per annum in excess of growth in the retail price index in order to achieve a match of 20% to 100%.

In addition, at 31 December 2001, the directors were deemed to have a non-beneficial interest in 2,851,891 ordinary shares in the share capital of Spectris plc, the company's holding company, held by the Trustee of Spectris plc Employment Benefit Trust and 27,822 ordinary shares held by the Trustee of the Spectris plc Qualifying Employee Share Ownership Trust of which they are among the class of discretionary beneficiaries.

### Research and development

The directors consider that new product development and innovation play an important role in the company's success and, accordingly, they continue to further the company's research and development programme.

### Payment to suppliers

It is the company's general policy to abide by the terms of payment agreed with its suppliers.

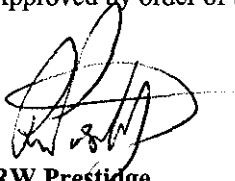
At 31 December 2001, the number of creditor days outstanding was 57 days (2000: 63 days).

## **Directors' report** *(continued)*

### **Elective resolutions**

By elective resolutions passed by the company in a general meeting on 30 April 1993 the company dispensed with the requirement to lay financial statements before the company in a general meeting, the holding of annual general meetings and the obligation to appoint auditors annually.

Approved by order of the board of directors on 20 March 2002 and signed on its behalf by:

A handwritten signature in dark ink, appearing to be 'RW Prestidge', written over a faint horizontal line.

**RW Prestidge**  
*Company Secretary*

Enigma Business Park  
Groveswood Road  
Malvern  
Worcestershire  
WR14 1XY

## 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 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 company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and 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 company and to prevent and detect fraud and other irregularities.



KPMG Audit Plc

2 Cornwall Street  
Birmingham  
B3 2DL

## **Independent auditors' report to the members of Malvern Instruments Limited**

We have audited the financial statements on pages 6 to 14.

### ***Respective responsibilities of directors and auditors***

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

### ***Basis of audit opinion***

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

### ***Opinion***

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

20 March 2002

**Profit and loss account**  
*for the year ended 31 December 2001*

	<i>Note</i>	<b>2001</b> <b>£000</b>	<b>2000</b> <b>£000</b>
<b>Turnover</b>	<b>2</b>	<b>20,675</b>	<b>19,755</b>
Cost of sales		(8,710)	(8,276)
<b>Gross profit</b>		<b>11,965</b>	<b>11,479</b>
Distribution costs		(136)	(137)
Administrative expenses		(8,387)	(7,618)
<b>Operating profit</b>		<b>3,442</b>	<b>3,724</b>
Net interest receivable/(payable)	<b>4</b>	<b>132</b>	<b>(109)</b>
<b>Profit on ordinary activities before taxation</b>	<b>3</b>	<b>3,574</b>	<b>3,615</b>
Tax on profit on ordinary activities	<b>7</b>	<b>(961)</b>	<b>(1,005)</b>
<b>Retained profit for the financial year</b>	<b>14</b>	<b>2,613</b>	<b>2,610</b>

Turnover and results report above all related to continuing activities.

There were no recognised gains or losses other than the result for the year reported above, and so a separate statement of total recognised gains and losses has not been presented.



**Balance sheet**  
*at 31 December 2001*

	<i>Note</i>	<b>2001</b> <b>£000</b>	2000 £000
<b>Fixed assets</b>			
Tangible assets	8	<b>6,304</b>	6,434
<b>Current assets</b>			
Stocks	9	<b>2,216</b>	1,895
Debtors	10	<b>8,569</b>	5,787
Cash at bank and in hand		<b>195</b>	104
		<b>10,980</b>	7,786
<b>Creditors: Amounts falling due within one year</b>	11	<b>(4,827)</b>	(4,475)
<b>Net current assets</b>		<b>6,153</b>	3,311
<b>Total assets less current liabilities</b>		<b>12,457</b>	9,745
Provisions for liabilities and charges	12	<b>(200)</b>	(101)
<b>Net assets</b>		<b>12,257</b>	9,644
<b>Capital and reserves</b>			
Called up share capital	13	<b>272</b>	272
Capital redemption reserve	14	<b>109</b>	109
Profit and loss account	14	<b>11,876</b>	9,263
<b>Equity shareholders' funds</b>		<b>12,257</b>	9,644

These financial statements were approved by the board of directors on 20 March 2002 and were signed on its behalf by:

  
**RW Prestidge**  
Director

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

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

#### *Basis of preparation*

The financial statements have been prepared using the historical cost convention and in accordance with applicable UK Accounting Standards.

#### *Tangible fixed assets*

With the exception of freehold land, tangible fixed assets are depreciated at rates calculated to write off the original cost, less the estimated residual value, in equal instalments over the expected useful life of the assets concerned.

Depreciation is provided at the following rates on a straight line basis:

Freehold buildings	2%
Plant and equipment	10-25%
Computer equipment	33%
Motor vehicles	25%

#### *Leased assets*

Operating lease rentals are charged to the profit and loss account in the period to which they relate.

#### *Stocks*

Stocks are valued at the lower of cost and net realisable value. Cost comprises raw materials, direct labour and attributable manufacturing overheads where appropriate. Net realisable value represents the estimated selling price less the costs of completion, marketing, selling and distribution.

#### *Deferred taxation*

Deferred taxation is provided using the liability method in respect of timing differences except where the liability is not expected to arise in the foreseeable future.

#### *Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at rates ruling at the balance sheet date. All exchange differences are recorded in the profit and loss account.

#### *Pensions*

The cost of providing pensions for employees are charged to the profit and loss account over the average expected remaining service lives of the current employees in the scheme for defined benefit schemes, and on an amounts payable basis for defined contribution schemes.

#### *Research and development*

Research and development expenditure is written off in the year in which it is incurred.

#### *Cashflow statements*

Under Financial Reporting Standard 1, the company is exempt from the requirements to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of Spectris plc which presents consolidated financial statements which includes the company and which is publicly available.

## Notes (continued)

### 2 Turnover

Turnover represents the invoiced amount of goods sold, excluding value added tax. The analysis of turnover by geographical area is as follows:

	2001 £000	2000 £000
United Kingdom	2,863	2,482
Rest of Europe	6,687	6,678
Asia and Australia	5,889	5,445
America	5,015	4,914
Africa	221	236
	<hr/> 20,675 <hr/>	<hr/> 19,755 <hr/>

### 3 Profit on ordinary activities before taxation

2001 £000	2000 £000
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*Profit on ordinary activities before taxation is stated after charging*

Depreciation	460	473
Loss on disposals of tangible fixed assets	1	1
Research and development expenditure	1,886	1,608
Operating lease rentals:		
Plant and machinery	169	166
Other	-	1
Auditors' remuneration:		
Audit fees	18	18
Other fees	7	6
	<hr/>	<hr/>

### 4 Net interest receivable/(payable)

2001 £000	2000 £000
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Interest receivable from group undertakings	123	9
Other interest receivable	11	13
	<hr/>	<hr/>
	134	22
Interest payable to group undertakings	(2)	(131)
	<hr/>	<hr/>
	132	(109)
	<hr/>	<hr/>

## Notes (continued)

### 5 Staff numbers and costs

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

	Number of employees	
	2001	2000
Production	53	57
Sales and administration	91	84
	<u>144</u>	<u>141</u>

The aggregate payroll costs of these persons were as follows:

	2001 £000	2000 £000
Wages and salaries	4,234	3,978
Social security costs	404	364
Other pension costs	261	245
	<u>4,899</u>	<u>4,587</u>

### 6 Directors' emoluments

	2001 £000	2000 £000
Emoluments	<u>646</u>	<u>380</u>

Four directors participated in defined benefit pension schemes (2000: 4) and two directors participated in defined contribution pension scheme (2000: 1).

Excluding pension contributions the emoluments of the highest paid director were £160,000 (2000: £100,000).

The highest paid director under the defined benefit scheme, under which his accrued pension at the year end was £12,000 (2000: £10,000) and his accrued lump sum was £26,000 (2000: £23,000).

### 7 Tax on profit on ordinary activities

	2001 £000	2000 £000
<b>Current year:</b>		
UK corporation tax at 30% (2000: 30%):	1,070	990
Deferred tax	99	101
<b>Adjustment in respect of prior years:</b>		
UK corporation tax	(208)	(86)
	<u>961</u>	<u>1,005</u>

## Notes (continued)

### 8 Tangible assets

	Freehold land and buildings	Plant, fixtures and motor vehicles	Total
	£000	£000	£000
<b>Cost</b>			
At beginning of year	6,064	2,201	8,265
Additions	-	331	331
Disposals	-	(35)	(35)
At end of year	6,064	2,497	8,561
<b>Depreciation</b>			
At beginning of year	260	1,571	1,831
Charge for the year	96	364	460
Disposals	-	(34)	(34)
At end of year	356	1,901	2,257
<b>Net book value</b>			
At 31 December 2001	5,708	596	6,304
At 31 December 2000	5,804	630	6,434

Freehold land of £1,286,000 has not been depreciated (2000: £1,286,000).

### 9 Stocks

	2001 £000	2000 £000
Raw materials	1,049	1,005
Work in progress	593	503
Finished goods	574	387
	2,216	1,895

### 10 Debtors

	2001 £000	2000 £000
Trade debtors	2,782	1,988
Amounts owed by group undertakings	5,452	3,399
Other debtors	251	347
Prepayments and accrued income	84	53
	8,569	5,787

## Notes (continued)

### 11 Creditors: Amounts falling due within one year

	2001 £000	2000 £000
Bank overdraft	6	35
Trade creditors	1,676	1,694
Amounts owed to group undertakings	41	30
Other creditors	1,333	707
Corporation tax	1,098	1,156
Accruals and deferred income	673	853
	<u>4,827</u>	<u>4,475</u>

### 12 Deferred taxation

The deferred tax liability, provided and not provided, under the liability method, calculated using a tax rate of 30% (2000: 30%), is as follows:

	2001		2000	
	Provided £000	Not provided £000	Provided £000	Not provided £000
Accelerated capital allowances	292	-	185	-
Short term timing differences	(92)	-	(84)	-
	<u>200</u>	<u>-</u>	<u>101</u>	<u>-</u>

	£000
At the beginning of year	101
Charge to profit and loss for the year	99
	<u>200</u>
At end of year	<u>200</u>

### 13 Share capital

	2001 £000	2000 £000
<i>Authorised</i>		
500,000 ordinary shares of £1 each	<u>500</u>	<u>500</u>
<i>Allotted, called up and fully paid:</i>		
272,290 ordinary shares of £1 each	<u>272</u>	<u>272</u>

## Notes (continued)

### 14 Reserves

	Capital redemption reserve £000	Profit and loss account £000
At beginning of year	109	9,263
Profit for the financial year	-	2,613
At end of year	<u>109</u>	<u>11,876</u>

### 15 Reconciliation of movement in equity shareholders' funds

	2001 £000	2000 £000
Profit for the financial year	2,613	2,610
Opening equity shareholders' funds	9,644	7,034
Closing equity shareholders' funds	<u>12,257</u>	<u>9,644</u>

### 16 Commitments

#### Capital expenditure

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

	2001 £000	2000 £000
Contracted for	<u>21</u>	<u>16</u>

#### Operating leases

Annual commitments under non-cancellable operating leases (none of which relate to land or buildings) are as follows:

	2001 £000	2000 £000
Expiring within one year	12	32
Expiring between two and five years	104	104
	<u>116</u>	<u>136</u>

## Notes (continued)

### 17 Pensions

The company participates in a multi-employer pension scheme (the Spectris Pension Plan) providing benefits based on final pensionable pay. Because the company is unable to identify its share of the plan's assets and liabilities on a consistent and reasonable basis, as permitted by FRS17 'Retirement Benefits' the plan is accounted for by the company as if it were a defined contribution scheme. The total surplus of the plan at 31 December 2001 was £5.6 million (2000: £9.1 million).

The latest full actuarial valuation was carried out as at 31 December 1999 and was updated for FRS17 purposes to 31 December 2001 by an independent qualified actuary.

The Spectris Pension Plan is closed to new members. Contributions payable by the company amounted to £213,000 for the year ended 31 December 2001 (2000: £212,000).

Spectris plc also operates a defined contribution pension plan, membership of which is available to the qualifying UK employees of group companies. Contributions payable by the company to the plan and to personal pension plans amounted to £48,000 for the year ended 31 December 2001 (2000: £33,000).

Further details are given in the accounts of Spectris plc.

### 18 Contingent liabilities

With certain other members of the Group, the company has guaranteed facilities made available to Spectris plc, in respect of which the following amounts were outstanding at 31 December 2001:

Senior Loan Notes 2006	\$100,000,000	(2000: \$100,000,000)
Senior Loan Notes 2010	\$75,000,000	(2000: \$75,000,000)
National Westminster Bank PLC	£2,591,000	(2000: £5,560,000)
National Westminster Bank PLC	£5,693,000	(2000: £2,220,000)
Bank One, NA	£26,612,000	(2000: £27,358,000)

### 19 Related party transactions

Under Financial Reporting Standard 8, the company is exempt from the disclosure of transactions with other group undertakings on the grounds that it is a wholly owned subsidiary of Spectris plc and its results are included in the consolidated financial statements of that company.

### 20 Ultimate parent company

The ultimate parent company is Spectris plc which is incorporated in Great Britain. Copies of the consolidated financial statements of this company may be obtained from that company's registered office at Station Road, Egham, TW20 9NP.