Porvair plc

Annual Report & Accounts 2003

1661935

Contents

Porvair today

Porvair is an advanced materials business with expertise in a range of specialist filtration markets and new materials technologies.

Metals filtration:
Porvair Selee, based in the USA, invented the ceramic foam filter and leads the world in its application to molten aluminium. Additionally, porous and microporous ceramics expertise is used to serve ferrous metals filtration, thermal processing and catalyst media markets.

Microfiltration materials and systems:
The Porvair Filtration Group and Porvair Life Sciences are specialist filtration businesses based in the UK. They use Porvair's *proprietary microporus materials to design bespoke filtration* systems for a wide range of specialist applications, notably in aerospace, pharmaceutical, industrial process and ink jet markets.

Microporous metals and carbons:
Porvair Fuel Cell Technologies, based in the USA, is developing proprietary new materials as components to be used in fast growing markets including fuel cells, compact heat exchange, and emission controls.

Directors' report

The Directors are pleased to present their Annual Report and the Audited Accounts of the Group for the year ended 1 December 2003.

The accounts have been made up to 1 December 2003, rather than 30 November 2003 in order to include the disposal of the Porvair International and Porvair Ceramics businesses.

Review of business, principal activities and results

The business is reviewed in the Chairman's Statement on page 2, and the operating and financial review on pages 4 to 8. Likely future developments in the business are also to be found in those sections.

The Group's principal activities are in the areas of specialist filtration and advanced materials development.

Dividends

An interim dividend of 2.4p per share was paid on 19 September 2003. The Directors recommend the payment of a final dividend of 1.0p per share (2002: 4.3p per share) on 13 April 2004 to shareholders on the register on 19 March 2004. This makes a total dividend for the year of 3.4p per share (2002: 6.7p).

Directors and their interests

The names and biographical details of the Directors are set out on page 18. As noted in the Chairman's Statement Mr Mark Moran will resign on 31 January 2004.

In accordance with the Articles of Association Mr John Morgan and Mr Michael Ost retire by rotation and, being eligible, offer themselves for re-election.

During the year the Group maintained insurance providing liability cover for its Directors.

Details of all the beneficial and non-beneficial interests of Directors in the shares of the Company, share options and service contracts are set out in the Remuneration Committee report on pages 13 to 15. None of the Directors had a material interest in any contract of significance in relation to the Company or its subsidiaries during the year.

Research and development

The Group continues to undertake a research and development programme with the object of increasing profitability and evaluating new business opportunities. The cost to the Group in the year under review was £5.8m (2002: £5.9m) of which £4.7m related to continuing businesses. The expenditure is of a development nature and is largely undertaken in-house rather than by third parties. Development expenditure is incurred by all Group companies as shown in the chart on page 1.

Substantial shareholders

As at 26 January 2004 the Company has been notified of the following substantial shareholdings comprising 3% or more of the issued share capital of the Company:

	Ordinary Shares	percentage
Schroder Investment Management Ltd	8,332,035	22.6
Isis Asset Management	4,111,538	11.2
M&G Investment Managers	2,739,581	7.4
Insight Investment	2,619,613	7.1
Legal & General Fund Managers	2,041,383	5.6
Deutsche Asset Management	2,013,945	5.5
Henderson Global Investors	1,498,726	4.1
Fleming Mercantile	1,303,751	3.5

Employment policies

The Group maintains and develops the involvement of employees through both formal and informal systems of communication and consultation. Managers have a responsibility to communicate effectively and to promote a better understanding by employees of the activities and performances of the Group. Employee consultative committees regularly meet to ensure that management obtain representative views of employees concerning any decisions that affect them. Information relating to trading, company strategy and any other matters of significance are communicated to all employees through daily and monthly meetings and twice a year through formal presentations.

It is the Group's policy to recruit, train, promote and treat all personnel on grounds solely based on individual ability and performance. These principles are applied regardless of sex, religion, age, nationality or ethnic origin.

The Group recognises its clear responsibilities for the health and safety of its employees and to the communities in which the Group operates. A health and safety committee comprising representatives from management and employees regularly reviews and inspects the conditions in which our employees work. The Group consistently considers methods of improving safety and its environmental responsibilities. The Group Health, Safety and Environmental Policy is published on **www.porvair.com**.

Applications for employment by disabled persons are always considered in full bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, so far as possible, be identical to that of all other employees.

Donations

The Group made a number of charitable donations totalling £12,000 during the year (2002: £16,000). There were no political donations.

Annual General Meeting

The Annual General Meeting of the Company is to be held on Tuesday 30 March 2004. In the light of the changing nature of the business the venue for the Annual General Meeting has been changed. The Notice for the meeting is set out at the end of this document.

The vote on the Remuneration Report (Resolution 6 of the ordinary business) is an 'advisory vote' under Schedule 7A to the Companies Act 1985. This year is the first year the Group has had to comply with the Regulations, and the Remuneration Report includes all the new disclosures, including the 5-year record of Total Shareholder Return compared to a relevant market index.

In addition there are two items of special business. Resolution 7 seeks an increase in the maximum average aggregate fees payable to Non-executive Directors to £50,000 per annum. Wage inflation has gradually eroded the viability of the current limit of £25,000 and an increase is deemed necessary to attract and retain the right calibre of appointee.

Resolution 8 deals with the proposed authority relating to the purchase by the Company in the market of its own shares. The Directors believe that it continues to be appropriate to take such an authority. The Company's Articles of Association currently provide a general authority for this purpose. However, a Special Resolution is required to be passed in order to permit the Directors to exercise the power contained in the Articles of Association to make market purchases. The Directors have no present intention of exercising the power. They would only exercise the power when, in the light of conditions prevailing at the time, they were satisfied that it would be in the best interests of the Company and the shareholders to do so and that any purchase would increase the earnings per share of the Ordinary Shares in issue. The maximum number of shares which may be purchased is 3,680,301, representing 10% of the Company's issued ordinary share capital, and the maximum price payable will be limited to 5% above the average of the middle market quotations of the Company's Ordinary Shares, as derived from the Daily Official List of the London Stock Exchange, for the five business days prior to any purchase. Options which have been granted over 1,221,032 Ordinary Shares in the capital of the Company were outstanding as at 26 January 2004 (being the latest practicable date prior to publication of this report) representing 3.32% of the issued share capital of the Company as at that date. If the Directors were to exercise in full the power for which they are seeking authority under this Resolution, the options outstanding as at 26 January 2004 would represent 3.69% of the Ordinary Share capital in issue following such exercise.

Full details of all the Resolutions to be proposed are set out on page 42.

Independent auditors' report to the members of Porvair plc

We have audited the financial statements which comprise the Consolidated Profit and Loss Account, the Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ('the auditable part').

Respective responsibilities of Directors and Auditors
The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This Report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this Report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' Remuneration Report have been 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our Report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Statement, the Operating and Financial Review, the Directors' Report, the unaudited part of the Directors' Remuneration Report and the Corporate Governance Statement.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code issued in June 1998 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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 and the auditable part of the Directors' Remuneration Report. 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 and the auditable part of the Directors' Remuneration Report 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 at 1 December 2003 and of the loss and cash flows of the Group for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- those parts of the Directors' Remuneration Report required by Part 3 of *Schedule 7A to the Companies Act 1985 have been properly prepared in* accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP, Leeds
Chartered Accountants and Registered Auditors
27 January 2004

Notes:

(a) The maintenance and integrity of the Porvair plc. website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occured to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated profit and loss account

For the year ended 1 December 2003	Note	Continuing Group £'000	Discontinued operations £'000	Group 2003 £'000	Group 2002 £'000
Turnover					
Group (including share of joint venture)	1	**46,167**	18,042	**64,209**	68,485
Less: share of joint venture		**–**	–	**–**	(153)
		46,167	18,042	**64,209**	68,332
Cost of sales		**(30,000)**	(16,493)	**(46,493)**	(46,330)
Gross profit		**16,167**	1,549	**17,716**	22,002
Distribution costs		**(795)**	(695)	**(1,490)**	(1,892)
Research & development expense		**(4,661)**	(1,174)	**(5,835)**	(5,867)
Exceptional item	4	**(1,525)**	–	**(1,525)**	–
Administrative – other		**(11,125)**	(2,979)	**(14,104)**	(16,009)
Total administrative expenses		**(17,311)**	(4,153)	**(21,464)**	(21,876)
Group operating loss before joint venture and associated undertaking		**(1,939)**	(3,299)	**(5,238)**	(1,766)
Share of operating loss of joint venture		**–**	–	**–**	(94)
Share of operating profit of associated undertaking		**159**	–	**159**	181
Total Group operating loss		**(1,780)**	(3,299)	**(5,079)**	(1,679)
Exceptional losses on disposal of discontinued operations	4			**(23,033)**	–
Interest payable (net)	2			**(379)**	(451)
Loss on ordinary activities before taxation				**(28,491)**	(2,130)
Loss on ordinary activities before taxation				**(28,491)**	(2,130)
Add back;-					
goodwill amortisation	10			**2,290**	2,299
exceptional item – continuing				**1,525**	–
exceptional item – discontinued				**23,033**	–
losses/(profits) – discontinued				**3,246**	(597)
Adjusted profit/(loss) on ordinary continuing activities before taxation, goodwill amortisation and exceptional items				**1,603**	(428)
Tax on loss on ordinary activities	3			**4,095**	352
Loss on ordinary activities after taxation				**(24,396)**	(1,778)
Equity minority interests				**(394)**	(101)
Loss attributable to shareholders				**(24,790)**	(1,879)
Dividends	5			**(1,251)**	(2,467)
Retained loss for the financial year	20			**(26,041)**	(4,346)
Losses per share – basic and diluted	9			**(67.4)p**	(5.1)p

Reconciliation of movements in equity shareholders' funds

For the year ended 1 December 2003	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Profit/(loss) attributable to shareholders	**(24,790)**	(1,879)	**(21,374)**	5,697
Dividends	**(1,251)**	(2,467)	**(1,251)**	(2,467)
Retained profit/(loss) for the year	**(26,041)**	(4,346)	**(22,625)**	3,230
Exchange differences	**(137)**	(613)	**(1)**	(9)
Net increase/(decrease) in equity shareholders' funds	**(26,178)**	(4,959)	**(22,626)**	3,221
Opening equity shareholders' funds	**58,374**	63,333	**61,086**	57,865
Closing equity shareholders' funds	**32,196**	58,374	**38,460**	61,086

Statement of total recognised gains and losses

For the year ended 1 December 2003	Group 2003 £'000	Group 2002 £'000
Loss attributable to shareholders	**(24,790)**	(1,879)
Exchange differences	**(137)**	(613)
Total losses recognised in the year	**(24,927)**	(2,492)

Balance sheets

As at 1 December 2003	Note	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Fixed assets					
Intangible assets	10	**30,204**	33,349	**-**	–
Tangible assets	11	**9,277**	20,734	**31**	27
Investments					
Investments in subsidiary undertakings	12	**-**	–	**56,499**	75,054
Investment in associated undertaking	12	**2,453**	2,348	**-**	-
		41,934	56,431	**56,530**	75,081
Current assets					
Stocks	13	**7,088**	14,661	**-**	–
Debtors falling due after more than one year	14	**2,624**	3,178	**17**	10
Debtors falling due within one year	14	**9,039**	16,616	**152**	210
		11,663	19,794	**169**	220
Cash at bank and in hand		**3,980**	3,261	**501**	3,603
		22,731	37,716	**670**	3,823
Creditors					
Amounts falling due within one year	15	**(9,001)**	(28,442)	**(4,659)**	(17,818)
Net current assets/(liabilities)		**13,730**	9,274	**(3,989)**	(13,995)
Total assets less current liabilities		**55,664**	65,705	**52,541**	61,086
Creditors					
Amounts falling due after more than one year	15	**(14,081)**	–	**(14,081)**	-
Provisions for liabilities and charges	18	**(4,117)**	(2,455)	**-**	–
Net assets		**37,466**	63,250	**38,460**	61,086
Capital and reserves					
Called up share capital	19	**736**	736	**736**	736
Share premium account	20	**28,679**	28,679	**28,679**	28,679
Other reserves	20	**(861)**	4,329	**(1,169)**	(217)
Profit and loss account	20	**3,642**	24,630	**10,214**	31,888
Total equity shareholders' funds		**32,196**	58,374	**38,460**	61,086
Equity minority interests		**5,270**	4,876	**-**	–
		37,466	63,250	**38,460**	61,086

Approved by the Board on 27 January 2004

B D W Stocks, Director
M Moran, Director

Consolidated cash flow statement

For the year ended 1 December 2003	Note		**Group 2003 £'000**		Group 2002 £'000
Net cash inflow from operating activities	21		**2,054**		2,798
Dividend from associated undertaking			**129**		–
Returns on investments and servicing of finance					
Interest received		**65**		104	
Interest paid		**(642)**		(368)	
			(577)		(264)
Taxation					
UK corporation tax paid		**(194)**		(660)	
Overseas tax refunded		**1,107**		327	
			913		(333)
Capital expenditure					
Purchase of tangible fixed assets		**(1,806)**		(3,070)	
Sale of tangible fixed assets		**8**		77	
			(1,798)		(2,993)
Acquisitions and disposals					
Disposals of subsidiaries' assets and liabilities	27	**2,304**		–	
			2,304		–
Equity dividends paid			**(2,467)**		(2,467)
Net cash inflow/(outflow) before financing			**558**		(3,259)
Financing					
Loans repaid	22	**(41)**		(2,448)	
Increases in borrowings	22	**339**		6,553	
			298		4,105
Increase in cash in the year			**856**		846

Reconciliation of net cash flow to movement in net debt

	Note	2003	2002
Increase in cash in the year		**856**	846
Increase in borrowings		**(298)**	(4,105)
Change in net borrowings from cash flows		**558**	(3,259)
Exchange differences		**1,122**	828
Movement in net borrowings in year		**1,680**	(2,431)
Opening net borrowings	22	**(11,788)**	(9,357)
Closing net borrowings	22	**(10,108)**	(11,788)

Accounting policies

Basis of accounting
These financial statements have been prepared under the historical cost convention, in accordance with all applicable accounting standards in the UK and The Companies Act (1985). The policies set out below have been applied consistently with the prior year.

Basis of consolidation
The consolidated accounts incorporate the accounts of Porvair plc and its subsidiary undertakings made up to 1 December 2003, which is permitted under Section 223 (3) of The Companies Act 1985, being one day later than the customary period end date: This period incorporates the vote and confirmation of sale of the King's Lynn businesses as detailed in note 27. As a consequence, the results reflect the disposal and proceeds from this transaction and adjustment has been made for the trading that occurred on that date.

The consolidated accounts include the Group's share of the profits or losses of joint ventures and associated undertakings. Associated undertakings are those companies in which the Group has a beneficial interest of between 20% and 50% in the equity capital and where the Group exercises significant influence over commercial and financial policy. The Consolidated Balance Sheet includes the Group's share of the underlying net tangible assets of associated undertakings and joint ventures. The results of subsidiary undertakings acquired or sold during the year are included in the Consolidated Profit and Loss Account from the date of acquisition or up to the date of sale, as appropriate.

Intangible assets – goodwill
Purchased goodwill, representing the excess of the fair value of the purchase consideration over the fair value of the net tangible assets acquired, is capitalised as an intangible asset and amortised through the profit and loss account over its useful economic life. Capitalised goodwill is amortised over periods between 5 and 20 years on a straight-line basis.

The gain or loss on the disposal of a subsidiary or associated undertaking is calculated by comparing the carrying value of the net assets sold, including any unamortised goodwill, with the proceeds received.

Tangible fixed assets
Tangible fixed assets, including items leased under finance leases, are capitalised at cost. Freehold land and assets under construction are not depreciated. Other fixed assets are depreciated by equal annual amounts over their estimated useful lives. Annual depreciation rates are 2.5% for freehold buildings, 10% to 33.33% for plant, machinery and equipment, and 25% for motor vehicles.

Impairment of assets
Assets are regularly reviewed to confirm the adequacy of their carrying values. Where the expected recoverable amount is lower than the book value, the excess of book value is charged to the profit and loss account during the period.

Government grants
Grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful life of the assets. Revenue grants are credited to the profit and loss account in the period in which the related expenditure is incurred.

Investments
Investments held as fixed assets are stated at cost less provision for permanent diminution of value.

Stocks and work in progress
Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes direct materials, labour and an appropriate proportion of manufacturing overheads.

Leased assets
Finance leases, which transfer substantially all the risks and rewards of ownership of the asset to the lessee, are capitalised at what is fair value on inception and depreciated over the term of the related lease. The related finance cost is charged to interest cost. Operating lease rentals are charged to profit as incurred.

Turnover
Turnover represents amounts invoiced to external customers in the ordinary course of business.

Patents and trade marks
All expenditure on the registration, renewal and maintenance of patents and trade marks is expensed.

Research and development
Technical research and development expenditure is written off to the profit and loss account as incurred.

Foreign exchange
Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial year. The results of foreign subsidiary undertakings are translated at the average rate for the year.

Differences on exchange arising from the retranslation of the opening net investment in subsidiary undertakings and borrowings used to finance these equity investments are taken to reserves, where they are effectively hedged, otherwise they are taken to the profit and loss account.

All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Financial instruments
The Group uses derivative financial instruments to hedge its exposures to fluctuations in foreign exchange rates. Instruments accounted for as hedges are designated as a hedge at the inception of contracts.

Gains and losses on forward foreign exchange contracts entered into as hedges of future purchases and sales denominated in foreign currency are carried forward and taken to the profit and loss account on maturity to match the underlying transactions.

Deferred taxation
The Group provides for deferred taxation on a full provision basis where an obligation has arisen which will crystallise in future periods.

Pensions
Pension costs for the Group's defined benefit pension scheme are charged to the profit and loss account in order to spread the cost of pensions over the service lives of employees in the scheme. Pension costs for defined contribution schemes are charged to profit as incurred.

Notes to the accounts

1 Turnover and segmental analyses

The geographical analyses of the Group's turnover and analyses of turnover, operating profit/(loss) and net assets by segment are set out below:

	2003		2002	
	By destination £'000	**By origin £'000**	By destination £'000	By origin £'000
Turnover				
United Kingdom	**15,277**	**24,157**	14,606	23,209
Continental Europe	**5,286**	**–**	5,152	–
Americas	**22,513**	**22,010**	22,058	22,122
Asia	**1,801**	**–**	1,679	153
Australasia	**553**	**–**	629	–
Africa	**737**	**–**	1,360	–
Continuing Group	**46,167**	**46,167**	45,484	45,484
Discontinued operations	**18,042**	**18,042**	23,001	23,001
Less share of joint venture	**–**	**–**	(153)	(153)
	64,209	**64,209**	68,332	68,332

Turnover derived from intra-segmental transactions is not material.

Segmental analyses

	2003 £'000	2002 £'000
i) Turnover		
Metals Filtration	**20,020**	21,489
Microfiltration	**24,157**	23,209
Fuel Cells	**1,990**	786
Continuing Group	**46,167**	45,484
Discontinued operations	**18,042**	23,001
	64,209	68,485

The comparative information has been restated to separate the discontinued activities previously included within the Microfiltration segment, and to include them with the disposed Membranes business.

ii) Operating profit/(loss)

	Before goodwill	**Goodwill**	**2003 Operating profit/(loss) after goodwill**	Before goodwill	Goodwill	2002 Operating profit/(loss) after goodwill
Metals Filtration	**242**	**(1,226)**	**(984)**	(839)	(1,237)	(2,076)
Microfiltration	**3,900**	**(1,011)**	**2,889**	3,182	(1,009)	2,173
Fuel Cells	**(2,160)**	**–**	**(2,160)**	(2,320)	–	(2,320)
Exceptional item	**(1,525)**	**–**	**(1,525)**	–	–	–
Operating profit/(loss) of Continuing Group	**457**	**(2,237)**	**(1,780)**	23	(2,246)	(2,223)
Discontinued operations	**(3,246)**	**(53)**	**(3,299)**	597	(53)	544
	(2,789)	**(2,290)**	**(5,079)**	620	(2,299)	(1,679)

The exceptional item relates primarily to the Metals Filtration segment.

Notes to the accounts continued

1 Turnover and segmental analyses continued

iii) Net assets

	2003 Before goodwill	2003 Goodwill	2003 Net assets including goodwill	2002 Before goodwill	2002 Goodwill	2002 Net assets including goodwill
Metals Filtration	**7,488**	**14,141**	**21,629**	10,161	15,584	25,745
Microfiltration	**9,268**	**16,063**	**25,331**	8,691	17,073	25,764
Fuel Cells	**1,154**	**–**	**1,154**	1,214	–	1,214
	17,910	**30,204**	**48,114**	20,066	32,657	52,723
Associated undertaking			**2,453**			2,348
Discontinued operations			**(3,586)**			23,710
Taxation			**961**			(2,160)
Dividend payable			**(368)**			(1,583)
Net borrowings			**(10,108)**			(11,788)
			37,466			63,250

The businesses in the Metals Filtration and Fuel Cells segments are based in the USA.
The analysis of operating profit/(loss) is provided as it represents a clearer presentation of the businesses' performance.

2 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):	Note	Group 2003 £'000	Group 2002 £'000
Staff costs:			
Wages and salaries		**19,543**	20,422
Social security costs		**2,719**	2,945
Other pension costs	24	**1,107**	936
		23,369	24,303
Operating lease costs:			
Land and buildings		**844**	840
Plant, machinery and vehicles		**378**	459
		1,222	1,299
Net interest payable on bank and other borrowings			
Interest payable on bank loans and overdrafts		**444**	555
Interest receivable		**(65)**	(104)
		379	451
Depreciation: owned assets	11	**3,309**	3,512
Amortisation: goodwill	10	**2,290**	2,299
Loss on sale of tangible fixed assets		**53**	44
Income from government grants		**(369)**	(223)
Research and development		**5,835**	5,867
Fees paid to Auditors:			
Audit work (fees for Company, £11,000 – 2002, £11,000)		**120**	110
Non-audit work (of which taxation fees, £113,000 – 2002, £76,000)		**323**	86

Of the non-audit fees £237,000 was in relation to the disposal transaction.

3 Tax on loss on ordinary activities

	Group 2003 £'000	Group 2002 £'000
a) Taxation on the loss for the year:		
UK corporation tax at 30% (2002: 30%):		
Current period tax credit/(charge)	**81**	(1,111)
Adjustments in respect of previous periods	**618**	269
Total UK current tax	**699**	(842)
Overseas tax (payable)/receivable	**(101)**	1,499
Tax on share of profits of associated company	**(14)**	(51)
Total current tax (see (b))	**584**	606
Deferred tax	**3,511**	(254)
Tax credit on loss on ordinary activities	**4,095**	352
b) Reconciliation of current tax credit to result for the period		
Loss on ordinary activities before tax	**(28,491)**	(2,130)
Expected corporation tax credit at the standard UK rate (30%)	**8,547**	639
Differences arising explained by:		
Amortisation of goodwill	**(687)**	(690)
Tax losses written off	**(4,030)**	–
Other permanent differences	**(792)**	(197)
Accelerated capital allowances and other timing differences	**(3,484)**	254
Adjustments to tax charge in respect of previous period	**618**	405
Other items, including rate differences relating to overseas tax jurisdictions	**412**	195
Total current tax on loss on ordinary activities (see (a))	**584**	606

4 Exceptional items

During the period plans were completed for the re-organisation of the Hendersonville plant in preparation for the next phase of fuel cell development. As a result various assets have been earmarked for disposal and the total costs of the re-organisation amounted to £1,525,000 – these are shown as operational exceptional charges against the continuing businesses.

Exceptional costs arising from the disposal of Porvair International and Porvair Ceramics businesses together with the wind-down of the related membranes business in Canada are shown as non-operational exceptional charges against the discontinued operations and were as follows:

	2003 £'000
Disposal of Porvair International and Porvair Ceramics (note 27)	**15,888**
Related transaction costs	**414**
Unamortised goodwill in relation to Porvair Ceramics	**639**
Net loss on disposal of subsidiary undertakings	**16,941**
Provision for pension and property liabilities	**4,700**
Closure costs of Canadian operation	**1,070**
Other	**322**
	23,033

It is anticipated operations at Permair Leathers Limited in Canada will cease in 2004.

Notes to the accounts continued

5 Dividends

	Group 2003 £'000	Group 2002 £'000
Dividends on equity shares:		
Interim dividend paid – 2.4p (2002: 2.4p)	**883**	884
Final dividend proposed – 1.0p (2002: 4.3p)	**368**	1,583
	1,251	2,467

6 Company result for the financial year

As permitted by Section 230 of the Companies Act 1985, no profit and loss account is presented for the Holding Company. The loss attributable to the Company which has been dealt with in the accounts is £21,374,000 (2002: profit of £5,697,000).

7 Directors' emoluments

Detailed disclosures of Directors' individual remuneration and share options are given in the Directors' Remuneration Report on pages 13 to 15.

8 Employees

	2003		2002	
	Average	Year end	Average	Year end
Metals Filtration	**194**	**185**	203	190
Microfiltration	**297**	**296**	291	291
Fuel Cells	**54**	**54**	32	38
Head office	**7**	**7**	9	7
Continuing Group	**552**	**542**	535	526
Discontinued operations	**253**	**241**	285	273
	805	**783**	820	799
North American employees included above in continuing Group	**248**	**239**	235	228

9 Losses per share

The basic losses per share as shown in the profit and loss account are calculated by reference to the loss attributable to shareholders and the average number of shares in issue during the year on a time-weighted basis of 36,803,011 (2002: 36,803,011). For the diluted losses per share, the weighted average number of Ordinary Shares is adjusted to assume conversion of all dilutive potential share options outstanding at the year end.

10 Intangible assets

Goodwill	Group 2003 £'000	Group 2002 £'000
Cost		
At 1 December 2002	**49,893**	50,206
Additions*	**-**	(79)
Disposals	**(1,065)**	–
Exchange differences	**(222)**	(234)
At 1 December 2003	**48,606**	49,893
Amortisation		
At 1 December 2002	**(16,544)**	(14,266)
Amortisation	**(2,290)**	(2,299)
Disposals	**426**	–
Exchange differences	**6**	21
At 1 December 2003	**(18,402)**	(16,544)
Net book value		
At 1 December 2003	**30,204**	33,349

*The movement in additions in the prior period relates to reassessment of the fair values of assets purchased as part of the acquisitions made in 2001.

11 Tangible fixed assets

Group	Freehold land and buildings £'000	Assets in course of construction £'000	Plant, machinery & equipment £'000	Total £'000
Cost				
At 1 December 2002	4,035	1,738	42,458	48,231
Reclassification	9	(1,771)	1,762	–
Additions	47	1,184	575	1,806
Disposals	(881)	(733)	(26,799)	(28,413)
Exchange differences	(204)	(41)	(846)	(1,091)
At 1 December 2003	**3,006**	**377**	**17,150**	**20,533**
Depreciation				
At 1 December 2002	(867)	–	(26,630)	(27,497)
Charge for year	(434)	–	(2,875)	(3,309)
Disposals	715	–	18,377	19,092
Exchange differences	49	–	409	458
At 1 December 2003	**(537)**	**–**	**(10,719)**	**(11,256)**
Net book value				
At 1 December 2003	**2,469**	**377**	**6,431**	**9,277**
At 1 December 2002	3,168	1,738	15,828	20,734

Company				
Cost				
At 1 December 2002			303	303
Additions			28	28
Disposals			–	–
At 1 December 2003			**331**	**331**
Depreciation				
At 1 December 2002			(276)	(276)
Charge for year			(24)	(24)
Disposals			–	–
At 1 December 2003			**(300)**	**(300)**
Net book value				
At 1 December 2003			**31**	**31**
At 1 December 2002			27	27

Capital commitments, authorised and contracted for, in the Group at 1 December 2003 were £122,000 (2002: £135,000). There were no such commitments in the Company (2002: Nil).

12 Fixed asset investments

Group	**2003 £'000 Investment in Associated Undertaking**
At 1 December 2002	**2,348**
Share of profit after tax during year	**145**
Dividend received	**(129)**
Exchange differences	**89**
At 1 December 2003	**2,453**

The associated undertaking is a 25% interest in Sympatex (incorporated in Germany). The Group provides a loan of €1.6 million to the undertaking on which interest is receivable at 6% pa. During the year the Group has received £0.06m of interest on the loan (2002: £0.06m).

Notes to the accounts continued

12 Fixed asset investments continued

Company	Shares in Subsidiary Undertakings £'000	Loans to Subsidiary Undertakings £'000	2003 Total £'000
At 1 December 2002	42,907	32,147	75,054
Additions	–	1,339	1,339
Impairments	(6,418)	(13,476)	(19,894)
At 1 December 2003	**36,489**	**20,010**	**56,499**

Impairments relate to the disposals of assets and liabilities from the King's Lynn businesses. Details of the Group's subsidiary undertakings are given in Note 26.

13 Stocks

	Group		Company	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Raw materials and consumables	**2,947**	4,482	**–**	–
Work in progress	**1,377**	1,927	**–**	–
Finished goods and goods for resale	**2,764**	8,252	**–**	–
	7,088	14,661	**–**	–

14 Debtors

	Note	Group		Company	
		2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Amounts falling due within one year					
Trade debtors		**7,832**	13,992	**–**	–
VAT recoverable		**134**	121	**40**	6
Corporation tax recoverable		**155**	296	**–**	–
Other debtors		**370**	1,660	**36**	147
Prepayments		**548**	547	**76**	57
		9,039	16,616	**152**	210
Amounts falling due after more than one year					
Trade debtors		**–**	971	**–**	–
Deferred taxation	18	**1,017**	–	**17**	10
Deferred consideration		**1,000**	–	**–**	–
Pension prepayment		**607**	2,207	**–**	–
		2,624	3,178	**17**	10

15 Creditors

	Note	Group		Company	
		2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Amounts falling due within one year					
Bank overdraft		**–**	–	**3,676**	–
Bank loans and loan notes	16	**7**	15,049	**–**	15,001
Trade creditors		**5,049**	7,920	**179**	128
Corporation tax		**212**	–	**72**	548
Taxation and social security		**496**	638	**34**	79
Accruals and deferred income		**2,869**	3,252	**330**	479
Proposed dividend		**368**	1,583	**368**	1,583
		9,001	28,442	**4,659**	17,818
Amounts falling due after more than one year					
Bank loans	16	**14,081**	–	**14,081**	–

16 Bank and other loans

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Hire purchase finance loans	**7**	48	**–**	–
Secured multicurrency revolving credit facility of £15 million maturing September 2006 with interest at 0.95% above LIBOR (2002: 0.65% above LIBOR)	**14,081**	15,001	**14,081**	15,001
	14,088	15,049	**14,081**	15,001

The multicurrency revolving credit facility is secured by fixed and floating charges against certain subsidiaries' assets.

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Bank and other loans of the Group are repayable as follows:				
Within one year	**7**	15,049	**–**	15,001
One to two years	**–**	–	**–**	–
Two to five years	**14,081**	–	**14,081**	–
	14,088	15,049	**14,081**	15,001

At 1 December 2003 the Group had £919,000 (2002 : Nil) of undrawn revolving credit facilities under the existing bank facility. The facility is due to expire in September 2006, but is being renegotiated to include a long-term loan element with amortising debt.

17 Financial instruments

(1) Interest rate risk: the interest rate profile of the financial liabilities of the Group comprising gross borrowings at 1 December 2003 is detailed below.

	2003					2002	
	Fixed rate weighted average period Years	**Fixed rate weighted average interest rate %**	**Fixed borrowings £'000**	**Floating borrowings £'000**	**Total borrowings £'000**	Fixed borrowings £'000	Floating borrowings £'000
Currency:							
Sterling	**1**	**8.0**	**7**	**–**	**7**	48	–
Euros	**–**	**–**	**–**	**1,115**	**1,115**	–	1,023
US Dollars	**–**	**–**	**–**	**12,966**	**12,966**	–	13,978
	1	**8.0**	**7**	**14,081**	**14,088**	48	15,001

The floating interest rate exposure relates to the Group's secured revolving multicurrency credit facility (see note 16)

The interest rate profile of the financial assets of the Group comprising cash and long-term debt at 1 December 2003 is detailed below.

	2003 Long term debt £'000	**2003 Cash (floating rate) £'000**	2002 Long term debt £'000	2002 Cash (floating rate) £'000
Currency:				
Sterling	**–**	**2,196**	971	1,250
Canadian Dollars	**–**	**13**	–	31
Euros	**–**	**329**	–	205
US Dollars	**–**	**1,442**	–	1,775
	–	**3,980**	971	3,261

The Group has also provided a long-term loan to its associated undertaking (note 12). All of the Group's net cash assets are at floating rates of interest predominantly based on LIBOR or its overseas equivalents.

Notes to the accounts continued

17 Financial instruments continued

2) Currency risk: the currency exposure (i.e. those transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account) of the Group's net monetary assets/liabilities is shown below. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the operating currency of the operating unit involved.

	Group 2003 Net foreign currency monetary assets/liabilities						
	Sterling £'000	**US Dollar £'000**	**Canadian Dollar £'000**	**Euro £'000**	**Other £'000**	**Net Total £'000**	2002 Total £'000
Functional currency of Group operation:							
Sterling	**–**	**1,305**	**–**	**279**	**–**	**1,584**	2,671
Canadian Dollar	**–**	**216**	**–**	**–**	**–**	**216**	30
US Dollar	**8**	**–**	**–**	**115**	**–**	**123**	152
	8	**1,521**	**–**	**394**	**–**	**1,923**	2,853

The Group uses its foreign borrowings to provide a hedge against its foreign net investments. The amounts reflect the effect of currency forward contracts and other derivatives entered into to manage currency exposure.

(3) Fair values of financial instruments: the difference between the fair values and book values of the Group's financial assets and liabilities is not material.

(4) Hedging of future contracts: at 1 December 2003 there were forward exchange contracts to sell US $600,000 at rates no worse than US $1.5803/£1 entered into as cover for known future currency receipts (2002: zero-cost option to sell US $300,000 at a rate no worse than US $1.5770/£1).

(5) Further details of the Group's financing and treasury policy are given in the Operating and Financial Review on page 8.

18 Provisions for liabilities and charges

Under FRS 19 the Group provides for deferred tax on a full provision basis.

	Note	**Deferred taxation £'000**	**Pension, disposal and closure costs (notes 4, 27) £'000**	**2003 Total £'000**	2002 Deferred taxation only £'000
Balance at 1 December 2002		**2,455**	**–**	**2,455**	2,201
Profit and loss (credit)/charge		**(3,511)**	**4,117**	**606**	254
Reclassification to debtors	14	**1,017**	**–**	**1,017**	–
Exchange differences		**39**	**–**	**39**	–
Balance at 1 December 2003		**–**	**4,117**	**4,117**	2,455

Deferred tax liabilities/(assets) in the accounts have been provided for as follows:

	Amount provided Group		Amount provided Company	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Accelerated capital allowances	**599**	1,738	**(17)**	(10)
Pension prepayment	**182**	662	**–**	–
Other short-term timing differences	**(1,798)**	55	**–**	–
	(1,017)	2,455	**(17)**	(10)

The deferred tax asset at 1 December 2003 is included in debtors falling due after more than one year.
There were no unprovided deferred tax liabilities at 1 December 2003 (2002: £Nil).

19 Called up share capital

	Group		Company	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Authorised:				
75.0 million Ordinary Shares of 2p each (2002: 75.0 million)	**1,500**	1,500	**1,500**	1,500
Allotted and fully paid:				
36,803,011 Ordinary Shares of 2p each (2002: 36,803,011)	**736**	736	**736**	736
Shares issued as fully paid				
At 1 December 2002 and 2003				**36,803,011**

There were no share options exercised in the period and therefore no consideration received (2002: Nil).

Share options

The following options over Ordinary Shares granted under the Porvair Share Option Scheme 1986 and the Porvair Executive Share Option Scheme 1997 remain outstanding at 1 December 2003.

Number of shares	Subscription price	Exercise period
16,885	253.18p	1997 – 2004
187,053	388.53p	1999 – 2006
10,629	281.28p	2000 – 2007
53,149	331.61p	2001 – 2005
106,299	345.72p	2001 – 2005
21,259	116.18p	2002 – 2009
58,465	116.18p	2002 – 2006
37,203	148.17p	2002 – 2006
10,630	194.26p	2003 – 2010
58,460	214.49p	2003 – 2007
210,000	259.00p	2004 – 2008
6,000	231.00p	2005 – 2012
14,000	231.00p	2005 – 2009
20,000	126.50p	2005 – 2012
130,000	126.50p	2005 – 2009
26,000	111.00p	2006 – 2013
155,000	111.00p	2006 – 2010
100,000	160.00p	2006 – 2010
1,221,032		

Movements in share options during the year were:

	Number
At 1 December 2002	1,035,699
Options granted	281,000
Options lapsed	(95,667)
At 1 December 2003	**1,221,032**

	Number of shares	Subscription price
Options lapsed during the year were:	26,387	222.09p
	22,514	253.18p
	46,766	388.53p
	95,667	

Notes to the accounts continued

20 Reserves

	Special Reserve £'000	Exchange Reserve £'000	Capital Reserve £'000	Share Premium Account £'000	Profit and Loss Account £'000	Total £'000
Group						
At 1 December 2002	4,102	(724)	951	28,679	24,630	57,638
Retained loss for year	–	–	–	–	(26,041)	(26,041)
Transfers	(4,102)	–	(951)	–	5,053	–
Exchange differences	–	(137)	–	–	–	(137)
At 1 December 2003	**-**	**(861)**	**-**	**28,679**	**3,642**	**31,460**
Company						
At 1 December 2002		(1,168)	951	28,679	31,888	60,350
Retained loss for year		–	–	–	(22,625)	(22,625)
Transfers		–	(951)	–	951	–
Exchange differences		(1)	–	–	–	(1)
At 1 December 2003		**(1,169)**	**-**	**28,679**	**10,214**	**37,724**

The Capital Reserve was created on the acquisition of the business of Porvair International. Following the disposal of that business the Reserve can be transferred to the Profit and Loss Account Reserve.

The Special Reserve was created in 1996 for the specific purpose of the amortisation of goodwill. Aggregate goodwill amortisation charged directly to the profit and loss account exceeded the Reserve, accordingly it has been transferred to the Profit and Loss Account Reserve.

21 Reconciliation of operating loss to net cash inflow/(outflow) from operating activities

	Continuing businesses £'000	Discontinued operations £'000	**2003 £'000**	2002 £'000
Total Group operating loss before share of joint venture, associated undertakings and exceptional items	**(414)**	(3,299)	**(3,713)**	(1,766)
Goodwill amortisation	**2,237**	53	**2,290**	2,299
Depreciation	**1,700**	1,609	**3,309**	3,512
Loss on sale of fixed assets	**53**	–	**53**	44
Decrease/(increase) in stocks	**(533)**	483	**(50)**	82
Decrease/(increase) in debtors	**144**	2,036	**2,180**	(1,081)
(Decrease)/increase in creditors	**91**	(1,771)	**(1.680)**	(110)
Net cash inflow/(outflow) from operating activities before exceptional items	**3,278**	(889)	**2,389**	2,980
Exceptional items	**-**	(335)	**(335)**	(182)
Net cash inflow/(outflow) from operating activities	**3,278**	(1,224)	**2,054**	2,798

Exceptional items paid in the period relate to property and employee costs incurred before the disposal of the King's Lynn assets (2002: property costs in relation to 2001 exceptional item).

22 Analysis of net borrowings

	1 December 2002 £'000	Cash flow £'000	Other non-cash £'000	Exchange differences £'000	**1 December 2003 £'000**
Cash in hand and at bank	3,261	856	–	(137)	**3,980**
Overdrafts	–	–	–	–	**-**
		856	–	(137)	
Borrowings due after 1 year	–	(339)	(15,001)	1,259	**(14,081)**
Borrowings due within 1 year	(15,049)	41	15,001	–	**(7)**
		(298)	–	1,259	
Total	(11,788)	558	–	1,122	**(10,108)**

23 Operating lease commitments

The Group is committed to the following rentals during next year on operating leases expiring:

	Group 2003		Group 2002	
	Land & buildings £'000	**Other £'000**	Land & buildings £'000	Other £'000
Within one year	**7**	**88**	–	88
Within two to five years	**447**	**296**	300	296
Over five years	**442**	**–**	589	–
	896	**384**	889	384

24 Pension costs

a) Defined Benefit Plan – SSAP 24 basis

The Group operates a defined benefit pension scheme covering the majority of employees in the UK. The pension scheme is financed through a separate trust fund administered by Trustees with an independent Chairman. The Porvair plc Pension & Death Benefit Plan (the 'Plan') was closed to new entrants in October 2001.

Formal valuations of the Plan by a professionally qualified actuary are carried out at least every three years using the projected unit method. Under this method the current service cost will increase in relation to the salaries of the members in future years as those members approach retirement. The latest full actuarial valuation was as at 1 April 2000; a valuation as at 1 April 2003 is being finalised.

The principal actuarial assumptions adopted in the 2000 valuation were that over the long-term, the return on investments would be 9.5% per annum, that salary increases would average 6.0% per annum plus a promotional scale and that future pensions would be limited to those provided on a statutory basis. The actuarial value of the assets on the funding basis was sufficient to cover 96% (previous valuation in 1997: 90%) of the benefits that had accrued to members after allowing for expected future increases in pensionable remuneration, and the current funding deficiency amounted to £675,000. During the year the Group continued to make enhanced payments to the Plan and contributions were 15% and employee contributions 6%. The ongoing funding status of the Plan is expected to reach 100% in two to three years.

For the purposes of assessing pension costs under SSAP24, a valuation for accounting purposes has been provided by the actuary on the following assumptions; the return on investments would be 8% per annum, salary increases would average 5% per annum, future inflation would be 3% per annum and assuming a £2.0m deficit at 30 November 2002. On this basis the UK pension charge for the year was £693,000 (2002: £599,000); the funding via employer contributions was £893,000 (2002: £979,000). The market value of the Plan's assets (including AVC assets) at 31 March 2003 was £13.7m (2002: £16.6m). It is anticipated the future service contribution rate (as a percentage of employee's salary) will increase as a result of finalisation of the latest actuarial valuation.

b) Defined contribution schemes

For its USA employees, the Group operates a defined contribution pension plan (the 'Pension Plan') covering all eligible full-time employees. The Group contributes 3% of each participant's compensation each year to the Pension Plan. In 2003 this amounted to £211,000 (2002: £220,000). In 2003 the Group also made payments of £99,000 to designated US 401k schemes on behalf of its employees (2002: £Nil).

In the UK, after the closure of the Plan to new members the Group introduced a Stakeholder Plan to be offered to all new employees. Total employer contributions in the UK to defined contribution schemes was £104,000 (2002: £117,000).

24 Pension costs continued

c) Defined Benefit Plan - FRS 17 disclosures

The aim of FRS17 is to move from a long-term approach under SSAP24 to a market-based approach in valuing the assets and liabilities arising from an employer's defined benefit obligations and any related funding. As a result of market-based valuations there may be significant variations in the Plan funding from period to period under this basis.

The valuation used for FRS17 disclosures is based on the most recent actuarial valuation of the Plan as updated by the Plan actuaries to take account of the market value of the assets and the present value of the liabilities of the Plan at 30 November 2003.

i) Balance sheet

The financial assumptions used to calculate Plan liabilities under FRS17 are:

	2003	2002	2001
Valuation method	**Projected Unit**	Projected Unit	Projected Unit
Discount rate	**5.6% pa**	5.5% pa	5.5% pa
Inflation rate	**2.5% pa**	2.4% pa	2.4% pa
General salary increases	**4.5% pa**	4.4% pa	4.4% pa
Increases to pensions in payment	**2.5% pa**	2.5% pa	2.5% pa

The assets in the Plan with their expected rates of return are:

	Long-term expected rate of return at 30 November 2003	**Value at 30 November 2003 £'m**	Long-term expected rate of return at 30 November 2002	Value at 30 November 2002 £'m	Long-term expected rate of return at 30 November 2001	Value at 30 November 2001 £'m
Equities	**8.6%**	**9.5**	8.5%	8.7	8.0%	9.5
Bonds	**5.1%**	**4.7**	4.8%	4.2	5.2%	5.0
Other	**4.0%**	**0.0**	3.9%	0.1	5.0%	0.1
Market value of assets		**14.2**		13.0		14.6
Present value of Plan liabilities		**(22.8)**		(22.1)		(21.1)
FRS17 deficit in the Plan (excluding deferred tax)		**(8.6)**		(9.1)		(6.5)
Related deferred tax credit		**2.6**		2.7		1.9
Net pension liability		**(6.0)**		(6.4)		(4.6)

The analysis of movement in the deficit in the Plan for the year is as follows:

	2003 £'m	2002 £'m
Deficit at 1 December 2002	**(9.1)**	(6.5)
Contributions paid	**0.9**	1.0
Current service cost	**(1.0)**	(1.0)
Other finance charge	**(0.2)**	(0.2)
Actuarial gains/(losses)	**0.8**	(2.4)
Deficit at 1 December 2003	**(8.6)**	(9.1)

24 Pension costs continued

If the pension liability was reflected in the Consolidated Balance Sheet the adjustments would be as follows:

	2003 £'m	2002 £'m	2001 £'m
Shareholders' funds			
Shareholders' funds including SSAP24 prepayment	**32.2**	58.4	63.3
less: SSAP24 prepayment (including related deferred tax liability)	**(0.4)**	(1.3)	(1.3)
	31.8	56.9	62.0
less: FRS17 deficit	**(6.0)**	(6.4)	(4.6)
Shareholders' funds including FRS17 pension deficit	**25.8**	50.5	57.4

ii) Profit and loss account

The components of defined benefit cost for the year 2003 under FRS 17 would be as shown below.

	2003 £'m	2002 £'m
Analysis of amounts chargeable to operating profit:		
Current service cost	**(1.0)**	(1.0)
Past service cost	**–**	–
	(1.0)	(1.0)
Analysis of amounts chargeable to other finance income:		
Interest on Plan liabilities	**(1.2)**	(1.2)
Expected return on assets in the Plan	**1.0**	1.0
Net amount chargeable to other finance income	**(0.2)**	(0.2)
Total chargeable to profit and loss account before deduction of tax	**(1.2)**	(1.2)

iii) Other items

	2003 £'m	2002 £'m
Analysis of amounts recognisable in the statement of recognised gains and losses:		
Losses on assets	**(0.3)**	(3.3)
Experience gain on liabilities	**1.0**	0.9
Gains on change in financial and demographic assumptions	**0.1**	-
Total actuarial gain/(loss) recognisable in the statement of recognised gains and losses	**0.8**	(2.4)

	2003	2002
History of experience gains and losses:		
Losses on Plan assets (£m)	**(0.3)**	(3.3)
% of Plan assets at end of year	**2.1%**	25.4%
Experience gain on Plan liabilities (£m)	**1.0**	0.9
% of Plan liabilities at end of year	**(4.4)%**	(4.1)%
Total actuarial gain/(loss) recognisable in the statement of recognised gains and losses (£m)	**0.8**	(2.4)
% of Plan liabilities at end of year	**3.5%**	10.9%

25 Contingent liabilities

The rights of the owners of the minority interests in Porvair Filtration Group Limited include a 'put' option on their holding. This option is exercisable on 1 November 2006, and could require the Group to purchase all of the minority interests' shares. Currently this cost would be expected to be in the region of £6.8m.

Notes to the accounts continued

26 Principal subsidiary undertakings

The principal operating companies are as follows:

Name	Country of incorporation and operation	% holding
Selee Corporation	USA	100%
Porvair Fuel Cell Technology Inc	USA	100%
Porvair Filtration Group Limited	England	79%
Porvair Sciences Limited	England	100%

27 Disposals

As a result of the shareholder resolution passed at the Extraordinary General Meeting on 1 December 2003, the trade and majority of the assets and liabilities of Porvair International and Porvair Ceramics were sold to management. The Ceramics business was part of the Microfiltration division and is shown in the discontinued category in the segmental analyses in note 2.

	Porvair International £'000	Porvair Ceramics £'000	Total £'000
Net assets disposed:			
Fixed assets	7,521	979	8,500
Stock	6,147	862	7,009
Debtors	2,824	2,758	5,582
Creditors	(1,932)	(230)	(2,162)
Total book value	14,560	4,369	18,929
Sale proceeds:			
Cash			(2,518)
Deferred consideration			(1,750)
Provision against deferred consideration			750
			(3,518)
Outstanding completion settlement			477
Total proceeds			(3,041)
Net loss on sale of businesses			15,888

In 2003 £0.40m of fixed asset additions related to the disposed businesses (2002: £1.42m). UK taxable profits elsewhere in the Group have been offset in both of the last two years by the King's Lynn businesses, but as a result of the disposals UK tax payable should increase in the future. No specific allocation of interest cost is calculated against Group operations, but the proceeds received from the disposals and reduction in working capital needs will reduce interest expense.

Cash proceeds on the disposals shown in the Consolidated Cash Flow Statement are after the deduction of transaction costs settled prior to the year-end.

Directors' report *continued*

Creditor payment policy
The individual operating companies are responsible for agreeing the terms and conditions under which they conduct transactions with their suppliers. It is Group policy that payments to suppliers should be made in accordance with these terms provided that the supplier is also complying with all relevant terms and conditions. The underlying trade creditor days of the Group at 1 December 2003 were 49 days (2002: 51 days).

Directors' responsibilities
Directors are required by the Companies Act 1985 to ensure that financial statements for each financial year are prepared which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period. In preparing the financial statements, the Directors confirm that suitable accounting policies have been used and applied consistently; reasonable and prudent judgements and estimates have been made; the financial statements have been drawn up on a going concern basis; and applicable accounting standards have been followed.

It is also the Directors' responsibility to ensure that adequate accounting records are maintained that disclose with reasonable accuracy at all times the financial position of the Company and the Group and enable them to ensure that the Financial Statements comply with the Companies Act 1985. It is also their responsibility to safeguard the assets of the Company and the Group; to maintain a system of internal financial control; and hence to take reasonable steps to prevent and detect fraud and other irregularities.

Going concern
The Directors of Porvair after having made appropriate enquiries, including a review of the Group's budget for 2004 and its medium term plans, have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these accounts.

Auditors
PricewaterhouseCoopers LLP, the current auditors of the Company, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be put to the Annual General Meeting.

By order of the Board

Mark M

Mark Moran, 27 January 2004