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Porvair plc

Annual Report & Accounts
Year ended 30 November 2001

Directors' report

The directors are pleased to present their annual report and the audited accounts of the Group for the year ended 30 November 2001.

Review of business, principal activities and results
The business is reviewed in the chairman's statement on page 1, and in the operating and financial review on pages 9 to 11. Likely future developments in the business are also to be found in those sections.

The Group's principal activities are in the areas of developing, manufacturing and licensing advanced materials.

Dividends
An interim dividend of 2.4p per share was paid on 14 September 2001. The directors recommend the payment of a final dividend of 4.3p per share on 10 April 2002 to shareholders on the register on 15 March 2002. This makes a total dividend for the year of 6.7p per share (2000: 6.3p restated).

Directors and their interests
The names and biographical details of the directors are set out on page 17.

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 the 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 14 and 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 objective of increasing profitability and evaluating new business opportunities. The cost to the Group in the year under review was £5.2m (2000: £2.2m). 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. Over the last five years £13.7m has been spent on research and development and usually such expenditure represents between 3% and 4% of Group turnover.

Substantial shareholders
As at 23 January 2002 the Company has been notified of the following substantial shareholdings:

	Ordinary shares	Percentage
Clerical Medical Investment Group	3,837,399	10.4
Friends Ivory & Sime	3,353,142	9.1
Edinburgh Fund Managers	3,032,002	8.2
Schroder Investment Management Ltd	2,712,818	7.4
Royal & Sunalliance Group plc	2,003,190	5.4
Henderson Global Investors	1,946,931	5.3
ABN Amro Asset Management	1,612,523	4.4
Axa Investment Managers	1,591,890	4.3
Newton Investment Management	1,567,669	4.3
Graphite Enterprise Trust PLC	1,337,925	3.6
Laminvest NV	1,151,473	3.1

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 our environmental responsibilities.

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 a person who is fortunate enough not to suffer from a disability.

Donations
The Group made charitable donations of £23,000 during the year (2000: £20,000). There were no political donations.

Annual General Meeting
At the Annual General Meeting of the Company, to be held on Tuesday 9 April 2002, Notice of which is set out at the end of this document, the directors' existing authority to issue shares will be renewed and extended. In addition there will be one item of special business: Resolution 8 which concerns an authority for the purchase by the Company of its own shares. Full details of all the resolutions to be proposed are set out on pages 38 and 39.

Resolutions 6 and 7 concern the directors' authority to allot equity securities and renew and extend similar authorities taken at the Annual General Meeting in 2001 and subsequently at the Extraordinary General Meetings held on 15 June 2001 and 22 June 2001 respectively. If Resolution 6 is passed, the directors will be unconditionally authorised to allot relevant securities up to a maximum nominal amount of £245,353.40, being one-third of the share capital currently in issue. The directors have no current intention of exercising this authority. If Resolution 7 is passed, the directors will be given authority to allot equity securities for cash, first in connection with rights issues and similar proportionate offers and secondly up to a maximum nominal value of £36,803.00 (being 5% of the current issued share capital) wholly for cash without first offering them to existing shareholders on a proportionate basis. The authorities under these resolutions will continue for five years.

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 885,891 ordinary shares in the capital of the Company were outstanding as at 23 January 2002 (being the latest practicable date prior to the publication of this report) representing 2.41% 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 23 January 2002 would represent 2.67% of the ordinary share capital in issue following such exercise.

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 30 November 2001 were 48 days (2000: 50 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; to safeguard the assets of the Company and the Group; to maintain a system of internal financial control; and 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 2002 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, 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 Moran
23 January 2002

Report of the Remuneration Committee

The Group has complied fully throughout the period with Section A of the best practice provisions annexed to the Listing Rules prepared by the Financial Services Authority as the competent authority for listing in the United Kingdom. The Committee has given full consideration, when implementing remuneration policy, to the provisions in Section B of the Annex to the Listing Rules.

The Committee
The Committee comprises Michael Ost (Chairman), John Morgan and William Wallis. The Committee determines the pay and benefits of the executive directors, whilst the remuneration of the non-executive directors is determined by the full Board. The composition of the Committee is not in compliance with section B.2.1 of the Combined Code provisions in that not all of its members are independent. While John Morgan is not an independent director, in consideration of the size of the Board, it is thought appropriate that all three non-executive directors form the Committee.

Remuneration policy
The remit of the Committee, which meets at least twice a year, is to ensure that the remuneration packages of the executive directors are competitive and designed to attract, retain and motivate managers of high quality. The Committee takes independent professional advice in determining remuneration packages. These consist of a base salary, a discretionary annual cash bonus, the grant of share options and the provision of other benefits including pension arrangements, health insurance and company car.

Service contracts
The executive directors have contracts terminable by the Company on twelve months' notice. The non-executive directors receive letters of appointment, and are subject to periodic re-election at the Annual General Meeting in common with all the executive directors. They do not participate in any share option scheme, bonus or pension arrangements.

Annual bonus
Bonus payments to executive directors are made at the discretion of the Committee with reference to individual performance and the achievement of Group profit targets. When triggered they are cash payments made annually in arrears and are not pensionable.

Pensions
Pension and life assurance benefits are provided for executive directors by the Porvair Pension Plan, a contributory scheme which was closed to new members in October 2001. Directors receive the same benefits from the Plan as all other members, including a pension payable at retirement, dependants' benefits and a lump sum of four times salary on death in service. Only basic salary is pensionable.

The accumulated total accrued pension figures shown in the table below represent the annual amount of accrued pension payable on retirement at normal retirement age, based on the director's service to, and pensionable earnings at, the year end. The transfer value of the increase has been calculated on the basis of actuarial advice and is net of directors' contributions in the year. The increase in accrued pension and transfer value excludes any increase in inflation.

Directors' remuneration
The following table shows the total remuneration of the directors for the year:

	Basic salary and fees £'000	Bonus £'000	Benefits £'000	2001 total £'000	2000 total £'000	Increase in accrued pension p.a. £'000	Transfer value of increase £'000	Accumulated total accrued pension p.a. £'000
Executive directors								
M Moran	140	30	12	182	154	1	1	5
B D W Stocks	170	50	9	229	186	1	-	5
Non-executive directors								
J M Morgan (Chairman)	63	-	-	63	61			
M S Ost	19	-	-	19	18			
W O F Wallis	19	-	-	19	18			
	411	80	21	512	437	2	1	10

Notes
1. Mr L G Bingham who resigned from the Board on 18 September 2000 had total emoluments of £292,000 in 2000.
2. Mr E Bostwick who retired from the Board on 30 November 2000 had total emoluments of £18,000 in 2000.

Share options
Details of the share options granted under Porvair Share Option Schemes are as follows:

	At 30 November 2000 restated	Granted	At 30 November 2001	Exercise price restated	Date from which exercisable	Expiry date
Directors						
M Moran	53,149	–	53,149	331.61p	10/02/01	10/02/05
M Moran	26,575	–	26,575	116.18p	25/02/02	25/02/06
M Moran	15,944	–	15,944	148.17p	16/08/02	16/08/06
M Moran	–	70,000	70,000	259.00p	12/07/04	12/07/08
B D W Stocks	106,299	–	106,299	345.72p	20/02/01	20/02/05
B D W Stocks	31,890	–	31,890	116.18p	25/02/02	25/02/06
B D W Stocks	21,259	–	21,259	148.17p	16/08/02	16/08/06
B D W Stocks	–	85,000	85,000	259.00p	12/07/04	12/07/08

Options can only be exercised if the Remuneration Committee is satisfied that over a period of not less than three years, commencing on the date of grant, there has been an increase in the Group's earnings per share of at least 2% per annum above the growth in the Retail Prices Index over the same period.

No directors' options lapsed or were exercised in the year.

The market price of the Company's ordinary shares at 30 November 2001 was 207.5p.

The range of market price during the year was 161.5p to 434.0p.

Directors' interests
The beneficial interests, at 30 November 2001, of the directors at that date in the ordinary shares of the Company are shown below. There have been no changes in those interests up to the date of this report.

	2001		2000	
	Ordinary shares	Share options	Ordinary shares	Share options restated
Executive directors				
M Moran	42,570	165,668	29,800	95,668
B D W Stocks	20,421	244,448	9,200	159,448
Non-executive directors				
J M Morgan (Chairman)	745,816	–	741,416	–
M S Ost	2,857	–	2,000	–
W O F Wallis	17,857	–	12,500	–

Michael Ost, Chairman
Remuneration Committee
23 January 2002

Corporate governance

Compliance
The directors are of the opinion that the Company complied with the provisions of the Combined Code throughout the accounting period. In respect of Code provision D.2.1 relating to internal control the Company has adopted the recommendations of the Turnbull Committee.

Board of directors
The Board consists of five directors, of whom three are non-executive, and it meets regularly – normally seven times a year.

The Board retains full and effective control over the Group and monitors the executive management. The Board has a formal schedule of matters specifically reserved to it which include public statements concerning the Group's affairs, strategy, approval of major expenditure, treasury policy, review of monthly operating results and authority levels. The Group Finance Director is responsible for ensuring that applicable rules and regulations are complied with and that Board procedures are followed.

Audit Committee
The Audit Committee is chaired by William Wallis and its membership is set out on page 18. It meets at least twice a year and its remit includes all matters pertaining to accounting policies, internal controls and financial reporting of the Group. It also recommends the appointment and fees of the external auditors and approves the scope of the audit. Details of fees for non-audit work are shown in note 2 on page 26.

Remuneration Committee
The Remuneration Committee is chaired by Michael Ost and its membership is shown on page 18. The report of this Committee is set out on pages 14 and 15.

Nomination Committee
The Nomination Committee is chaired by John Morgan and its membership is shown on page 18. The Committee nominates all appointments to the Board of directors of Porvair plc.

Pension Committee
The Company continues to operate a defined benefit pension plan ("Plan") although it was closed to new entrants from 1 October 2001. This Plan is financed through a separate trust fund administered by trustees with an independent Chairman. In addition the Group also provides defined contribution schemes for employees to participate in, both in the UK and the USA.

The Board has a Pension Committee chaired by John Morgan and its membership is shown on page 18. The objectives of this Committee are to keep under review the present and future pension requirements within the Group and to monitor the status of the Plan with regard to those employees, pensioners and deferred pensioners who remain participants.

Internal control
The Turnbull Report issued in September 1999 gives guidance for directors on reviewing internal controls and reporting. The Company has complied in full throughout the year with the recommendations of the Turnbull Report.

The Board has overall responsibility for ensuring that the Group maintains a system of internal control. The system is designed to ensure that there is an ongoing process for identifying, evaluating and managing the key risks. As with any such system, it can only provide reasonable, but not absolute, assurance against material misstatement or loss. The Group's key procedures are as follows:

Control environment – each operating business has its own management group which meets regularly to monitor operational matters. The Managing Director of each operating business reports to the Group Chief Executive, and clearly defined lines of responsibility have been established within this organisational structure. The executive directors visit all operations regularly to perform detailed reviews.

Risk management – operating business management have a clear responsibility for the identification of risks facing each operation, and for establishing procedures to investigate and monitor such risks. The Board also commissions independent reviews of key risks facing the Group as appropriate.

Information and control systems – The Group has a comprehensive process of annual budgets and detailed monthly reporting. The annual budget of each operating business and the consolidated Group budget is approved by the Board as part of its normal responsibilities.

Monitoring system – the Board has established a framework of controls encompassing procedures applicable to all businesses that are subject to executive review. Within its framework each business has defined its own internal policies and procedures. The Group has introduced a self-assessment process so that the operating businesses can quantify the extent of their compliance with control objectives. This process is monitored by the Group Chief Executive and Group Finance Director. It is also reviewed by the external auditors and reported on by them to the Board.

The Audit Committee and the Board have reviewed the effectiveness of the Group's internal controls for the year 1 December 2000 to 30 November 2001.

Board of directors





Top to bottom: John Morgan, Ben Stocks, Mark Moran, Michael Ost and William Wallis

Mark Moran (41), Group Finance Director
Joined Porvair in October 1997. He had previously been Group Financial Controller of Caradon plc. He is a Chartered Accountant.

Ben Stocks (39), Group Chief Executive
Joined the Group in February 1998 having previously been UK Managing Director of the Speciality Packaging Division of Carnaud Metal Box.

Non-executive directors

John Morgan (62), Chairman
Joined Porvair in 1979 and led the management buy-out in 1982. He was Chairman and Chief Executive from 1990 until 1998 when the current Chief Executive joined the Board. He became non-executive Chairman in June 1999.

Michael Ost (57)
Joined the Board in July 1999. He was previously the Chief Executive of Coats Viyella plc and McKechnie plc. He is a non-executive director of Lex Service plc.

William Wallis (64), Deputy Chairman
(senior non-executive director)
Joined at the time of the management buy-out in 1982 and became Chairman of the Audit Committee in 1993. He is a Chartered Accountant and has extensive experience in all aspects of corporate finance.

Board committees, secretary and advisers

Directors
John Morgan* (Chairman)
Mark Moran
Michael Ost**
Ben Stocks
William Wallis** (Deputy Chairman and senior non-executive director)
*Non-executive
**Independent non-executive

Members of the Audit Committee
William Wallis (Chairman)
John Morgan
Michael Ost

Members of the Remuneration Committee
Michael Ost (Chairman)
John Morgan
William Wallis

Members of the Nomination Committee
John Morgan (Chairman)
Michael Ost
William Wallis

Members of the Pension Committee
John Morgan (Chairman)
William Wallis

Secretary and Registered Office
Mark Moran
Riverside Industrial Estate
Estuary Road
King's Lynn
Norfolk PE30 2HS

Company registration number
1661935

Auditors
PricewaterhouseCoopers
Benson House
33 Wellington Street
Leeds LS1 4JP

Principal bankers
Barclays Bank PLC
Corporate Banking Centre
PO Box 422
1 Church Street
Peterborough
Cambridgeshire PE1 1QR

Registrars and Transfer Office
Capita IRG Plc
Balfour House
390/398 High Road
Ilford
Essex IG1 1NQ

Solicitors
Travers Smith Braithwaite
10 Snow Hill
London EC1A 2AL

Stockbrokers
Beeson Gregory Limited
The Registry
Royal Mint Court
London EC3N 4EY

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, including the additional disclosures in the Report of the Remuneration Committee (specified for our review by the Financial Services Authority), which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

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 directors' report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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 or the Listing Rules 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 the directors' report, the Chairman's statement, the operating and financial review and the corporate governance statement.

We review whether the corporate governance statement reflects the Group's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 November 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICEWATERHOUSECOOPERS PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
Leeds
23 January 2002

Consolidated profit and loss account

For the year ended 30 November 2001

	Note	Continuing operations £'000	Acquisitions £'000	Before exceptional items £'000	Exceptional items (note 4) £'000	Group 2001 £'000	Group 2000 restated £'000
Turnover							
Continuing operations (including share of joint venture)		60,247	12,020	72,267	–	72,267	65,613
Less share of joint venture		(808)	–	(808)	–	(808)	(1,061)
	1	59,439	12,020	71,459	–	71,459	64,552
Cost of sales		(44,713)	(7,677)	(52,390)	(2,608)	(54,998)	(44,292)
Gross profit		14,726	4,343	19,069	(2,608)	16,461	20,260
Distribution costs		(2,007)	(919)	(2,926)	(507)	(3,433)	(2,092)
Administrative expenses		(11,950)	(1,720)	(13,670)	(913)	(14,583)	(13,418)
Operating profit/(loss) before joint venture		769	1,704	2,473	(4,028)	(1,555)	4,750
Share of operating profit in joint venture		40	–	40	–	40	35
Operating profit/(loss) including joint venture		809	1,704	2,513	(4,028)	(1,515)	4,785
Exceptional profit on part disposal of subsidiary undertaking		–	–	–	90	90	–
Interest payable (net)	2	(1,167)	(92)	(1,259)	(425)	(1,684)	(877)
(Loss)/profit on ordinary activities before taxation		(358)	1,612	1,254	(4,363)	(3,109)	3,908
Profit on ordinary activities before taxation				1,254			3,908
Add back goodwill amortisation	10			2,515			2,113
Profit on ordinary activities before taxation and goodwill amortisation				3,769			6,021
Tax on (loss)/profit on ordinary activities	3			(1,186)	1,761	575	(2,438)
(Loss)/profit on ordinary activities after taxation				68	(2,602)	(2,534)	1,470
Equity minority interests				(150)	–	(150)	9
(Loss)/profit attributable to shareholders				(82)	(2,602)	(2,684)	1,479
Dividends	5			(2,467)	–	(2,467)	(1,723)
Retained loss for the financial year				(2,549)	(2,602)	(5,151)	(244)
(Loss)/earnings per share							
– basic and diluted	9					(8.7)p	5.4p
– basic and diluted before goodwill amortisation and exceptional items	9					7.8p	13.2p

Reconciliation of movements in equity shareholders' funds

For the year ended 30 November 2001

	Note	Group 2001 £'000	Group 2000 restated £'000	Company 2001 £'000	Company 2000 £'000
(Loss)/profit attributable to shareholders		(2,684)	1,479	179	(190)
Dividends		(2,467)	(1,723)	(2,467)	(1,723)
Retained loss for the year		(5,151)	(244)	(2,288)	(1,913)
New share capital subscribed		27,569	121	27,569	121
Exchange differences		(420)	270	(275)	(879)
Net increase/(decrease) in equity shareholders' funds		21,998	147	25,006	(2,671)
Opening equity shareholders' funds – restated (originally £43,643,000 (2000: £42,866,000) restated for prior year adjustment of £2,308,000 (2000: £1,678,000))	19	41,335	41,188	32,859	35,530
Closing equity shareholders' funds		63,333	41,335	57,865	32,859

Statement of total recognised gains and losses

For the year ended 30 November 2001

	Note	Group 2001 £'000	Group 2000 restated £'000	Company 2001 £'000	Company 2000 £'000
(Loss)/profit attributable to shareholders		(2,684)	1,479	179	(190)
Exchange differences		(420)	270	(275)	(879)
Total (losses)/gains recognised in the year		(3,104)	1,749	(96)	(1,069)
Prior year adjustment	19	(2,308)			
Total (losses)/gains recognised since the last annual report		(5,412)			

Balance sheets

As at 30 November 2001

	Note	Group 2001 £'000	Group 2000 restated £'000	Company 2001 £'000	Company 2000 £'000
Fixed assets					
Goodwill	10	35,940	18,599	–	–
Tangible assets	11	22,020	20,543	45	74
Investments					
Investments in subsidiary undertakings	12	–	–	72,418	49,882
Investment in joint venture					
– share of gross assets		369	305		
– share of gross liabilities		(275)	(250)		
	12	94	55	–	–
Investment in associated undertaking	12	2,192	–	–	–
		60,246	39,197	72,463	49,956
Current assets					
Stocks	14	14,892	11,993	–	–
Debtors falling due after more than one year	15	3,247	1,447	–	–
Debtors falling due within one year	15	15,559	14,467	42	256
Cash at bank and in hand		2,548	856	–	–
		36,246	28,763	42	256
Creditors					
Amounts falling due within one year	16	(15,713)	(13,179)	(4,472)	(6,685)
Net current assets/(liabilities)		20,533	15,584	(4,430)	(6,429)
Total assets less current liabilities		80,779	54,781	68,033	43,527
Creditors					
Amounts falling due after more than one year	16	(10,346)	(10,668)	(10,298)	(10,668)
Provisions for liabilities and charges	19	(2,201)	(2,742)	130	–
Net assets		68,232	41,371	57,865	32,859
Capital and reserves					
Called up share capital	20	736	515	736	515
Share premium account	21	28,679	1,331	28,679	1,331
Other reserves	22	4,942	5,362	(208)	67
Profit and loss account	21	28,976	34,127	28,658	30,946
Total equity shareholders' funds		63,333	41,335	57,865	32,859
Equity minority interests		4,899	36	–	–
		68,232	41,371	57,865	32,859

Approved by the Board on 23 January 2002
Ben Stocks, Director
Mark Moran, Director

Consolidated cash flow statement

For the year ended 30 November 2001	Note		Group 2001 £'000		Group 2000 £'000
Net cash inflow from operating activities	23		4,882		6,758
Returns on investments and servicing of finance					
Interest received		25		26	
Interest paid		(1,100)		(815)	
Exceptional finance costs		(425)		–	
			(1,500)		(789)
Taxation					
UK corporation tax (paid)/refunded		(830)		151	
Overseas tax paid		(649)		(602)	
			(1,479)		(451)
Capital expenditure					
Purchase of tangible fixed assets		(3,233)		(3,583)	
Sale of tangible fixed assets		16		80	
			(3,217)		(3,503)
Acquisitions					
Acquisition of associate investment					
– equity investment		(1,199)		–	
– loan funding		(993)		–	
Acquisition of subsidiaries		(19,050)		–	
			(21,242)		–
Equity dividends paid			(1,990)		(1,670)
Financing					
Issues of ordinary share capital		28,771		121	
Expenses of Rights Issue		(1,202)		–	
Decrease in net borrowings	25	(1,198)		(125)	
			26,371		(4)
Increase in cash in the year	25		1,825		341

Accounting policies

Convention
The financial information has been prepared under the historical cost convention and complies with all applicable Accounting Standards in the UK, the Companies Act (1985) and the requirements of the Financial Services Authority. During the year the Group has implemented Financial Reporting Standard 19, Deferred Tax ("FRS19") and complied with the disclosure requirements under Financial Reporting Standard 17, Retirement Benefits. The change to accounting for Deferred Tax under FRS19 represents a change in policy and this is detailed in note 19.

Basis of consolidation
The consolidated accounts incorporate the accounts of Porvair plc and its subsidiary undertakings made up to 30 November 2001, and 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 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 realisable value is lower than the book value, the excess of book value is charged to profits 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 in 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
Financing leases, which transfer substantially all the risks and rewards of ownership of the asset to the lessee, are capitalised 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. Non-refundable licence fees are recognised immediately, other licence fees are recognised when earned on an accruals basis. Long term contracts are recognised on a progressive basis with profit taken in proportion to the stage of completion of the work.

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 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.

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. This is a change in accounting policy from the prior year, and its effect is detailed in note 19.

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 analysis of the Group's turnover, operating profit and net assets is set out below:

	2001 By destination £'000	2001 By origin £'000	2000 By destination £'000	2000 By origin £'000
Turnover				
United Kingdom	16,241	42,787	8,932	34,703
Continental Europe	11,559	–	12,000	–
Americas	32,812	28,672	31,530	29,849
Asia	8,501	808	8,969	1,061
Australasia	596	–	679	–
Africa	2,558	–	3,503	–
	72,267	72,267	65,613	65,613
Less share of joint venture	(808)	(808)	(1,061)	(1,061)
	71,459	71,459	64,552	64,552

Turnover of acquired companies comprised £6.4m destined for the UK, £1.0m for Continental Europe, £4.3m for the Americas and £0.3m for Asia. By origin, acquired companies in the UK represented £9.4m of turnover, and in the Americas £2.6m.

	By origin £'000	By origin £'000
Operating profit		
United Kingdom	4,479	4,059
Americas	509	2,804
Operating profit before goodwill amortisation, exceptional items and share of joint venture	4,988	6,863
Goodwill amortisation	(2,515)	(2,113)
Share of joint venture	40	35
Operating profit before exceptional items	2,513	4,785

Of the operating profit before goodwill amortisation, exceptional items and share of joint venture acquired companies were responsible for £0.6m in the Americas and £1.7m in the UK.

Net assets		
Net assets before goodwill and borrowings:		
United Kingdom	32,620	21,991
Continental Europe	2,192	–
Americas	6,837	10,741
	41,649	32,732
Goodwill	35,940	18,599
Net borrowings	(9,357)	(9,960)
	68,232	41,371

As discussed in the strategic update on the inside front cover, the Group has undergone significant changes in the last 12 months. Porvair is a materials science company, representing one class of business operating in different geographical markets. It has three main operations (Selee, Filtration Group and Membranes) all of which have generally similar risk and reward profiles and therefore further segmental analysis would not be helpful or informative.

2. (Loss)/profit on ordinary activities before taxation

(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):

	Note	Group 2001 £'000	Group 2000 £'000
Staff costs			
Wages and salaries		19,249	16,087
Social security costs		2,476	2,111
Other pension costs	27	825	849
		22,550	19,047
Operating lease costs			
Land and buildings		631	451
Plant, machinery and vehicles		486	413
		1,117	864

Notes to the accounts continued

2. (Loss)/profit on ordinary activities before taxation continued

	Group 2001 £'000	Group 2000 £'000
Net interest payable on bank and other borrowings		
Interest payable on bank loans and overdrafts	1,305	903
Exceptional finance charges	425	–
Interest receivable	(46)	(26)
	1,684	877
Depreciation of owned assets	3,222	2,938
Loss on sale of tangible fixed assets	116	58
Income from government grants	(78)	(70)
Research and development expenditure	5,151	2,155

Fees paid to the auditors by the Group in respect of audit work amounted to £100,000 (2000: £85,000) and £473,000 in respect of non-audit work (2000: £102,000). The non-audit work comprised £432,000 in respect of due diligence reviews relating to acquisitions, both completed and aborted, and in relation to the Rights Issue and £41,000 in respect of taxation advice. Audit fees incurred by the Company amounted to £8,000 (2000: £8,000).

3. Tax on profit on ordinary activities

	Group 2001 £'000	Group 2000 restated £'000
(a) Taxation on the results for the year		
UK corporation tax at 30% (2000: 30%)		
– current period tax	320	870
– adjustments in respect of previous periods	(502)	–
Total UK current tax	(182)	870
Overseas tax payable	113	824
Total current tax	(69)	1,694
Deferred tax	(506)	744
Tax (credit)/charge on (loss)/profit on ordinary activities (see (b))	(575)	2,438
(b) Reconciliation of current tax charge to result for the year		
(Loss)/profit on ordinary activities before tax	(3,109)	3,908
Expected corporation tax at the standard UK rate (30%)	(933)	1,172
Differences arising explained by		
– amortisation of goodwill	755	634
– other permanent differences	159	442
– adjustments to tax charge in respect of previous periods	(502)	–
– other items, including rate differences relating to overseas tax jurisdictions	(54)	190
Tax (credit)/charge on (loss)/profit on ordinary activities (see (a))	(575)	2,438

4. Exceptional items
The Group incurred exceptional charges during the year resulting from the simplification of the membranes operation and from the reorganisation of the newly created Porvair Filtration Group, following the acquisitions of Fairey Microfiltrex Limited and 2FI Holdings Limited (see note 28). In addition there were significant costs incurred prior to the Rights Issue relating to financing for the acquisitions; there was also a charge for costs incurred relating to prospective acquisitions that were aborted.

	£'000
Simplification of the membranes operation	
– fixed assets made obsolete and related costs	1,363
– inventory write-offs	852
– other costs	732
Reorganisation of Porvair Filtration Group	609
Financing costs	425
Costs of aborted acquisitions	382
	4,363

The exceptional tax credit reflects the tax relief on the above exceptional items and an adjustment in respect of prior year liabilities.

5. Dividends

	Group 2001 £'000	Group 2000 £'000
Dividends on equity shares		
Interim dividend paid – 2.4p (2000: 2.3p restated)	884	617
Final dividend proposed – 4.3p (2000: 4.0p restated)	1,583	1,106
	2,467	1,723

6. Company profit for the financial year

As permitted by Section 230 of the Companies Act 1985, no profit and loss account is presented for the parent company. The profit attributable to the Company which has been dealt with in the accounts is £179,000 (2000: loss of £190,000).

7. Directors' emoluments

Detailed disclosures of directors' individual remuneration and share options are given in the Report of the Remuneration Committee on pages 14 and 15.

8. Employees

	2001 Average	2001 Year end	2000 Average	2000 Year end
Operations	745	813	649	622
Head office	9	9	9	10
	754	822	658	632
North American employees included above	269	258	257	236

9. Earnings per share

The basic earnings per share as shown in the profit and loss account are calculated by reference to the profit attributable to shareholders and the average number of shares in issue during the year on a time weighted basis of 31,042,605 (2000: 27,313,065 – as adjusted for the Rights Issue). For the diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume conversion of all share options outstanding at the year end. The earnings per share before goodwill amortisation and exceptionals has been calculated by adding back goodwill amortisation of £2,515,000 (2000: £2,113,000) and £2,602,000 (2000: £nil), being the after tax impact of exceptional items, to losses after tax attributable to shareholders of £2,684,000 (2000: profit of £1,479,000 restated).

10. Goodwill

	Group 2001 £'000	Group 2000 £'000
Cost		
At beginning of the year	30,322	30,322
Additions	19,884	–
At end of the year	50,206	30,322
Amortisation		
At beginning of the year	(11,723)	(9,610)
Amortisation	(2,515)	(2,113)
Other	(28)	–
At end of the year	(14,266)	(11,723)
Net book value at end of the year	35,940	18,599

The additional goodwill for the year relates to acquisitions described in note 28.

Notes to the accounts continued

11. Tangible assets

	Freehold land and buildings £'000	Assets in course of construction £'000	Plant, machinery & equipment £'000	Total £'000
Group				
Cost				
At 1 December 2000	3,335	2,718	35,989	42,042
Reclassification	–	(3,590)	3,590	–
Additions	4	2,704	525	3,233
Acquisitions	995	–	4,305	5,300
Disposals	–	–	(528)	(528)
Assets written down (note 4)	(148)	–	(2,622)	(2,770)
Exchange differences	(14)	(5)	(29)	(48)
At 30 November 2001	4,172	1,827	41,230	47,229
Depreciation				
At 1 December 2000	(778)	–	(20,721)	(21,499)
Charge for year	(92)	–	(3,130)	(3,222)
Acquisitions	(8)	–	(2,492)	(2,500)
Disposals	–	–	396	396
Assets written down (note 4)	68	–	1,526	1,594
Exchange differences	3	–	19	22
At 30 November 2001	(807)	–	(24,402)	(25,209)
Net book value				
At 30 November 2001	3,365	1,827	16,828	22,020
At 1 December 2000	2,557	2,718	15,268	20,543
Company				
Cost				
At 1 December 2000			289	289
Additions			2	2
At 30 November 2001			291	291
Depreciation				
At 1 December 2000			(215)	(215)
Charge for year			(31)	(31)
At 30 November 2001			(246)	(246)
Net book value				
At 30 November 2001			45	45
At 1 December 2000			74	74

Capital commitments, authorised and contracted for, in the Group at 30 November 2001 were £226,000 (2000: £236,000). There were no such commitments in the Company (2000: £nil).

12. Fixed asset investments

	Investment in associated undertaking £'000	Investment in joint venture £'000
Group		
At 1 December 2000	–	55
Share of profit during year	–	40
Additions	2,192	–
Exchange	–	(1)
At 30 November 2001	2,192	94

On 21 March 2001, the Group purchased a 25% interest in Sympatex (incorporated in Germany) for €1.9m (including expenses) and provided a long term loan of €1.6m on which interest is receivable at 6% p.a. No fair value adjustments were required to the cost of the associated undertaking when acquired. During the year the Group has received £0.04m of interest on the loan and £0.07m under a consultancy agreement. The investment will allow Porvair's membrane technologies to share in the brand recognition and marketing strength of Sympatex.

The Group has a 50% interest in the ordinary shares of a joint venture called Permair Austins Limited, a company based and incorporated in Hong Kong. The company was established to manufacture Permair enhanced leather to satisfy our customers' demands for a locally produced quality product and to take advantage of this large and growing market. During the year ended 30 November 2001, the Group made sales on an arm's-length basis to Permair Austins Limited of £345,000 (2000: £589,000). In addition the Group guarantees 50% of their borrowings up to a maximum of £200,000 (2000: £200,000).

	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
Company			
At 1 December 2000	22,461	27,421	49,882
Additions	14,784	7,752	22,536
At 30 November 2001	37,245	35,173	72,418

Details of the Group's subsidiary undertakings are given in Note 13.

13. Principal subsidiary undertakings

The principal operating companies are as follows:

	Country of incorporation and operation	% holding
Porvair International Limited	England	100%
Permair Leathers Limited	Canada	100%
Selee Corporation	USA	100%
Porvair Fuel Cell Technology Inc	USA	100%
Porvair Ceramics Limited	England	100%
Porvair Technology Limited	England	79%
Microfiltrex Limited	England	79%
Filters for Industry Limited	England	79%
Porvair Sciences Limited	England	100%

14. Stocks

	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Raw materials and consumables	5,092	4,163	–	–
Work in progress	3,317	1,271	–	–
Finished goods and goods for resale	6,483	6,559	–	–
	14,892	11,993	–	–

Notes to the accounts continued

15. Debtors

	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Amounts falling due within one year				
Trade debtors	13,664	12,742	–	–
Amounts owed by joint venture	37	212	–	–
VAT recoverable	79	113	11	14
Other debtors	1,003	458	31	16
Prepayments	776	942	–	226
	15,559	14,467	42	256
Amounts falling due after more than one year				
Trade debtors	1,420	–	–	–
Prepayments	1,827	1,447	–	–
	3,247	1,447	–	–

16. Creditors

	Note	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Amounts falling due within one year					
Bank overdraft		–	23	1,729	3,993
Bank loans and loan notes	17	1,559	125	–	–
Trade creditors		7,780	8,077	67	139
Corporation tax		597	1,789	746	1,063
Taxation and social security		476	342	48	89
Accruals and deferred income		3,718	1,717	299	295
Proposed dividend		1,583	1,106	1,583	1,106
		15,713	13,179	4,472	6,685
Amounts falling due after more than one year					
Bank loans	17	10,346	10,668	10,298	10,668

17. Bank and other loans

	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Unsecured ECSC loan repayable on 3 August 2001 (interest at 8.6%)	–	125	–	–
Hire purchase finance loans	107	–	–	–
Loan notes	1,500	–	–	–
Secured multicurrency revolving credit facility of £15m – maturing September 2003 with interest at 0.65% above LIBOR	10,298	–	10,298	–
Unsecured five year multicurrency credit facility of £15m – maturing July 2003 with interest at 0.7% above LIBOR	–	10,668	–	10,668
	11,905	10,793	10,298	10,668

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

On the acquisition of 2FI Holdings Limited ("2FI") £1,500,000 of loan notes were issued as part of the consideration to the owners of 2FI. The loan notes are redeemable on 1 May 2002.

	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Bank and other loans of the Group are repayable as follows:				
Within one year	1,559	125	–	–
One to two years	10,338	–	10,298	–
Two to five years	8	10,668	–	10,668
	11,905	10,793	10,298	10,668

At 30 November 2001 the Group had £4,702,000 (2000: £4,332,000) of undrawn committed borrowing facilities which expire after one year.

18. Financial instruments

(1) Interest rate risk: the interest rate profile of the financial liabilities of the Group comprising gross borrowings at 30 November 2001 is detailed below.

	2001					2000	
	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	6.1	1,607	–	1,607	125	1,500
Euros	–	–	–	1,884	1,884	–	–
US Dollars	–	–	–	8,414	8,414	–	9,168
	1	6.1	1,607	10,298	11,905	125	10,668

The floating interest rate exposure relates to the Group's secured revolving multicurrency credit facility (see note 17).

The interest rate profile of the financial assets of the Group comprising cash and long term debt at 30 November 2001 is detailed below.

	2001		2000	
	Long term debt £'000	Cash (floating rate) £'000	Long term debt £'000	Cash (floating rate) £'000
Currency				
Sterling	1,420	1,586	–	102
Canadian Dollars	–	120	–	113
Euros	–	14	–	4
US Dollars	–	828	–	637
	1,420	2,548	–	856

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 and its overseas equivalents.

(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 2001 Net foreign currency monetary assets/liabilities						Group 2000
	Sterling £'000	US Dollars £'000	Can Dollars £'000	Euros £'000	Other £'000	Total £'000	Total £'000
Functional currency of Group operation							
Sterling	–	2,027	–	(268)	1	1,760	928
Canadian Dollars	(28)	238	–	–	–	210	418
US Dollars	(2,074)	–	579	141	–	(1,354)	(9)
	(2,102)	2,265	579	(127)	1	616	1,337

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 30 November 2001 there were £25,000 of forward currency contracts entered into as hedges against future purchases and sales (2000: £3,265,000).

(5) Further details of the Group's financing and treasury policy are given in the Operating and Financial Review on page 10.

Notes to the accounts continued

19. Provisions for liabilities and charges
During the year the Group implemented Financial Reporting Standard 19 for Deferred Tax ("FRS19"). As this is a change of accounting policy it has resulted in a prior year adjustment in 2001 and the restatement of the 2000 comparatives.

Under FRS19 the Group now provides for deferred tax on a full provision basis:

	£'000
Balance at 30 November 2000 as previously stated	434
Prior year adjustment	2,308
Balance at 30 November 2000 as restated	2,742
Profit and loss credit	(506)
Acquisitions	(35)
Balance at 30 November 2001	2,201

By adopting FRS19, the current year tax charge has been reduced by £620,000 (2000: £630,000 increase).

Deferred tax liability in the accounts has been provided for as follows:

	Amount provided Group		Amount provided Company	
	2001 £'000	2000 restated £'000	2001 £'000	2000 £'000
Accelerated capital allowances	1,987	2,412	–	–
Other short term timing differences	214	330	(130)	–
	2,201	2,742	(130)	–

20. Called up share capital

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Authorised				
75,000,000 ordinary shares of 2p each (2000: 34,400,000)	1,500	688	1,500	688
Allotted and fully paid				
36,803,011 ordinary shares of 2p each (2000: 25,728,784)	736	515	736	515

Movements in the number of ordinary shares during the year were:	
At 1 December 2000	25,728,784
Shares issued as fully paid	
Rights Issue	11,040,457
On exercise of options	33,770
At 30 November 2001	36,803,011

The total consideration received for the shares allotted on the exercise of options was £65,952. The total consideration for the Rights Issue before expenses was £28,705,188.

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 30 November 2001.

Number of shares	Subscription price	Exercise period
26,387	222.09p	1996 – 2003
39,399	253.18p	1997 – 2004
254,011	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
885,891		

20. Called up share capital continued
Movements in share options during the year were:

	Number
At 1 December 2000	723,661
Options granted	210,000
Rights Issue adjustment	42,327
Options lapsed	(56,327)
Options exercised	(33,770)
At 30 November 2001	885,891

	Number of shares	Subscription price
Options exercised during the year were:		
	18,475	127.48p
	5,295	236.08p
	10,000	299.00p
	33,770	
Options lapsed during the year were:		
	26,574	281.28p
	12,753	388.53p
	17,000	413.00p
	56,327	

21. Reserves

	Share premium account £'000	Profit and loss account £'000
Group		
At 30 November 2000 as previously stated	1,331	36,435
Prior year adjustment (note 19)	–	(2,308)
At 30 November 2000 as restated	1,331	34,127
Premium on shares issued	27,348	–
Retained loss for year	–	(5,151)
At 30 November 2001	28,679	28,976
Company		
At 1 December 2000	1,331	30,946
Premium on shares issued	27,348	–
Retained loss for year	–	(2,288)
At 30 November 2001	28,679	28,658

22. Other reserves

	Special reserve £'000	Exchange reserve £'000	Capital reserve £'000	Total £'000
Group				
At 1 December 2000	4,102	309	951	5,362
Exchange differences	–	(420)	–	(420)
At 30 November 2001	4,102	(111)	951	4,942
Company				
At 1 December 2000		(884)	951	67
Exchange differences		(275)	–	(275)
At 30 November 2001		(1,159)	951	(208)

Notes to the accounts continued

23. Reconciliation of operating profit to net cash inflow from operating activities

	2001 £'000	2000 £'000
Group operating profit including joint venture before exceptional items	2,513	4,785
Goodwill amortisation	2,515	2,113
Depreciation	3,222	2,938
Loss on sale of fixed assets	116	58
Increase in stocks	(1,068)	(586)
Decrease/(increase) in debtors	514	(2,115)
Decrease in creditors	(1,485)	(400)
Share of joint venture profit	(40)	(35)
Net cash inflow from operating activities before exceptional items	6,287	6,758
Exceptional items	(1,405)	–
Net cash inflow from operating activities	4,882	6,758

The net cash inflow from operating activities before exceptional items of the acquired businesses was £2,470,000.

24. Reconciliation of net cash flow to movement in net borrowings

	2001 £'000	2000 £'000
Increase in cash in the year	1,825	341
Decrease in borrowings	1,198	125
Change in net borrowings from cash flows	3,023	466
Exchange differences	(17)	(929)
Movements in net borrowings in year	3,006	(463)
Acquired companies	(2,403)	–
Opening net borrowings	(9,960)	(9,497)
Closing net borrowings	(9,357)	(9,960)

25. Analysis of net borrowings

	1 December 2000 £'000	Cash flow £'000	Acquired companies £'000	Other non-cash £'000	Exchange differences £'000	30 November 2001 £'000
Cash in hand and at bank	856	1,739	–	–	(47)	2,548
Overdrafts	(23)	86	(63)	–	–	–
		1,825	(63)	–	(47)	
Borrowings due after one year	(10,668)	1,019	(739)	42	–	(10,346)
Borrowings due within one year	(125)	179	(1,601)	(42)	30	(1,559)
		1,198	(2,340)	–	30	
Total	(9,960)	3,023	(2,403)	–	(17)	(9,357)

26. Operating lease commitments
The Group is committed to the following rentals during next year on operating leases expiring:

	Group 2001		Group 2000	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	–	46	–	111
Within two to five years	245	314	84	193
Over five years	508	2	370	–
	753	362	454	304

27. Pension costs

(a) Defined benefit plan – SSAP 24 basis

The Group operates a defined benefit pension plan ("the Plan") – the Porvair plc Pension & Death Benefit Plan. The Plan is financed through a separate trust fund administered by trustees with an independent chairman and it 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 undertaken at 1 April 2000.

For the purposes of assessing pension costs under SSAP24, the principal actuarial assumptions adopted in that 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 only 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's contributions were 15% and employee contributions 6%. The ongoing funding status of the Plan is expected to reach 100% in two years.

The UK pension charge for the year was £575,000 (2000: £576,000); the funding via employer contributions was £955,000 (2000: £956,000). The market value of the Plan's assets (including AVC assets) at 31 March 2001 was £16.5m (2000: £17.5m).

(b) Defined contribution schemes

For its US employees, the Group operates a defined contribution pension scheme covering all eligible full-time employees. The Group contributes 3% of each participant's compensation each year and in 2001 this amounted to £203,000 (2000: £273,000)

In the UK, after the closure of the Plan to new members the Group introduced the Porvair Stakeholder Pension Plan to be offered to all new employees. In addition the employees of Filters for Industry Limited also have pension provision via a stakeholder vehicle. Total employer contributions in the UK to defined contribution schemes were £47,000 (2000: £nil).

(c) FRS17 disclosures

In the transition to accounting for the Plan in accordance with the new Financial Reporting Standard 17 for Retirement Benefits ("FRS17") there is a phased implementation which introduces new disclosures for the first time in these accounts. The objective 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 new 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 assets and the present value of the liabilities of the Plan at 30 November 2001.

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

Valuation method	Projected unit
Discount rate	5.5% p.a.
Inflation rate	2.4% p.a.
General salary increases	4.4% p.a.
Increases to pensions in payment	2.5% p.a.

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

	Long term expected rate of return at 30 November 2001	Value at 30 November 2001 £m
Equities	8.0%	9.5
Bonds	5.2%	5.0
Other	5.0%	0.1
Market value of assets		14.6
Present value of scheme liabilities		(21.1)
		(6.5)
Related deferred tax credit		1.9
Net FRS17 pension deficit		(4.6)

Notes to the accounts continued

27. Pension costs continued
If FRS17 was adopted the adjustments to shareholders' funds would be as follows:

	2001 £m
Shareholders' funds including SSAP24 prepayment	63.3
Less: SSAP24 prepayment (net of related deferred tax liability)	(1.3)
	62.0
Less: net FRS17 pension deficit	(4.6)
Restated shareholders' funds	57.4

28. Acquisitions
The Group has made several acquisitions during the year.

On 27 February 2001 Selee Corporation purchased the assets of Engineered Ceramics in Gilberts, Illinois. The Porvair Filtration Group ("PFG") was formed in the UK by grouping the assets of Porvair Technology Limited with those of Microfiltrex Limited (purchased 27 March 2001) and 2FI Holdings Limited ("2FI", purchased 2 May 2001). The owners of 2FI acquired a 21% interest in PFG as part of the transaction.

	Microfiltrex £'000	2FI £'000	Others £'000	Total £'000
Net assets acquired				
Fixed assets	806	1,424	570	2,800
Stock	1,856	1,067	579	3,502
Debtors	1,507	1,563	479	3,549
Creditors	(1,113)	(1,031)	(228)	(2,372)
Provisions	(104)	(418)	–	(522)
Overdraft	–	(63)	–	(63)
Loans	–	(840)	–	(840)
Total book value	2,952	1,702	1,400	6,054
Provisional fair value adjustments: stock	(515)	–	(34)	(549)
Fair value of net assets acquired	2,437	1,702	1,366	5,505
Purchase consideration				
Cash	(12,822)	(1,005)	(4,459)	(18,286)
Shares	–	(4,839)	–	(4,839)
Loan notes	–	(1,500)	–	(1,500)
	(12,822)	(7,344)	(4,459)	(24,625)
Costs of acquisition	(303)	(146)	(315)	(764)
	(13,125)	(7,490)	(4,774)	(25,389)
Goodwill arising on acquisition	(10,688)	(5,788)	(3,408)	(19,884)

Pre-acquisition results (Microfiltrex from 1 January 2001 and 2FI from 1 November 2000) were:

	£'000	£'000
Turnover	1,815	2,682
Operating profit	174	388
Profit before taxation	167	352
Taxation	(90)	(103)
Profit after taxation and minority interests	77	249

In the respective prior years profit after taxation was £929,000 for Microfiltrex and £657,000 for 2FI.

There were no other recognised gains or losses in the pre-acquisition periods.

Eleven year summary

	2001* £'000	2000 £'000	1999 £'000	1998* £'000	1997 £'000	1996 £'000	1995 £'000	1994 £'000	1993 £'000	1992 £'000	1991 £'000
Profit and loss account											
Turnover	71,459	64,552	61,571	61,965	70,766	55,427	39,924	24,832	21,893	17,947	16,663
Profit before goodwill amortisation and taxation	3,769	6,021	4,225	2,061	6,857	4,151	5,120	3,105	2,551	2,017	1,677
Goodwill amortisation	(2,515)	(2,113)	(2,113)	(2,029)	(2,027)	(1,707)	(1,261)	(162)	(153)	(158)	–
Taxation	(1,186)	(2,438)	(987)	(5)	(2,263)	(1,385)	(1,568)	(870)	(561)	(388)	(347)
Profit after taxation**	68	1,470	1,125	27	2,567	1,059	2,291	2,073	1,837	1,471	1,330
Equity minority interests	(150)	9	6	10	(9)	(8)	(10)	8	39	77	–
(Loss)/profit for the financial year	(82)	1,479	1,131	37	2,558	1,051	2,281	2,081	1,876	1,548	1,330
Dividends	(2,467)	(1,723)	(1,644)	(1,623)	(1,607)	(1,428)	(1,191)	(742)	(648)	(553)	(404)
Retained (losses)/profits	(2,549)	(244)	(513)	(1,586)	951	(377)	1,090	1,339	1,228	995	926
Earnings and dividends per share – restated to reflect the Rights Issue in July 2001											
Earnings per share before goodwill amortisation and exceptional items	7.8p	13.2p	11.8p	7.6p	16.9p	10.3p	16.9p	12.9p	11.8p	10.3p	9.3p
Earnings per share after goodwill amortisation and exceptional items	(8.7)p	5.4p	4.1p	0.1p	9.5p	4.0p	10.9p	12.0p	10.9p	9.3p	9.3p
Dividends per share	6.7p	6.3p	6.0p	6.0p	5.8p	5.3p	5.1p	4.2p	4.0p	3.4p	3.0p
Balance sheet											
Fixed assets	24,306	20,598	19,388	17,966	17,442	15,411	16,189	10,194	9,296	8,842	8,251
Goodwill	35,940	18,599	20,712	22,407	24,436	24,513	24,797	2,757	2,919	2,927	–
Current assets	36,246	28,763	24,934	27,195	32,134	26,539	25,709	13,631	11,053	10,621	8,756
	96,492	67,960	65,034	67,568	74,012	66,463	66,695	26,582	23,268	22,390	17,007
Current liabilities	(15,713)	(13,179)	(12,029)	(14,976)	(22,950)	(14,636)	(15,048)	(8,528)	(6,393)	(6,462)	(5,656)
	80,779	54,781	53,005	52,592	51,062	51,827	51,647	18,054	16,875	15,928	11,351
Long term liabilities	(10,346)	(10,668)	(9,787)	(9,098)	(3,216)	(5,320)	(3,903)	(1,250)	(1,400)	(1,130)	(1,429)
Provision for liabilities and charges**	(2,201)	(2,742)	(320)	(261)	(228)	–	–	(60)	(84)	(690)	–
	68,232	41,371	42,898	43,233	47,618	46,507	47,744	16,744	15,391	14,108	9,922
Equity minority interests	(4,899)	(36)	(32)	(38)	(50)	–	12	61	53	66	–
Shareholders' funds	63,333	41,335	42,866	43,195	47,568	46,507	47,756	16,805	15,444	14,174	9,922
Cash flow											
Cash flow from operating activities*	6,287	6,758	9,126	9,251	5,438	5,317	3,094	3,672	4,075	1,951	2,168

* exceptional charges excluded
** deferred taxation under FRS19 only restated to prior year (i.e. 2000)

Notice of meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at The Assembly Rooms, King's Lynn Town Hall, Saturday Market Place, King's Lynn, Norfolk PE30 1HY on Tuesday 9 April 2002 at 12 noon for the transaction of the following business:

Ordinary business

1. To receive and consider the directors' report and audited accounts for the year ended 30 November 2001.

2. To consider and declare a final dividend of 4.3p per ordinary share.

3. To re-elect Mr J M Morgan as a director of the Company.

4. To re-elect Mr M S Ost as a director of the Company.

5. To re-appoint PricewaterhouseCoopers as auditors of the Company and to authorise the directors to fix their remuneration.

To consider and, if thought fit, pass Resolutions 6 and 7 which will be proposed as an Ordinary Resolution and a Special Resolution respectively:

6. THAT for the purposes of Section 80 of the Companies Act 1985 (and so that expressions used in this Resolution shall bear the same meanings as in the said Section 80):

   (i) the directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities up to a maximum nominal amount of £245,353.40, being one-third of the share capital currently in issue, to such persons and at such times and on such terms as they think proper during the period expiring on 8 April 2007;

   (ii) the Company be and is hereby authorised to make prior to the expiry of such period any offer or agreement which would, or might require relevant securities to be allotted after the expiry of the said period and the directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding the expiry of the authority given by this Resolution;

   so that the previous authority of the directors pursuant to the said Section 80 given on 15 June 2001 be and is hereby revoked.

7. THAT, subject to the passing of Resolution 6 set out in the Notice convening this meeting, the directors be and are empowered in accordance with Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority conferred on them to allot relevant securities (as defined in Section 80 of the Act) as if sub-section 89(1) of the Act did not apply to such allotment and references in this Resolution to the allotment of equity securities shall include references to the grant of a right to subscribe for, or to convert any securities into, relevant shares (as defined in Section 94 of the Act), provided that this power shall be limited:

   (i) to the allotment of equity securities in connection with an issue or offering in favour of holders of equity securities and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective numbers of equity securities held by or deemed to be held by them on the record date of such allotment subject only to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body in any territory;

   (ii) the allotment (otherwise than pursuant to paragraph (i) above) of equity securities up to an aggregate nominal value not exceeding £36,803.00 (5% of share capital);

   so that the previous authority of the directors pursuant to the said section 95 given on 22 June 2001 be and is hereby revoked and the authority hereby conferred shall expire, unless renewed or earlier revoked, on 8 April 2007 but shall extend to the making, before such expiry, of an offer or agreement which would, or which might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

Special business

8. To consider and, if thought fit, to pass the following Resolution which will be proposed as a Special Resolution:

   THAT the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of any of its ordinary shares of 2p each at any time or times but so that:

   (i) the maximum number of ordinary shares hereby authorised to be acquired is 3,680,301 (10%);

   (ii) the minimum price under this authority (excluding expenses) which may be paid for any ordinary shares shall be 2p, being the nominal value of the share;

   (iii) the maximum price (excluding expenses) under this authority which may be paid for any ordinary share shall not be more than 5% above the average of the middle market quotations for an ordinary share of 2p of the Company taken from the Daily Official List of the London Stock Exchange for the last five business days in respect of which such Daily Official List is published immediately preceding the day on which the purchase is made;

   (iv) the authority hereby conferred shall (unless previously renewed or revoked) expire on the earlier of the conclusion of the next Annual General Meeting of the Company or the date which is 18 months after the date on which this resolution is passed; and

   (v) the Company may, before expiry of this authority, make a contract or contracts for such purchases which would, or might, be executed wholly or partly after such expiry and may make a purchase of ordinary shares in pursuance of such contract or contracts.

By order of the Board
Mark Moran, Secretary
23 February 2002

Notes

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, and on a poll, vote in his stead. A proxy need not also be a member.

2. A Form of Proxy is enclosed for the use of members who are unable to attend the meeting. To be effective this must be deposited (together, where applicable, with any Power of Attorney or other authority under which it is executed) at the office of the Company's Registrar, Capita IRG Plc, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ by not later than 48 hours before the time fixed for the meeting, or any adjournment thereof.

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time at which a person must be entered on the Register of Members in order to have the right to vote at a meeting is 11am on 8 April 2002. If the meeting is adjourned, the time by which a person must be entered on the Register of Members in order to have the right to attend and vote at the adjourned meeting will be 48 hours before the date and time fixed for the adjourned meeting. Changes to entries on the Register of Members after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

4. Copies of directors' service contracts with the Company will be available for inspection at the Company's Registered Office at Riverside Industrial Estate, Estuary Road, King's Lynn, Norfolk PE30 2HS, during normal business hours from the date of this notice until the day of the Annual General Meeting and will also be available to members on 9 April 2002 at The Assembly Rooms for at least 15 minutes prior to the Annual General Meeting and until the conclusion of the meeting.

5. In accordance with Paragraph 29 of Schedule 13 of the Companies Act 1985, the register of directors' interests in the share capital of the Company (maintained under Section 325 of the Companies Act 1985) will be available for inspection at the commencement and during the continuance of the Annual General Meeting.

Financial calendar

23 January 2002
Preliminary announcement of 2001 results

13 March 2002
Ex-dividend date for final dividend on ordinary shares

15 March 2002
Closure of share register for final dividend on ordinary shares

9 April 2002
Annual General Meeting

10 April 2002
Payment of final dividend on ordinary shares

31 May 2002
Financial half year end

June 2002
Announcement of interim results

September 2002
Payment of interim dividend on ordinary shares

30 November 2002
Financial year end