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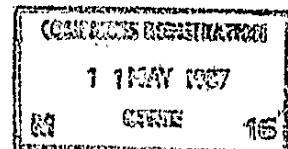
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Porvair

ANNUAL REPORT AND ACCOUNTS 1986



DIRECTORS' REPORT

The directors present their report and the audited accounts of the company for the year ended 30 November 1986.

PRINCIPAL ACTIVITIES

The Company's principal activities during the year continued to be the manufacturing and marketing of microporous synthetic material. Porvair and Permair for the Footwear industries, and Vyon high density polyethylene products were the main sales outlets.

Major product development in the year was on PORELLE - a new microporous foil which has significant potential in the garment industry in general.

RESEARCH AND DEVELOPMENT

The Company has a continuing Research & Development programme, with the objective of increasing profitability and evaluating new business opportunities.

All research and development costs are written off as they are incurred.

REVIEW OF THE BUSINESS

The Directors are happy to report on a year of considerable and sustained growth. Further growth in 1987 is anticipated. During the year under review, the Company invested £745,000 in new plant and equipment to support the expansion of business.

RESULTS AND DIVIDENDS

The Company's profit after taxation for the year is £797,176. The comparable profit for 1985 was £433,281. The dividend on the preference shares amounts to £44,000 and the directors do not recommend payment of a dividend on the ordinary shares. The remaining profit of £753,176 (1985 £389,281) will be added to reserves.

DIRECTORS AND THEIR INTERESTS

The directors at the year end and during the year, and their interests in shares of the company at the end of the year, are given below:

<u>Name</u>	<u>Ordinary shares</u>			
	<u>30 November 1986</u>		<u>30 November 1985</u>	
	<u>Shares</u>	<u>Options</u>	<u>Shares</u>	<u>Options</u>
Sir Stephen Brown KBE	Nil	Nil	Nil	Nil
J. Clegg (Chairman)	Nil	Nil	Nil	Nil
Dr A. Halliwell	345,333	Nil	345,333	Nil
J. Morgan (Managing Director)	333,334	Nil	333,334	Nil
W. Wallis	Nil	Nil	Nil	Nil
K. Symonds	Nil	10,000	Nil	Nil
B. Webb (appointed 29.5.86)	Nil	10,000	Nil	Nil

In addition to those shown above Mr S Ashton CBE was a Director of the Company until his death on 8.1.86. At that time he had a beneficial interest in 10,000 ordinary shares (1985 10,000). Mr K Hodgson served as a Director between the 29.5.86 and the 10.11.86, and had no interest in the shares of the company. Mr P Greenwood was appointed as a Director on 1.12.86.

The Share Options referred to above were granted under the Porvair Share Option Scheme 1986, details of which are given under note 12 to the accounts.

Mr S Ashton had an interest in 2,000 11% redeemable cumulative preference shares of £1 each at the relevant dates set out above.

The directors had interests in warrants as follows:

<u>Name</u>	<u>30 November 1986</u>	<u>30 November 1985</u>
Sir Stephen Brown KBE	4,030	4,030
J. Clegg (Chairman)	500	500
Dr A. Halliwell	Nil	Nil
J. Morgan (Managing Director)	10	10
W. Wallis	Nil	Nil
K. Symonds	Nil	Nil
B. Webb	Nil	Nil

Neither Mr S Ashton nor Mr K Hodgson, had any interest in the warrants.

FIXED ASSETS

The directors consider that the market value of the land and buildings is not materially different from the amount at which it is shown in the balance sheet.

CHARITABLE AND POLITICAL CONTRIBUTIONS

No donations were made by the company for charitable or political purposes.

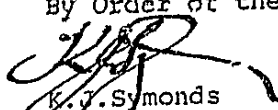
DISABLED PERSONS

Applications for employment by disabled persons are always fully considered, 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 company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who is fortunate enough not to suffer from a disability.

AUDITORS

The auditors, Price Waterhouse, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By Order of the Board.

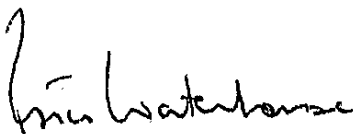

K. J. Symonds
Secretary

13 January 1987

AUDITORS' REPORT TO THE MEMBERS OF
PORVAIR LIMITED

We have audited the accounts on pages 5 to 16 in accordance with approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the Company at 30 November 1986 and of the profit and source and application of funds of the Company for the year then ended and comply with the Companies Act 1985.



PRICE WATERHOUSE

Chartered Accountants

13 January 1987

PORVAIR LIMITED

PROFIT AND LOSS ACCOUNT FOR
THE 12 MONTHS ENDED 30 NOVEMBER 1986

	12 MONTHS ENDED 30.11.86 £'000 £'000		12 MONTHS ENDED 30.11.85 £'000 £'000	
TURNOVER (Note 2)		9,245		7,696
COST OF SALES		(6,629)		(5,752)
GROSS PROFIT		2,616		1,944
Distribution costs	(371)		(317)	
Administration expenses	(1,377)		(1,136)	
Other operating income	58		51	
		<u>(1,690)</u>		<u>(1,402)</u>
OPERATING PROFIT		926		542
Interest payable and similar charges		(111)		(89)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (Note 3)		815		453
Tax on profit on ordinary activities (Note 4)		(18)		(19)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		797		434
Dividends paid (Note 5)		(44)		(44)
AMOUNT SET ASIDE TO RESERVES (Note 13)		<u>753</u>		<u>390</u>

The notes on pages 8 to 16 form an integral part of these accounts.

PORVAIR LIMITED

BALANCE SHEET - 30 NOVEMBER 1986

BALANCE SHEET - 30 NOVEMBER 1986	12 MONTHS ENDED 30.11.86 £'000 £'000		12 MONTHS ENDED 30.11.85 £'000 £'000	
FIXED ASSETS				
Tangible assets (Note 6)		2,661		2,169
CURRENT ASSETS				
Stocks (Note 7)		1,858		1,325
Debtors (Note 8)		2,292		1,891
Cash at bank and in hand		1		1
		<u>4,151</u>		<u>3,217</u>
CREDITORS (amounts falling due within one year) (Note 9)		(2,536)		(1,796)
NET CURRENT ASSETS				
		1,615		1,421
TOTAL ASSETS LESS CURRENT LIABILITIES				
		<u>4,276</u>		<u>3,590</u>
CREDITORS (amounts falling due after more than one year) (Note 10)		1,180		1,247
		<u>3,096</u>		<u>2,343</u>
CAPITAL AND RESERVES				
Called up share capital (Note 12)		550		550
Non-distributable reserves (Note 13)		951		951
Profit and loss account (Note 13)		1,595		842
Shareholders funds		<u>3,096</u>		<u>2,343</u>

The notes on pages 8 to 16 form an integral part of these accounts.

Approved by the Board on 13 January 1987

J. CLEGG) DIRECTORS
J.M. MORGAN)

PORVAIR LIMITED

SOURCE AND APPLICATION OF FUNDS STATEMENT
FOR THE YEAR ENDED 30 NOVEMBER 1986

	12 MONTHS ENDED 30.11.86 £'000 £'000		12 MONTHS ENDED 30.11.85 £'000 £'000	
FLOW OF FUNDS FROM OPERATIONS				
<u>SOURCES</u>				
Profit on ordinary activities before taxation		815		453
Adjustment for items not involving the movement of funds:				
Depreciation	234		145	
Profit on disposals of tangible assets	(9)		1	
		225		146
		1,040		599
<u>APPLICATIONS</u>				
Additions to tangible assets	(745)		(875)	
Dividends paid	(44)		(44)	
Advanced Corporation tax on preference dividend	(18)		(19)	
		(807)		(938)
		233		(339)
Increase in working capital:				
Increase in stocks	(533)		(225)	
Increase in debtors	(401)		(475)	
Increase in creditors	548		477	
		(386)		(223)
FUNDS ABSORBED BY OPERATIONS		(153)		(562)
FUNDS FROM OTHER SOURCES				
Increase (Decrease) in bank and other loans	(30)		261	
Proceeds from sale of fixed assets	28	(2)	8	269
INCREASE (DECREASE) IN NET LIQUID FUNDS		(155)		(293)
Comprising:				
Cash at bank and in hand	-		-	
Bank overdraft	(155)		(293)	
		(155)		(293)

The notes on pages 8 to 16 form an integral part of these accounts.

PORVAIR LIMITED

NOTES TO THE ACCOUNTS - 30 NOVEMBER 1986

1. ACCOUNTING POLICIES

- a) General. The accounts have been prepared under the historical cost convention on a going concern basis.
- b) Fixed Assets and Depreciation. 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. In general annual depreciation rates are 2½% for freehold buildings, 10% for plant, 20% for equipment and 25% for motor vehicles.
- c) Stocks and work in progress. Inventories are stated at the lower of cost (including material, labour and full manufacturing overhead) and net realisable value. Obsolete inventories are written off and provisions made for excess inventories.
- d) Patents and Trade Marks. All expenditure on the registration, renewal and maintenance of patents and trademarks is written off to profit and loss account as it is incurred.
- e) Foreign currencies. Foreign currency assets and liabilities are expressed in sterling at the approximate exchange rates ruling at the year end. Transactions in the normal course of business are expressed at the rates ruling at the date of transaction.
- f) Research, Development, Repairs, and Maintenance. Expenses under these headings are written off as incurred.
- g) Deferred taxation. It is the Company's policy to provide for foreseeable liabilities for taxation deferred by the acceleration of capital allowances in excess of the depreciation charged in the accounts, and by other timing differences.
- h) Government grants. Grants relating to fixed assets have been credited to revenue over the expected useful life of the asset. This has been achieved by reducing the cost of the acquisition of the fixed asset by the amount of the grant.

PORVAIR LIMITED

NOTES TO THE ACCOUNTS - 30 NOVEMBER 1986 (CONTINUED)

	12 MONTHS ENDED 30.11.86 £'000	12 MONTHS ENDED 30.11.85 £'000
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2. SEGMENT INFORMATION

Turnover and profit before taxation arise from the company's principal activity.

A geographical analysis of the company's turnover is as follows:

United Kingdom	1,644	1,724
Europe	2,156	2,161
Americas	2,311	1,081
Other	3,134	2,730
	<hr/>	<hr/>
	9,245	7,696
	<hr/>	<hr/>

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

Wages and salaries	2,169	1,745
Social security costs	123	114
Other pension costs	22	57
	<hr/>	<hr/>
	2,314	1,916
	<hr/>	<hr/>
Operating lease costs	11	10
Auditors' remuneration	17	17
Interest payable on bank and other borrowings repayable within five years	38	52
Interest payable on long term borrowings	73	37
Proceeds on disposal of fixed assets	28	8
Depreciation - own assets	169	121
- lease assets	65	24
Finance lease costs	44	10

The company is committed to operating lease payments of £18,000 in 1987 of which £9,000 is in respect of lease commitments expiring within one year and the remaining leases will expire within five years

PORVAIR LIMITED

NOTES TO THE ACCOUNTS - 30 NOVEMBER 1986 (CONTINUED)

	12 MONTHS ENDED 30.11.86 £'000	12 MONTHS ENDED 30.11.85 £'000
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4. TAX ON PROFIT ON ORDINARY ACTIVITIES

Taxation on the profit for the period:

UK corporation tax	-	-
Advance corporation tax written off	18	19
	<u>18</u>	<u>19</u>

There is no charge to taxation on the profits of the company in consequence of the unutilised tax losses brought forward.

No deferred taxation has been provided as in the opinion of the Directors there is no foreseeable liability at 30 November 1986. Had full provision for deferred tax been made at current rates of taxation the potential liability to tax would be as follows:

Accelerated Capital Allowance	483
Other short term timing differences	(5)
Advance Corporation tax recoverable	(75)
	<u>403</u>

5. DIVIDENDS

Preference dividends for the period	44	44
	<u>44</u>	<u>44</u>

PORVAIR LIMITED

NOTES TO THE ACCOUNTS - 30 NOVEMBER 1986 (CONTINUED)

6. TANGIBLE ASSETS

	Freehold Land and buildings £'000	Plant/ Machinery Equipment £'000	Assets in course of construction £'000	Motor Vehicles £'000	Total £'000
<u>COST</u>					
At 30 November 1985	790	901	743	103	2,537
Additions	6	-	606	133	745
Transfers	(18)	1,064	(1,046)	-	-
Disposals	-	-	-	(73)	(73)
At 30 November 1986	778	1,965	303	163	3,209
<u>DEPRECIATION</u>					
At 30 November 1985	64	254	-	50	368
Disposals	-	-	-	(54)	(54)
Charge for year	19	181	-	34	234
At 30 November 1986	83	435	-	30	548
<u>NET BOOK AMOUNT</u>					
At 30 November 1986	695	1,530	303	133	2,661
At 30 November 1985	726	647	743	53	2,169

The net book amount of fixed assets include £372,464 (1985 - £364,177) of leased assets. Amounts totalling £323,880 (1985 - £332,597) are outstanding at 30 November 1986, of which £98,737 is payable within 1 year and £225,143 is payable between 2 and 5 years.

The cost of investment in shares in Shoe Technology (UK) Ltd is included in fixed assets - £2 (1985 - £2)

PORVAIR LIMITED

NOTES TO THE ACCOUNTS - 30 NOVEMBER 1986 (CONTINUED)

	12 MONTHS ENDED 30.11.86 £'000	12 MONTHS ENDED 30.11.85 £'000
CAPITAL COMMITMENTS		
Authorised but not contracted for	43	-
Authorised and contracted for	<u>40</u>	<u>-</u>
 7. STOCKS		
Raw materials and consumables	814	597
Work in progress	535	224
Finished goods and goods for resale	509	404
	<u>1,858</u>	<u>1,325</u>
 8. DEBTORS		
Trade debtors less provisions for bad and doubtful debts	2,112	1,825
VAT recoverable	112	23
Prepayments	48	39
Other debtors	20	4
	<u>2,292</u>	<u>1,891</u>
 9. CREDITORS (amounts falling due within one year)		
Bank overdraft	481	326
Bank loans (Note 11)	46	30
Finance lease obligations	99	86
Trade creditors	1,390	918
Taxation and social security	73	52
Accruals	447	384
	<u>2,536</u>	<u>1,796</u>

The Bank overdraft is secured by a fixed and floating charge on the assets of the company.

PORVAIR LIMITED

NOTES TO THE ACCOUNTS - 30 NOVEMBER 1986 (CONTINUED)

	12 MONTHS ENDED 30.11.86 £'000	12 MONTHS ENDED 30.11.85 £'000
10. CREDITORS (amounts falling due after more than one year)		
Unsecured loan	500	500
Bank loan No.1 (Note 11)	180	210
No.2 (Note 11)	81	97
Secured loan	194	194
	<hr/> 955	<hr/> 1,001
Finance lease obligations	225	246
	<hr/> 1,180	<hr/> 1,247

The unsecured loan is repayable in three equal annual instalments falling due in the period November 1988 to November 1990. The loan is interest free until 30 November 1987 and is subordinate to the claims of preferential creditors of the Company.

The secured loan is repayable in four equal annual instalments falling due in the period 14 August 1990 to 14 August 1993. Secured by a fixed and floating charge on the assets of the Company. The rate of interest can vary between 7.25% and 10.25%.

11. BANK LOANS

The first loan is repayable by seven equal instalments falling due in the period 5 January 1987 to 5 January 1993.

210

240

The second loan is repayable by six consecutive annual instalments, five of £16,000 and a final instalment of £17,000, falling due in the period 3 April 1987 and 3 April 1992.

97

97

Both loans are secured by a fixed and floating charge on the assets of the Company. The rate of interest is fixed at 2% above Libor.

PORVAIR LIMITED

NOTES TO THE ACCOUNTS - 30 NOVEMBER 1986 (CONTINUED)

	12 MONTHS ENDED 30.11.86 £'000	12 MONTHS ENDED 30.11.85 £'000
12. CALLED UP SHARE CAPITAL		
Authorised	<u>600</u>	<u>570</u>
Allotted and fully paid:		
2,600,000 Ordinary shares of 5p each	130	130
11% Redeemable cumulative preference shares of £1 each	320	320
8.8% Convertible redeemable cumulative preference shares of £1 each	100	100
	<u>550</u>	<u>550</u>

Share Options

On the 29 August 1986 74,000 share options were granted under the Porvair share option scheme 1986, to certain Directors and employees of the Company. These entitle option holders to subscribe for shares of 5p each at a subscription price of 60p per share. Options may be exercised after three years and within ten years of being granted.

Redeemable Shares

The Company must redeem at par the 11% preference share capital and 80% of the 8.8% preference share capital between 1 January 1991 and 31 December 1992.

Warrants

There are warrants expiring on 31 March 1993, entitling the holders to subscribe for 356,000 ordinary shares at par.

These warrants are not exercisable until Porvair Limited issues a prospectus and becomes a public company.

13. RESERVES

	Profit and Loss account £000	Non distributable reserves £000
At 30 November 1985	842	951
Amount set aside from profit for the year	753	-
	<u>1,595</u>	<u>951</u>

NOTES TO THE ACCOUNTS - 30 NOVEMBER 1986 (CONTINUED)

14. CONTINGENT LIABILITIES

At 30 November 1986 there were no contingent liabilities. (1985 - Nil).

15. PENSION COMMITMENTS

The company operates a pension scheme covering all its employees including the executive directors. This scheme is financed through a separate fund administered by trustees. Employee contributions were made at a rate of 2% and company contributions at 4%. The pension cost paid under the scheme was £21,816 (1985 - £57,412). Actuarial valuations on both a discontinuance and a going concern basis by Messrs Lane, Clark and Peacock confirm that the scheme is fully funded. The contributions were suspended from 1 April 1986 to 31 March 1987 based upon Actuarial advice.

16. EMPLOYEES

The average number of persons employed by the company in the United Kingdom during the year was 208. (1985 - 187).

17. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	12 MONTHS ENDED 30.11.86 £'000	12 MONTHS ENDED 30.11.85 £'000
Directors' emoluments, including fees of £24,633 (1985 - £25,000)	149	114
Compensation for loss of office	3	35
	<hr/> 152	<hr/> 149
Chairman	6	5
Highest Paid Director	38	35

PORVAIR LIMITED

NOTES TO THE ACCOUNTS - 30 NOVEMBER 1986 (CONTINUED)

The table which follows shows the number of directors , whose emoluments and fees, excluding pension contributions, were within the bands stated:

	<u>Directors</u>	
	<u>1986</u>	<u>1985</u>
£ Nil	-	-
£ 1 - £ 5,000	2	2
£ 5,001 - £10,000	3	3
£10,001 - £15,000	-	-
£15,001 - £20,000	-	1
£20,001 - £25,000	-	-
£25,001 - £30,000	2	1
£30,001 - £35,000	1	1
£35,001 - £40,000	1	0