

# **Porvair plc**

**Company number : 1661935**

**Year ended 30 November 1999**

- Directors' Report**
- Audited Accounts**



# DIRECTORS' REPORT →

The directors are pleased to present their annual report and the audited accounts of the Group for the year ended 30 November 1999.

## Review of business, principal activities and results

The business is reviewed in the Chairman's statement on page 3, the operating review on pages 5 to 9 and the financial review on pages 10 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 2.3p per share was paid on 17 September 1999. The directors recommend the payment of a final dividend of 4.1p per share on 6 April 2000 to shareholders on the register on 10 March 2000. This makes a total dividend for the year of 6.4p per share (1998: 6.4p).

## Directors and their interests

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

Mr K J Symonds resigned from the Board on 1 December 1998. On 6 July 1999 Mr P W Greenwood retired from the Board and on the same date Mr M Ost was appointed.

In accordance with the Articles of Association Mr E Bostwick and Mr W O F Wallis 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 object of increasing profitability and evaluating new business opportunities. The cost to the Group in the year under review was £2.1m (1998: £2.1m). 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 £9.9m has been spent on research and development and usually represents between 3% and 4% of Group turnover.

## Substantial shareholders

As at 27 January 2000 the Company has been notified of the following substantial shareholdings:

	Ordinary shares	Percentage
Schroder Investment Management Ltd	4,518,248	17.6
TR Smaller Companies Investment Trust plc	1,500,000	5.8
M&G Recovery Investment Trust plc	1,450,000	5.7
Foreign & Colonial Enterprise Trust plc	1,337,925	5.2
Royal & Sun Alliance Group plc	1,222,125	4.8
Laminvest NV	1,198,277	4.7
Edinburgh Small Companies Trust plc	1,000,000	3.9

## 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 the 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 review and inspect the conditions in which our employees work. The Group also continuously monitors its methods of improving safety and considers its environmental responsibilities.

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 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 £13,000 during the year (1998: £12,000). There were no political donations.

### Annual General Meeting

At the Annual General Meeting of the Company, to be held on Tuesday 4 April 2000, of which Notice 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 two items of special business; Resolution 9 which concerns an authority for the purchase by the Company of its own shares and Resolution 10 concerning an All-Employee Share Ownership Plan. Full details of all the resolutions to be proposed are set out on pages 38 and 39.

Resolutions 7 and 8 concern the directors' authority to allot equity securities and renew and extend similar authorities taken at the Annual General Meeting in 1999. If Resolution 7 is passed, the directors will be unconditionally authorised to allot relevant securities up to a maximum nominal amount of £171,220.48, being one-third of the share capital currently in issue. The directors have no current intention of exercising this authority. If Resolution 8 is passed, the directors will be given authority to allot equity securities for cash, firstly in connection with rights issues and similar proportionate offers and secondly up to a maximum nominal value of £25,683.07 (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 9 deals with the proposed authority relating to the purchase by the Company in the market of its own shares. The directors believe that it would 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 2,568,307, 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.

Resolution 10 is to gain shareholders' approval to the introduction of a new All-Employee Share Ownership Plan (the 'Plan'). The principal features of the Plan are set out in the Circular to shareholders which accompanies this Report.

### Creditor payment policy

The individual operating businesses 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 for the year ended 30 November 1999 were 54 days (1998: 61 days). The Company's trade creditors are not material.

### 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 control; and to prevent and detect fraud and other irregularities.

### Auditors

Our auditors, PricewaterhouseCoopers, 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

**K J Symonds**

27 January 2000



# AUDITORS' REPORT →

## Report of the Auditors to the members of Porvair plc

We have audited the financial statements on pages 20 to 36, including the additional disclosures on pages 14 and 15 relating to the remuneration of directors (specified for our review by the London Stock Exchange), which have been prepared under the historical cost convention and the accounting policies set out on page 24.

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 13 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. 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.

We review whether the statement on page 16 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, 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 Company's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 November 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**PRICEWATERHOUSECOOPERS** 

Chartered Accountants and Registered Auditors  
Benson House, 33 Wellington Street, Leeds, LS1 4JP  
27 January 2000

*Price Waterhouse Coopers*

# CONSOLIDATED PROFIT AND LOSS ACCOUNT →

For the year ended 30 November 1999

	Note	Group 1999 £'000	Group 1998 restated £'000
<b>Turnover</b>			
Continuing operations (including share of joint venture)		62,535	62,768
Less: share of joint venture		(964)	(803)
	2	61,571	61,965
Cost of sales		(43,780)	(45,998)
<b>Gross profit</b>		17,791	15,967
Distribution costs		(2,043)	(1,976)
Administrative expenses		(12,949)	(15,968)
<b>Group operating profit before goodwill amortisation</b>		4,912	52
Goodwill amortisation	10	(2,113)	(2,029)
<b>Group operating profit/(loss) before joint venture – continuing operations</b>		2,799	(1,977)
Share of operating profit/(loss) in joint venture		62	(83)
<b>Group operating profit/(loss) including joint venture</b>		2,861	(2,060)
Interest payable (net)	3	(749)	(1,007)
<b>Profit/(loss) on ordinary activities before taxation</b>		2,112	(3,067)
Tax on profit on ordinary activities	4	(987)	(5)
<b>Profit/(loss) on ordinary activities after taxation</b>		1,125	(3,072)
Equity minority interests		6	10
<b>Profit/(loss) attributable to shareholders</b>		1,131	(3,062)
Dividends	5	(1,644)	(1,623)
<b>Retained loss for the financial year</b>		(513)	(4,685)
<b>Earnings/(losses) per share</b>			
– basic and diluted	9	4.4p	(11.9)p
– basic and diluted before goodwill amortisation	9	12.6p	(4.0)p

# RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS →

For the year ended 30 November 1999

	Note	Group		Company	
		1999 £'000	1998 restated £'000	1999 £'000	1998 £'000
<b>Profit/(loss) for the financial year</b>		<b>1,131</b>	<b>(3,062)</b>	<b>(4,704)</b>	<b>(1,133)</b>
Dividends		<b>(1,644)</b>	<b>(1,623)</b>	<b>(1,644)</b>	<b>(1,623)</b>
<b>Retained loss for the financial year</b>		<b>(513)</b>	<b>(4,685)</b>	<b>(6,348)</b>	<b>(2,756)</b>
New share capital subscribed		-	141	-	141
Exchange differences		<b>184</b>	<b>171</b>	<b>(92)</b>	<b>(28)</b>
<b>Net reduction in equity shareholders' funds</b>		<b>(329)</b>	<b>(4,373)</b>	<b>(6,440)</b>	<b>(2,643)</b>
Opening equity shareholders' funds (as originally stated)		<b>43,195</b>	<b>23,132</b>	<b>41,970</b>	<b>44,613</b>
Prior year adjustment	1, 10	-	24,436	-	-
<b>Closing equity shareholders' funds</b>		<b>42,866</b>	<b>43,195</b>	<b>35,530</b>	<b>41,970</b>

# STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES →

For the year ended 30 November 1999

	Note	Group		Company	
		1999 £'000	1998 restated £'000	1999 £'000	1998 £'000
<b>Profit/(loss) attributable to shareholders</b>		<b>1,131</b>	<b>(3,062)</b>	<b>(4,704)</b>	<b>(1,133)</b>
Exchange differences on retranslation of net assets of subsidiary undertaking and foreign borrowings		<b>184</b>	<b>171</b>	<b>(92)</b>	<b>(28)</b>
<b>Total gains/(losses) relating to the year</b>		<b>1,315</b>	<b>(2,891)</b>	<b>(4,796)</b>	<b>(1,161)</b>
Prior year adjustment	1, 10	<b>22,407</b>	-	-	-
<b>Total gains/(losses) recognised since last annual report</b>		<b>23,722</b>	<b>(2,891)</b>	<b>(4,796)</b>	<b>(1,161)</b>

# BALANCE SHEETS →

As at 30 November 1999

	Note	Group		Company	
		1999 £'000	1998 restated £'000	1999 £'000	1998 £'000
<b>Fixed assets</b>					
Goodwill	10	20,712	22,407	-	-
Tangible assets	11	19,368	18,004	89	119
<b>Investments</b>					
Investments in subsidiary undertakings	12	-	-	46,794	52,022
Investments in joint venture:					
Share of gross assets		292	317		
Share of gross liabilities		(272)	(359)		
	12	20	(42)	-	-
Other investments	12	-	4	-	4
		40,100	40,373	46,883	52,145
<b>Current assets</b>					
Stocks	14	11,052	13,199	-	-
Debtors	15	13,217	12,671	296	801
Cash at bank and in hand		665	1,325	-	-
		24,934	27,195	296	801
<b>Creditors</b>					
Amounts falling due within one year	16	(12,029)	(14,976)	(1,987)	(2,128)
<b>Net current assets/(liabilities)</b>		12,905	12,219	(1,691)	(1,327)
<b>Total assets less current liabilities</b>		53,005	52,592	45,192	50,818
<b>Creditors</b>					
Amounts falling due after more than one year	16	(9,787)	(9,098)	(9,662)	(8,848)
<b>Provisions for liabilities and charges</b>	19	(320)	(261)	-	-
		42,898	43,233	35,530	41,970
<b>Capital and reserves</b>					
Called up share capital	20	514	514	514	514
Share premium account	21	1,211	1,211	1,211	1,211
Other reserves	22	5,092	4,908	946	1,038
Profit and loss account	21	36,049	36,562	32,859	39,207
<b>Total equity shareholders' funds</b>		42,866	43,195	35,530	41,970
Equity minority interests		32	38		
		42,898	43,233	35,530	41,970

Approved by the Board on 27 January 2000

B D W Stocks, Director

M Moran, Director

# CONSOLIDATED CASH FLOW STATEMENT →

For the year ended 30 November 1999

	Note	Group 1999 £'000	Group 1998 £'000
<b>Net cash inflow from operating activities before exceptional items</b>	23	<b>9,126</b>	<b>9,251</b>
Exceptional items	23	<b>(477)</b>	<b>(430)</b>
<b>Net cash inflow from operating activities</b>	23	<b>8,649</b>	<b>8,821</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		<b>25</b>	<b>17</b>
Interest paid		<b>(785)</b>	<b>(1,006)</b>
		<b>(760)</b>	<b>(989)</b>
<b>Taxation</b>			
UK corporation tax refunded/(paid)		<b>108</b>	<b>(1,365)</b>
Overseas tax paid		<b>(643)</b>	<b>(512)</b>
		<b>(535)</b>	<b>(1,877)</b>
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		<b>(4,327)</b>	<b>(3,244)</b>
Sale of tangible fixed assets		<b>7</b>	<b>23</b>
		<b>(4,320)</b>	<b>(3,221)</b>
<b>Acquisitions and disposals</b>			
Purchase of Marand goodwill		<b>(418)</b>	<b>-</b>
<b>Equity dividends paid</b>		<b>(1,644)</b>	<b>(1,641)</b>
<b>Financing</b>			
Issue of ordinary share capital		<b>-</b>	<b>141</b>
Debt due after one year			
Increase in net borrowings	25	<b>430</b>	<b>3,865</b>
		<b>430</b>	<b>4,006</b>
<b>Increase in cash in the year</b>		<b>1,402</b>	<b>5,099</b>



# ACCOUNTING POLICIES →

## Convention

The financial information has been prepared under the historical cost convention and complies with all applicable accounting standards.

## Basis of consolidation

The consolidated accounts incorporate the accounts of Porvair plc and its subsidiary undertakings made up to 30 November 1999, and include the Group's share of the profits or losses of 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, respectively.

## 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. 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. Capitalised goodwill is amortised over periods between 5 and 20 years on a straight line basis, with a full year's amortisation in the year of acquisition and none in the year of disposal. This represents a change in accounting policy, details of which are given in note 1.

## Tangible assets

Tangible fixed assets 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. Rentals under operating leases are charged to the profit and loss account as incurred.

## Government grants

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

## Investments

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

## Stocks and work in progress

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

## 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.

## Patents and trade marks

All expenditure on the registration, renewal and maintenance of patents and trade marks is written off as incurred.

## 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 from the translation of the results of those undertakings at an average rate, 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 only provides for deferred taxation where in the opinion of the Directors there is a reasonable probability that a liability for taxation will crystallise in the foreseeable future.

## Pensions

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

# NOTES TO THE ACCOUNTS →

## 1. Prior year adjustment

The Group's accounting policy for goodwill has changed in line with Financial Reporting Standard 10 'Goodwill and Intangible Assets', which requires purchased goodwill to be capitalised and amortised through the profit and loss account over its useful economic life. In order to ensure consistency with the revised accounting policy all goodwill previously eliminated against reserves has been reinstated as an asset on the balance sheet, by means of a prior year adjustment, and comparatives restated accordingly.

The effects of this change of policy on the Group's balance sheet has been to increase net assets, represented by the net book value of goodwill, and shareholders' funds by £22.4m at 30 November 1998. The impact of this change in policy resulting from the non-cash amortisation of goodwill was to reduce operating profit in 1999 by £2.1m (1998: £2.0m).

Comparatives have been amended to reflect some minor changes to account classifications adopted in 1999.

## 2. Turnover and segmental analysis

The analysis by class of business and geographical segment of the Group's turnover, operating profit and net assets is set out below:

	Consumer division £'000	1999 Filtration division £'000	Total £'000	Consumer division £'000	1998 Filtration division £'000	Total £'000
<b>Turnover by geographical destination</b>						
United Kingdom	4,843	6,325	11,168	4,094	6,535	10,629
Continental Europe	6,893	3,893	10,786	7,197	4,872	12,069
Americas	9,336	19,806	29,142	11,403	19,382	30,785
Asia	6,134	1,351	7,485	5,617	1,114	6,731
Australasia	220	531	751	207	534	741
Africa	2,275	928	3,203	1,497	316	1,813
	29,701	32,834	62,535	30,015	32,753	62,768
Less: share of joint venture	(964)	-	(964)	(803)	-	(803)
	28,737	32,834	61,571	29,212	32,753	61,965
<b>Turnover by geographical origin</b>						
United Kingdom	23,261	12,578	35,839	22,812	13,800	36,612
Americas and Asia	6,440	20,256	26,696	7,203	18,953	26,156
Less: share of joint venture	(964)	-	(964)	(803)	-	(803)
	28,737	32,834	61,571	29,212	32,753	61,965
<b>Operating profit</b>						
Operating profit before goodwill amortisation, share of joint venture and 1998 exceptional charge	2,189	2,723	4,912	937	2,214	3,151
Goodwill amortisation	(794)	(1,319)	(2,113)	(710)	(1,319)	(2,029)
Share of joint venture	62	-	62	(83)	-	(83)
Exceptional charge	-	-	-	(2,342)	(757)	(3,099)
Operating profit/(loss) after goodwill amortisation, share of joint venture and 1998 exceptional charge	1,457	1,404	2,861	(2,198)	138	(2,060)
<b>Net assets</b>						
Net assets before goodwill and net borrowings:						
United Kingdom	16,730	5,782	22,512	14,882	5,693	20,575
Americas	1,942	7,229	9,171	1,572	8,915	10,487
	18,672	13,011	31,683	16,454	14,608	31,062
Goodwill	1,354	19,358	20,712	1,730	20,677	22,407
Net borrowings			(9,497)			(10,236)
			42,898			43,233

**3. Profit on ordinary activities before taxation**

	Note	Group 1999 £'000	Group 1998 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):			
<b>Staff costs</b>			
Wages and salaries		14,706	15,421
Social security costs		1,848	1,965
Other pension costs	27	878	1,024
		<b>17,432</b>	<b>18,410</b>
<b>Operating lease costs</b>			
Land and buildings		545	426
Plant, machinery and vehicles		475	496
		<b>1,020</b>	<b>922</b>
<b>Net interest payable on bank and other borrowings</b>			
Interest payable on bank loans and overdrafts		774	1,024
Interest receivable		(25)	(17)
		<b>749</b>	<b>1,007</b>
<b>Depreciation: owned assets</b>		<b>2,909</b>	<b>2,695</b>
<b>Loss on sale of tangible fixed assets</b>		<b>39</b>	<b>30</b>
<b>Exceptional charge</b>		<b>-</b>	<b>3,099</b>
<b>Income from government grants</b>		<b>(61)</b>	<b>(89)</b>
<b>Research and development</b>		<b>2,083</b>	<b>2,079</b>

Fees paid to the auditors by the Group in respect of audit work amounted to £86,000 (1998: £86,000) and £67,000 in respect of non audit work (1998: £119,000). Audit fees incurred by the Company amounted to £8,000 (1998: £8,000).

The exceptional charge in 1998 represents the cost of restructuring certain parts of the business.

**4. Tax on profit on ordinary activities**

	Group 1999 £'000	Group 1998 £'000
<b>Taxation on the profit for the year</b>		
UK corporation tax at 30% (1998: 31%)	-	-
Deferred tax	59	-
Over provision in prior years	-	(319)
Overseas tax payable	928	324
	<b>987</b>	<b>5</b>

## 5. Dividends

	Group 1999 £'000	Group 1998 £'000
Dividends on equity shares:		
Interim dividend paid – 2.3p (1998: 2.3p)	591	570
Final dividend proposed – 4.1p (1998: 4.1p)	1,053	1,053
	<b>1,644</b>	<b>1,623</b>

## 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 Holding Company. The loss attributable to the Company which has been dealt with in the accounts is £4,704,000 (1998: loss of £1,133,000).

## 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

	1999		1998	
	Average	Year end	Average	Year end
Consumer division	266	263	331	284
Filtration division	357	366	387	352
Head office	9	8	10	10
	<b>632</b>	<b>637</b>	<b>728</b>	<b>646</b>
USA employees included above	230	233	248	229

## 9. Earnings/(losses) per share

The basic earnings/(losses) per share as shown in the profit and loss account are calculated by reference to the profit/(loss) attributable to shareholders and the average number of shares in issue during the year on a time weighted basis of 25,683,073 (1998: 25,659,245). For the diluted earnings/(losses) 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/(losses) per share before goodwill amortisation have been calculated by adding back £2,113,000 (1998: £2,029,000) to profit after tax attributable to shareholders of £1,131,000 (1998: loss of £3,062,000).

## 10. Goodwill

	Group 1999 £'000	Group 1998 £'000
At beginning of the year as previously stated	-	-
Prior year adjustment (note 1)		
– reinstated goodwill	29,904	29,904
– cumulative amortisation brought forward	(7,497)	(5,468)
At beginning of the year as restated	22,407	24,436
Additions	418	-
Amortisation	(2,113)	(2,029)
At end of the year	<b>20,712</b>	<b>22,407</b>

On 1 December 1998 the Group acquired the stock of Marand Marketing at book and fair value for £669,000. In addition the Group purchased goodwill totalling £418,000. This acquisition did not make a significant contribution to turnover and operating profit.

# 11. Tangible fixed assets

	Freehold land & buildings £'000	Assets in course of construction £'000	Plant, machinery & equipment £'000	Total £'000
<b>Group</b>				
<b>Cost</b>				
At 1 December 1998	3,010	3,105	28,813	34,928
Reclassification	–	(5,893)	5,893	–
Additions	–	3,905	422	4,327
Disposals	–	(4)	(1,210)	(1,214)
Exchange differences	72	4	211	287
At 30 November 1999	3,082	1,117	34,129	38,328
<b>Depreciation</b>				
At 1 December 1998	562	–	16,362	16,924
Charge for year	82	–	2,827	2,909
Disposals	–	–	(971)	(971)
Exchange differences	8	–	90	98
At 30 November 1999	652	–	18,308	18,960
<b>Net book value</b>				
At 30 November 1999	2,430	1,117	15,821	19,368
At 30 November 1998	2,448	3,105	12,451	18,004
<b>Company</b>				
<b>Cost</b>				
At 1 December 1998			251	251
Additions			12	12
At 30 November 1999			263	263
<b>Depreciation</b>				
At 1 December 1998			132	132
Charge for year			42	42
At 30 November 1999			174	174
<b>Net book value</b>				
At 30 November 1999			89	89
At 30 November 1998			119	119

Capital commitments, authorised and contracted for, in the Group at 30 November 1999 were £292,000 (1998: £2,408,000). There were no such capital commitments in the Company (1998: £nil).

## 12. Fixed asset investments

	Investment in associate undertaking £'000	Investment in Permair Austins joint venture £'000	Total £'000
<b>Group</b>			
At 1 December 1998	4	(42)	(38)
Disposal	(4)	–	(4)
Share of joint venture profit during year	–	62	62
At 30 November 1999	–	20	20

The shares in the associated undertaking representing a 12.5% holding in Phoenix Travel (King's Lynn) Limited, a company which is registered and operated within Great Britain as a travel agency, were disposed of during the year.

The Group owns 49% of Selee de Venezuela ('SDV'), a joint venture which is registered and operates in Venezuela. SDV produces ceramic filters for aluminium casters in South America. The Group's investment in SDV is not assigned a value as a consequence of exchange control and relative political instability.

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 1999 the Group made sales, on an arms length basis, to Permair Austins Limited of £480,000 (1998 £348,000). In addition the Group guarantees 50% of its borrowings up to a maximum of £200,000.

	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
<b>Company</b>			
At 1 December 1998	27,592	24,430	52,022
Reductions	(5,131)	(97)	(5,228)
At 30 November 1999	22,461	24,333	46,794

Details of the Group's subsidiary undertakings are given in note 13. During the year the investment in subsidiary companies has been written down by £5,051,000 and a subsidiary company redeemed its preference shares at nominal value of £80,000.

### 13. Principal subsidiary undertakings

The principal operating companies are as follows:

Name	Country of incorporation and operation	% holding
<b>Consumer division</b>		
Porvair International Limited	England	100%
Permair Leathers Inc	USA	95%
<b>Filtration division</b>		
Selee Corporation	USA	100%
Porvair Advanced Materials Inc	USA	100%
Porvair Ceramics Limited	England	100%
Porvair Technology Limited	England	100%
Porvair Sciences Limited	England	100%

### 14. Stocks

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Raw materials and consumables	4,428	5,287	-	-
Work in progress	1,132	1,498	-	-
Finished goods and goods for resale	5,492	6,414	-	-
	11,052	13,199	-	-

### 15. Debtors

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Trade debtors	11,104	10,388	-	-
Amounts owed by joint venture	162	221	-	-
VAT recoverable	126	96	2	2
ACT and corporation tax recoverable	-	311	294	570
Other debtors	83	385	-	162
Prepayments	1,742	1,270	-	67
	13,217	12,671	296	801

Group prepayments include an amount of £1,067,000 falling due after more than one year (1998: £680,000).

## 16. Creditors

10. Creditors

		Group	Company		
	Note	1999 £'000	1998 £'000	1999 £'000	1998 £'000
<b>Amounts falling due within one year</b>					
Bank overdraft (unsecured)		250	2,338	305	536
Bank loans	17	125	125	-	-
Trade creditors		6,489	7,652	41	63
Taxation and social security		340	556	46	58
Proposed dividend		1,053	1,053	1,053	1,053
Accruals & deferred income		3,370	3,252	542	418
Corporation tax		402	-	-	-
		12,029	14,976	1,987	2,128

### Amounts falling due after more than one year

Bank Loans	17	<b>9,787</b>	9,098	<b>9,662</b>	8,848
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## 17. Bank loans

		Group		Company	
		1999 £'000	1998 £'000	1999 £'000	1998 £'000
Unsecured ECSC loan repayable by two annual instalments of £125,000 falling due on 3 August 2000 and 3 August 2001 (interest at 8.6%)		250	375	-	-
Unsecured five year multicurrency credit facility of £15 million maturing July 2003 with interest at 0.7% above LIBOR		9,662	8,848	9,662	8,848
		<b>9,912</b>	<b>9,223</b>	<b>9,662</b>	<b>8,848</b>

### Bank and other loans of the Group are repayable as follows:

Within one year		125	125	-	-
One to two years		125	125	-	-
Two to five years		9,662	8,973	9,662	8,848
		<b>9,912</b>	<b>9,223</b>	<b>9,662</b>	<b>8,848</b>

At 30 November 1999 the Group had £5,338,000 (1998: £6,027,000) of undrawn committed borrowing facilities which expire after two years.



**18. Financial Instruments**

(1) *Interest rate risk:* the interest rate profile of the financial liabilities of the Group, comprising gross borrowings, at 30 November 1999 is detailed below.

	Fixed rate weighted average period Years	Fixed rate weighted average interest rate %	Fixed borrowings £'000	Floating borrowings £'000	Total borrowings £'000
Currency:					
Sterling	2	8.6	250	1,710	1,960
Dollars	–	–	–	8,202	8,202
	2	8.6	250	9,912	10,162

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

(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 denominated in the operating currency of the operating unit involved.

	Group 1999				
	Net foreign currency monetary assets/liabilities				
	Sterling £'000	US Dollar £'000	Euro £'000	Other £'000	Total £'000
Functional currency of group operation:					
Sterling	–	1,420	(297)	(26)	1,097
Dollars	(1,196)	–	184	–	(1,012)
	(1,196)	1,420	(113)	(26)	85

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 1999 there were no forward currency transactions entered into as hedges against future purchases and sales (1998: nil).

**19. Provisions for liabilities and charges**

Deferred tax provided for in the accounts and the total potential liability, including amounts for which provision has been made, are as follows:

	Amount provided		Total potential liability	
	Group 1999 £'000	Group 1998 £'000	Group 1999 £'000	Group 1998 £'000
Accelerated capital allowances	–	–	1,707	1,930
Short-term timing differences				
Losses	–	–	(624)	–
Other	320	261	290	193
	320	261	1,373	2,123

## 20. Called up share capital

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
<b>Authorised</b>				
34.4 million ordinary shares of 2p each (1998: 34.4million)	688	688	688	688
<b>Allotted and fully paid</b>				
25,683,073 ordinary shares of 2p each (1998: 25,683,073)	514	514	514	514

### 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 1999.

	Number of shares	Subscription price	Exercise period
	20,593	127.48p	1995-2002
	63,714	236.08p	1996-2003
	37,065	269.13p	1997-2004
	312,000	413.00p	1999-2006
	75,000	299.00p	2000-2007
	50,000	352.50p	2001-2005
	100,000	367.50p	2001-2005
	20,000	123.50p	2002-2009
	55,000	123.50p	2002-2006
	35,000	157.50p	2002-2006

Movements in share options during the year were:

	Number
At 1 December 1998	702,667
Options granted	110,000
Options lapsed	(44,295)
At 30 November 1999	768,372

	Number of shares	Subscription price
Options lapsed during the year were:	5,295	236.08p
	18,000	299.00p
	21,000	413.00p
	44,295	

**21. Reserves**

	Share premium account £'000	Profit and loss account £'000
<b>Group</b>		
At 1 December 1998 as previously stated	1,211	14,155
Prior year adjustment (adoption of FRS 10)	–	22,407
At 1 December 1998 as restated	–	36,562
Retained for year	–	(513)
At 30 November 1999	1,211	36,049
<b>Company</b>		
At 1 December 1998	1,211	39,207
Retained for year	–	(6,348)
At 30 November 1999	1,211	32,859

**22. Other reserves**

	Special reserve £'000	Exchange reserve £'000	Capital reserve £'000	Total £'000
<b>Group</b>				
At 1 December 1998	4,102	(145)	951	4,908
Exchange difference on retranslation of net assets of subsidiary undertakings and foreign borrowings	–	184	–	184
At 30 November 1999	4,102	39	951	5,092
<b>Company</b>				
At 1 December 1998		87	951	1,038
Exchange difference on retranslation of foreign borrowings		(92)	–	(92)
At 30 November 1999		(5)	951	946

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

	1999 £'000	1998 £'000
Group operating profit/(loss) including joint venture	2,861	(2,060)
Goodwill amortisation	2,113	2,029
Depreciation	2,909	2,695
Loss on sale of fixed assets	39	30
Decrease in stocks	2,287	187
(Increase)/decrease in debtors	(696)	5,932
(Decrease)/increase in creditors	(325)	355
Share of joint venture (profit)/loss	(62)	83
Net cash inflow from operating activities before exceptional items	9,126	9,251
Exceptional items	(477)	(430)
<b>Net cash inflow from operating activities</b>	<b>8,649</b>	<b>8,821</b>

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

	1999 £'000	1998 £'000
Increase in cash in the year	1,402	5,099
Increase in borrowings and lease financing	(430)	(3,865)
Change in net borrowings from cash flows	972	1,234
Translation difference	(233)	(78)
Movements in net borrowings in the year	739	1,156
Opening net borrowings	(10,236)	(11,392)
Closing net borrowings	(9,497)	(10,236)

**25. Analysis of net borrowings**

	30/11/98 £'000	Cash flow £'000	Other non-cash £'000	Exchange movement £'000	30/11/99 £'000
Cash at bank and in hand	1,325	(686)	–	26	665
Overdrafts	(2,338)	2,088	–	–	(250)
		1,402			
Borrowings due after 1 year	(9,098)	–	(430)	(259)	(9,787)
Borrowings due within 1 year	(125)	(430)	430	–	(125)
		(430)			
Total	(10,236)	972	–	(233)	(9,497)

**26. Operating lease commitments**

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

	Group 1999		Group 1998	
	Land & buildings £'000	Other £'000	Land & buildings £'000	Other £'000
Within one year	48	114	7	57
Within two to five years	–	302	193	363
Over five years	370	–	412	–
	418	416	612	420

## 27. Pension costs

The Group operates a defined benefit pension scheme covering the majority of employees. The pension scheme is financed through a separate trust fund administered by Trustees with an independent Chairman.

Formal valuations of the pension scheme by a professionally qualified actuary are carried out at least every three years using the projected unit method. The latest actuarial valuation was at 1 April 1997. 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 90% (1998: 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 £924,000. 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 three years.

The UK pension charge for the year was £606,000 (1998: £812,000); the funding via employer contributions was £993,000 (1998: £1,152,000). The market value of the scheme's assets (including AVC assets) at 31 March 1999 was £15.4m (1998: £13.1m).

For its USA employees, the Group operates a defined contribution pension plan (the 'Pension Plan') covering all eligible full-time employees. The Group contributes 3% of each participant's compensation each year to the pension plan. In 1999 this amounted to £272,000 (1998: £212,000).