

PORTON INTERNATIONAL PLC

REPORT AND ACCOUNTS 1986

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SCIENCE IN BUSINESS

PORTON INTERNATIONAL PLC

Directors

W. G. Haydon-Baillie (Chairman)
A. D. Gover (Joint Chief Executive)
Dr. Z. P. Harsanyi (Joint Chief Executive)
Dr. D. G. Layton (Joint Chief Executive)

Group offices

100 Piccadilly
London
727 Fifteenth Street NW
Washington DC
Fu House
7 Ice House Street
Hong Kong

Auditors

Hacker Young
Chartered Accountants
London

Lawyers

Norton, Rose, Botterell & Roche
London and Hong Kong
Jones, Day, Reavis & Pogue
Washington DC

Bankers

National Westminster Bank
Bank of America
Mitsui Manufacturers Bank

THE GROUP'S SHAREHOLDERS

The shareholders of the Group, in addition to the
Board of Porton International, include:

THE ALLIANCE TRUST
BARCLAYS BANK PENSION FUND
BARING INVESTMENT MANAGEMENT
BRITISH TELECOM PENSION FUND
CAA SUPERANNUATION SCHEME
C & A PENSION TRUSTEES
C.G.I. PENSION TRUST
EQUITY & LAW LIFE ASSURANCE SOCIETY
ESSO PENSION TRUST
FRIENDS' PROVIDENT
GENERAL ACCIDENT FIRE AND LIFE ASSURANCE
CORPORATION
HILL SAMUEL INVESTMENT MANAGEMENT
ICI PENSION FUNDS
IMPERIAL GROUP PENSION TRUST
THE IRON TRADES EMPLOYERS INSURANCE
ASSOCIATION
KLEINWORT BENSON INVESTMENT MANAGEMENT
LEGAL & GENERAL ASSURANCE SOCIETY
LLOYDS BANK TRUST DIVISION
MERCURY WARBURG INVESTMENT MANAGEMENT
MURRAY JOHNSTONE INVESTMENT MANAGEMENT
NATIONAL PROVIDENT INSTITUTION
NATIONAL WESTMINSTER BANK PENSION FUND
POST OFFICE PENSION FUND
ROBERT FLEMING INVESTMENT MANAGEMENT
ROYAL INSURANCE
THE SCOTTISH INVESTMENT TRUST
THE SCOTTISH MUTUAL ASSURANCE SOCIETY
SCOTTISH WIDOWS' FUND & LIFE ASSURANCE SOCIETY
THE SECOND ALLIANCE TRUST
THE STANDARD LIFE ASSURANCE COMPANY
SUN ALLIANCE & LONDON INSURANCE GROUP
SUN LIFE ASSURANCE COMPANY OF CANADA
TR INDUSTRIAL AND GENERAL TRUST
TR TECHNOLOGY INVESTMENT TRUST
TR TRUSTEES CORPORATION
UNIVERSITIES SUPERANNUATION SCHEME
WARDLEY INVESTMENT SERVICES

CHAIRMAN'S REVIEW

I am pleased to present the Report and Accounts of Porton International for the year ended 31 December 1986, a year in which the whole field of biomedical and related developments and the position of the Porton International group have become the subject of greatly increased interest, particularly for their impact and potential within the world pharmaceutical industry.

The principal priorities of the Group outlined in my previous statement have all shown a satisfactory rate of progress.

- The Group's comprehensive range of capabilities and resources within the biomedical and related fields has been further extended, particularly by investment in new activities.
- The organisation and infrastructure connecting all the Group's activities have been further integrated and strengthened through additional recruitment and an improved management structure.
- The PHLS/CAMR/Porton International relationship and the practical application of that relationship has been developed through increasingly effective programmes covering a broad spectrum of activities.
- The powerful capital base established with the backing of a wide range of leading institutional shareholders has been maintained and the Group has retained cash resources at the year end close to the level at the previous reporting date.
- The Group's concentration on a broad product range has continued, covering pharmaceutical and biomedical products, diagnostics, equipment, instrumentation and specialist products and services. In the pharmaceutical field, the principal areas of concentration are in the cancer, blood disorders, cardiovascular, AIDS and infectious diseases fields.

Group activities during and since the year under review include the following significant and emerging developments:

- The Group's Tissue-type Plasminogen Activator (TPA) has been further advanced and a special project group concentrating solely on TPA has been formed. Initial results have been encouraging and indicate that Porton's TPA has beneficial properties distinct from other competitors' products. The programme is being carried out at CAMR, International Cardiovascular Medicine in California and at Speywood's production facilities.
- The herpes therapeutic product is in combined Phase II/Phase III clinical trials in the USA. Double blind controlled trials are being conducted in the major metropolitan areas of Los Angeles and Chicago/Milwaukee and the results will be available by the end of 1987.
- The Group's factor VIII product, Hyate:C, was granted a full FDA licence in October 1986 following the granting of the UK licence in December 1984. Since the year end a Canadian licence has also been granted, as have licences in both Thailand and Hong Kong. In the USA, the National Hemophilia Foundation is officially encouraging the appropriate use of porcine products such as Hyate:C as a means of reducing the risk of AIDS in haemophilia patients. In particular, international concern over AIDS has resulted in an increasing level of sales of the product in most major markets.
It is the intention of the Group to seek to extend the product licences for this drug to a wider base of patients.
- In the AIDS field the Group has established itself by its uniquely organised approach. The full vertical and horizontal integration is co-ordinating the areas of fundamental research, diagnostics, therapeutics, treatment, specialty clinics and patient care.

This planned approach has achieved the following results:

The localising and identifying of AIDS isolates as yet unidentified by the currently available commercial AIDS tests. The commencement of a programme of developing fast and effective diagnostic and screening tests for the AIDS viruses so far discovered.

The testing of the Group's anti AIDS drug, HIVA. At CAMR, scientists have now fully identified and characterised the compound, which is extracted from natural sources.

The establishment of the world's first AIDS Infectious Diseases Clinic, offering the latest diagnostic and therapeutic products, which opened in California in early 1987. Affiliated with Sherman Oaks Hospital, the clinic is staffed by specialists in the diagnosis and therapy of the variety of diseases which may affect AIDS patients, many of which will be fatal unless treated rapidly.

As part of the Group's programme, additional clinics will be opened in the USA in both 1987 and 1988 adjacent to major hospitals. These, and patient care, provide not only a commercial service but also the clinical feedback fundamental to effective product development.

Life threatening infections caused by Cytomegalovirus (CMV) are expected to be routinely detected, in hours rather than days, by a diagnostic test being developed by the Group.

- The Group's commitment and expertise in fighting AIDS led to the foundation of PharmDx Pharmacy Services in California, initially established to supply the Group's affiliated clinics with pharmaceuticals. PharmDx is now being positioned to address a much larger market, providing pre-packaged drugs to specialty clinics, nursing homes and home care services.

In addition, American Medical Supply was established to provide durable medical equipment to the same spectrum of customers.

Porton Medical Laboratories, PharmDx and American Medical Supply together provide clinical diagnosis, therapy and medical equipment to patients on an inpatient and outpatient basis.

- In the cardiovascular field, International Cardiovascular Medicine (ICM) was formed in Los Angeles, through which research and development of new diagnostics and therapeutics for cardiovascular disorders are being co-ordinated. In collaboration with CAMR, a diagnostic test is being developed to identify individuals at risk from heart attacks. A second diagnostic test is being evaluated for its ability to identify bacteria related to heart tissue damage.

A collaborative effort between ICM and CAMR has been initiated to explore new uses for the enzyme Superoxide Dismutase. The benefit of a large supply of a particularly suitable form of this enzyme at CAMR will assist in the search for relevant applications in a variety of conditions where heart tissue must be protected.

- JR Scientific has substantially increased its presence as a supplier to the biotechnology/pharmaceutical industry through its range of specialty reagents. Demand for JR Scientific's serum-free and other media has been so great that GMP production facilities to supply international pharmaceutical companies have been constructed.

JR Scientific is now integrated closely with IGB Products to develop a wider product range, including molecular biology reagents.

- The Porton Instruments division is launching in 1987 the first in a family of new instruments with substantial potential as new market demands increase.

The first product, a protein sequencer, is being launched at a price less than half that of its competitor, costs less than half to operate and contains many unique features which make it smaller and less complex to run and maintain than any known competitor.

The second major product, a combined gene and peptide synthesizer, is undergoing final evaluation.

- In the consulting and patent field, the Group's Washington DC subsidiary, OMEC International, pursues patent and trademark search and patent filing, prosecution and licensing. OMEC publishes the periodical BioINVENTION and several new publications have been released:

Biotechnology Regulations: Environmental Release
Compendium

Federal Biotechnology Programs Directory

Federal Biotechnology Information Resources Directory

New Drug Development - A Regulatory Overview.

The Group continues to be dedicated to and fully integrated within the biomedical and related sectors. It will seek to strengthen further its management and structural organisation to take full advantage of the wide-ranging field of opportunity available from existing and future products and programmes.

The Group has decided to recommend to shareholders the payment of a dividend of one third of attributable profit after taxation, in line with the Group's dividend policy.

W. G. Haydon-Baillie

Chairman

14 May 1987

DIRECTORS' REPORT

The directors present their report on the affairs of the Group together with the audited accounts for the year ended 31 December 1986.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year have been to engage in research, development, manufacture and marketing of products, processes and services related to the biomedical and bioindustrial fields.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

A review of the business and potential future developments is provided in the Chairman's Review.

RESULTS AND DIVIDENDS

The results for the year are set out on pages 13 to 24. The directors recommend a dividend of 29.25p per ordinary share.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and the number of shares in the Company held by them were:

	31 December 1986	31 December 1985
W. G. Haydon-Baillie	1,788,810	2,083,237
A. D. Gover	214,667	250,000
Dr. Z. P. Harsanyi	79,393	100,000
Dr. D. G. Layton	84,848	100,000

SUBSTANTIAL INTERESTS

At 14 May 1987 Legal & General Assurance Society Limited was registered as the holder of 7.18% of the Company's issued ordinary share capital. Other than this holding and that of the Chairman, the Board is not aware of any person who is interested in 5% or more of the Company's issued ordinary share capital.

SUBSIDIARY AND RELATED COMPANIES

During the year the Company continued its substantial programme of development of subsidiary and related companies in the UK and USA. Details of these companies, the percentages by which they are owned, their countries of incorporation and their principal activities are described in note 13 to the accounts.

FIXED ASSETS

Details of changes in fixed assets are shown in notes 11 and 12 to the accounts.

RE-REGISTRATION AS A PUBLIC LIMITED COMPANY

On 4 September 1986 the Company was re-registered as a public limited company. Accordingly, the name of the Company has become Porton International PLC.

DIRECTORS' REPORT (CONTINUED)

CAPITALISATION ISSUE AND CONSOLIDATION OF SHARE CAPITAL

On 21 August 1986 the Company made a capitalisation issue from its share premium account on the basis of 99 new ordinary shares of 1p each for every one ordinary share of 1p each held at the close of business on 20 August 1986. The new ordinary shares did not rank for the dividend in respect of the period ended 31 December 1985, but otherwise rank *pari passu* in all respects with the existing issued ordinary share capital of the Company.

On 21 August 1986, following the capitalisation issue, every 100 ordinary shares of 1p each were consolidated into one ordinary share of £1.

GOODWILL

On 28 October 1986, at the request of the Company and with the approval of the shareholders, the High Court sanctioned the transfer of an amount of £4,403,759 from the share premium account to a special capital reserve. The special capital reserve has been utilised to write off goodwill arising on consolidation at 31 December 1985.

RESEARCH AND DEVELOPMENT

The Group undertakes or sponsors research into, and development of, new products as a fundamental part of its business. Information on these activities is provided in the Chairman's Review.

EMPLOYMENT

It is the Group's policy to ensure that full and fair opportunities are given to the employment and career development of disabled persons.

CLOSE COMPANY STATUS

The Company is a close company within the provisions of the Income and Corporation Taxes Act 1970, as amended.

AUDITORS

A resolution will be proposed at the annual general meeting to re-appoint Messrs. Hacker Young as auditors until the conclusion of the next annual general meeting.

By order of the Board

A. D. Gover
Secretary

14 May 1987

Registered office:
100 Piccadilly
London W1V 9FN

AUDITORS' REPORT

To the members of Porton International PLC.

We have audited the accounts set out on pages 13 to 24 in accordance with approved Auditing Standards.

In our opinion the accounts, which have been prepared under the historical cost convention, give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1986 and of the profit and source and application of funds of the Group for the year ended 31 December 1986, and comply with the Companies Act 1985.

Hacker Young
Chartered Accountants

14 May 1987

St. Alphage House
2 Fore Street
London EC2Y 5DH

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1986

	Notes	Year ended 31 December 1986 £000	Year ended 31 December 1985 £000
TURNOVER	3	6,031	4,313
Cost of sales		3,743	2,492
GROSS PROFIT		2,288	1,821
Operating expenses	4	2,160	1,747
OPERATING PROFIT		128	74
Interest receivable and similar income		7,117	871
Interest payable and similar charges	5	43	36
Group administration expenses		1,156	440
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	7	6,046	469
Taxation on profit on ordinary activities	8	1,736	116
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		4,310	353
MINORITY INTERESTS		15	24
EXTRAORDINARY ITEMS	9	484	47
PROFIT FOR THE YEAR		3,811	282
Dividend proposed	10	1,431	98
RETAINED PROFIT FOR THE YEAR	20	2,380	184

Corresponding amounts are shown on a twelve month basis in accordance with Note 1(j).
The accompanying notes are an integral part of these accounts.

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 1986

		31 December 1986 £000	31 December 1985 £000
	Notes		
FIXED ASSETS			
Intangible assets	11	5,564	8,462
Tangible assets	12	2,932	2,556
Investments	13	2,218	-
		10,714	11,018
CURRENT ASSETS			
Stocks	14	3,315	2,144
Debtors	15	3,367	2,518
Cash deposits at bank		63,556	65,667
		70,238	70,329
CREDITORS			
Amounts falling due within one year	16	6,652	4,824
NET CURRENT ASSETS		63,586	65,505
TOTAL ASSETS LESS CURRENT LIABILITIES		74,300	76,523
CREDITORS			
Amounts falling due after one year	17	190	251
PROVISION FOR LIABILITIES AND CHARGES		93	186
NET ASSETS		74,017	76,086
CAPITAL AND RESERVES			
Called-up share capital	19	4,891	49
Share premium account	19	66,623	75,869
Profit and loss account	20	2,418	98
Other reserves	20	6	6
SHAREHOLDERS' INTERESTS		73,938	76,022
MINORITY INTERESTS		79	64
TOTAL CAPITAL EMPLOYED		74,017	76,086
Signed on behalf of the Board			
W. G. HAYDON-BAILLIE	}	Directors	
A. D. GOVER			
14 May 1987			

The accompanying notes are an integral part of these accounts.

BALANCE SHEET AT 31 DECEMBER 1986

		31 December 1986 £000	31 December 1985 £000
	Notes		
FIXED ASSETS			
Tangible assets	12	288	77
Investments	13	19,624	13,197
		19,912	13,274
CURRENT ASSETS			
Debtors	15	1,282	445
Cash deposits at bank		62,327	65,212
		63,609	65,657
CREDITORS			
Amounts falling due within one year	16	3,775	2,381
NET CURRENT ASSETS		59,834	63,276
TOTAL ASSETS LESS CURRENT LIABILITIES		79,746	76,550
CREDITORS			
Amounts falling due after one year	17	12	18
PROVISION FOR LIABILITIES AND CHARGES		62	25
NET ASSETS		79,672	76,507
CAPITAL AND RESERVES			
Called-up share capital	19	4,891	49
Share premium account	19	66,623	75,869
Profit and loss account	20	3,754	589
Other reserves	20	4,404	-
TOTAL CAPITAL EMPLOYED		79,672	76,507
Signed on behalf of the Board			
W. G. HAYDON-BAILLIE	}	Directors	
A. D. GOVER			
14 May 1987			

The accompanying notes are an integral part of these accounts.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED 31 DECEMBER 1986

	Year ended 31 December 1986 £000	Period ended 31 December 1985 £000
SOURCE OF FUNDS		
Profit before taxation	- 6,046	704
Depreciation	583	588
Extraordinary items	(484)	(71)
Currency adjustments	(50)	(477)
Funds generated from operations	6,095	744
Proceeds from issue of ordinary shares	-	63,858
Increase in long term creditors	(154)	388
Sale of fixed assets	296	21
	6,237	65,011
APPLICATION OF FUNDS		
Dividend paid	147	40
Taxation paid	(9)	93
Purchase of fixed assets	1,255	2,773
Equity repurchased in subsidiary	10	-
Development expenditure	1,506	3,775
Investments in related companies	2,218	-
Goodwill acquired	-	4,404
Expenses relating to share issue	-	2,454
Increase in working capital	1,110	51,472
	6,237	65,011
INCREASE IN WORKING CAPITAL		
Stocks	1,171	1,366
Debtors	849	1,869
Creditors	1,201	(3,550)
Cash deposits at bank	3,221 (2,111)	(315) 51,787
Increase in working capital	1,110	51,472

The accompanying notes are an integral part of these accounts.

NOTES TO THE ACCOUNTS

31 DECEMBER 1986

1. ACCOUNTING POLICIES

Group accounting policies have been applied consistently throughout the year.

(a) Basis of accounting

The accounts are prepared on the historical cost basis of accounting.

(b) Basis of consolidation

Merger accounting principles are applied to those subsidiaries where the transaction meets the requirements of Section 131 of the Companies Act 1985 and SSAP23.

Other subsidiaries are consolidated from their effective date of acquisition. The purchase consideration is allocated to each class of asset on the basis of fair value at the date of acquisition. The surplus of cost over the fair value of net assets of subsidiaries at the date of acquisition is shown in the consolidated balance sheet as goodwill. With the approval of the shareholders and in accordance with the sanction of the High Court granted on 28 October 1986, the Company has created a special capital reserve from the share premium account, against which goodwill arising on consolidation at 31 December 1985 has been written off.

(c) Intangible fixed assets

Research and development expenditure is written off in the year of expenditure. Development expenditure incurred on specific projects is carried forward in accordance with SSAP13, when its recoverability can be foreseen with reasonable assurance, and amortised in relation to the sales from such projects over 5 to 50 years. The directors consider that this treatment results in proper matching of costs and revenue. All other development expenditure is written off in the year of expenditure.

(d) Tangible fixed assets

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight line basis over its expected useful life, as follows:

Freehold buildings	- 50 years
Plant and machinery	- 5 to 10 years
Leasehold improvements	- over period of lease (maximum 50 years)
Motor vehicles	- 3 to 5 years
Office equipment and fixtures and fittings	- 5 to 10 years

Profits or losses on the disposal of fixed assets are included in operating profit.

(e) Stock and work in progress

Stock and work in progress is stated at the lower of cost (including an appropriate proportion of overheads) and net realisable value. Unrealised profit on intra-group transactions is eliminated from the value of stock and work in progress on consolidation.

(f) Taxation

Corporation tax payable and its overseas equivalents are provided on taxable profits at the current rate. Provision is made for deferred taxation using the liability method on all material timing differences which are not expected to continue for the foreseeable future.

(g) Overseas currencies

Assets, liabilities and profits in overseas currencies are translated into sterling at the rates ruling at the balance sheet date. The exchange differences arising on the annual retranslation of assets and liabilities of overseas subsidiaries and long term intra-group financing loans are taken directly to reserves. All other exchange differences, including those arising in the normal course of trading, are charged or credited to the profit and loss account.

(h) Deferred revenue expenditure

A proportion of holding company costs expended on Group development is carried forward as deferred revenue expenditure. If no new acquisitions occur within a two year period such expenditure is written off.

(i) Turnover

Group turnover comprises the value of sales (excluding VAT and similar taxes, trade discounts and intra-group transactions) of goods and services in the normal course of business.

NOTES TO THE ACCOUNTS (CONTINUED)

1. ACCOUNTING POLICIES (continued)

(j) Corresponding amounts

In the previous accounting period, the Group changed its accounting reference date from 30 June to 31 December. The results then presented were for a period of eighteen months. In these accounts, corresponding profit and loss amounts have been restated as twelve month figures in order to present equivalent figures on a comparable basis. The apportionment has been made by the application of a factor of twelve eighteenths to the amounts previously published.

2. HOLDING COMPANY PROFIT AND LOSS ACCOUNT

The Company has taken advantage of the exemption in Section 228 of the Companies Act 1985 not to present its own profit and loss account.

3. GROUP TURNOVER BY GEOGRAPHICAL AREA

	Year ended 31 December 1986 £'000	Year ended 31 December 1985 £'000
United Kingdom	1,580	1,315
Rest of Europe	1,391	719
USA	2,621	1,853
Rest of world	439	426
	6,031	4,313

4. OPERATING EXPENSES

Selling and distribution costs	836	650
Administrative expenses	1,343	1,103
	2,179	1,753
Other operating income	(19)	(6)
	2,160	1,747

5. INTEREST PAYABLE AND SIMILAR CHARGES

Interest on bank overdrafts repayable within five years	43	36
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6. STAFF COSTS

Employee costs during the year amounted to:		
Wages and salaries	3,676	2,018
Social security costs	325	160
Other pension costs	27	27
	4,028	2,205

Corresponding amounts are shown on a twelve month basis in accordance with Note 1(j).

NOTES TO THE ACCOUNTS (CONTINUED)

6. STAFF COSTS (continued)

	Year ended 31 December 1986 Number	Year ended 31 December 1985 Number
The average weekly number of people employed by the Group during the year was:		
Production and design	142	130
Selling and distribution	22	20
Administration	90	59
	254	209

During the year, the Chairman received remuneration of £107,000 (year ended 31 December 1985 £117,000). Other directors' remuneration for the year was £368,000 (year ended 31 December 1985 £220,000). Of the directors who performed their duties mainly within the UK and other than the Chairman, two directors received salaries for the year in the £95,000 to £100,000 band. One Company employee received a salary for the year in the £30,000 to £35,000 band. During the previous year, one director received a salary between £50,000 and £55,000 and one between £60,000 and £65,000.

7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 31 December 1986 £000	Year ended 31 December 1985 £000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation	583	392
Auditors' remuneration	83	43
Hire and lease of vehicles and equipment	77	47
Certain of these costs have been allocated to development projects or included in deferred revenue expenditure in accordance with notes 1(c) and 1(h) above, and carried forward as shown in notes 11 and 15.		

8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

Corporation tax for the year at 35%/40% (1985: 40%/45%)	1,628	-
Adjustments in respect of previous year	(9)	(27)
Deferred taxation	117	143
	1,736	116

9. EXTRAORDINARY ITEMS

Extraordinary items are shown net of attributable taxation.		
Reorganisation and redevelopment of US subsidiary business	457	47
Legal costs related to compensation claim (note 21(b))	27	-
	484	47

10. DIVIDEND

Dividend proposed: 29.25p per ordinary share (Period ended 31 December 1985: 3p per ordinary share)	1,431	98
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Corresponding amounts are shown on a twelve month basis in accordance with Note 1(j).

NOTES TO THE ACCOUNTS (CONTINUED)

11. INTANGIBLE FIXED ASSETS

	Development costs £000	Goodwill £000	Total £000
Cost at beginning of year	4,071	4,404	8,475
Net expenditure	1,729	-	1,729
Goodwill written off against special capital reserve (note 1(b))	-	(4,404)	(4,404)
Cost at end of year	5,800	-	5,800
Amortisation at beginning of year	13	-	13
Charge	223	-	223
Amortisation at end of year	236	-	236
Net book value, 31 December 1986	5,564	-	5,564
Net book value, 31 December 1985	4,058	4,404	8,462

12. TANGIBLE FIXED ASSETS

GROUP	Freehold land and buildings £000	Short leasehold premises £000	Leasehold improve- ments £000	Office equipment, plant and motor vehicles £000	Total £000
Cost at beginning of year	220	434	121	2,960	3,735
Additions	1	1	206	1,047	1,255
Disposals	-	-	(27)	(614)	(641)
Cost at end of year	221	435	300	3,393	4,349
Depreciation at beginning of year	22	132	40	985	1,179
Charge	10	19	22	532	583
Disposals	-	-	(13)	(332)	(345)
Depreciation at end of year	32	151	49	1,185	1,417
Net book value, 31 December 1986	189	284	251	2,208	2,932
Net book value, 31 December 1985	198	302	81	1,975	2,556

COMPANY

Cost at beginning of year	1	137	138
Additions	96	161	257
Disposals	-	(21)	(21)
Cost at end of year	97	277	374
Depreciation at beginning of year	-	61	61
Charge	1	38	39
Disposals	-	(14)	(14)
Depreciation at end of year	1	85	86
Net book value, 31 December 1986	96	192	288
Net book value, 31 December 1985	1	76	77

NOTES TO THE ACCOUNTS (CONTINUED)

13. FIXED ASSET INVESTMENTS

Investments in shares are shown at cost including related acquisition costs where appropriate.

GROUP	Shares £000	Loans £000	Total £000
Investments in related companies during the year			
At 31 December 1986	1,802	416	2,218

COMPANY

Investments in subsidiaries at beginning of year	4,266	8,931	13,197
Advanced to subsidiaries during the year	-	6,427	6,427
Investments at 31 December 1986	4,266	15,358	19,624

The Group owns equity capital in the following companies. Investments which are not significant are not included in the list.

Company	Percentage of shares owned at 31 December 1986	Country of incorporation and operation	Principal activity
American Medical Supply, Inc.	49%	USA	Durable medical equipment supplies
Biotechnology Computer Systems Limited	100%	UK	Bioprocess control software development
IGB Products Limited	85%	USA	Applied biomedical developments
International Cardiovascular Medicine, Inc.	82.5%	USA	Cardiovascular diagnostics and therapeutics development
International Medical Diagnostics Limited	84.7%	USA	Diagnostic products and services
JR Scientific, Inc.	80%	USA	Biological materials and reagents
LH Bioprocessing Limited	85%	UK	Bioprocess technology projects
LH Fermentation, Inc.	100%	USA	Bioprocess equipment
LH Fermentation Limited	100%	UK	Bioprocess equipment
OMEC International, Inc.	92.5%	USA	Biotechnology information and consultancy services
PharmDx Pharmacy Services, Inc.	45%	USA	Drugs and pharmaceutical supplies
Porton Capital Projects Limited	100%	UK	Bioprocess facilities
Porton Medical Laboratories, Inc.	31.4%	USA	Operation of diagnostic and therapeutic clinics
Porton Products Development Corporation	100%	USA	Healthcare product developments
Porton Products Limited	100%	UK	Biomedical and bioindustrial products
Porton Products Limited	100%	USA	Biomedical and bioindustrial products
Speywood Laboratories Limited	100%	UK	Blood products fractionation and purification

NOTES TO THE ACCOUNTS (CONTINUED)

14. STOCKS

	The Group	
	31 December 1986 £000	31 December 1985 £000
Raw materials and consumables	989	588
Work in progress	1,087	983
Finished goods	1,239	573
	3,315	2,144

15. DEBTORS

	The Group		The Company	
	31 December 1986 £000	31 December 1985 £000	31 December 1986 £000	31 December 1985 £000
Trade debtors	1,297	1,169	-	-
Other debtors	1,080	1,297	304	445
Advance corporation tax recoverable	243	-	327	-
Prepayments and accrued income	96	52	-	-
Deferred revenue expenditure	651	-	651	-
	3,367	2,518	1,282	445

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group		The Company	
	31 December 1986 £000	31 December 1985 £000	31 December 1986 £000	31 December 1985 £000
Payments received on account	443	347	-	-
Trade creditors	1,047	1,170	-	-
Other creditors:				
- UK corporation tax payable	1,536	-	1,532	-
- advance corporation tax	530	60	530	60
- social security and PAYE	101	94	35	14
- other creditors	1,093	2,599	218	2,124
- dividend payable	1,431	147	1,431	147
Accruals and deferred income	471	407	29	36
	6,652	4,824	3,775	2,381

NOTES TO THE ACCOUNTS (CONTINUED)

17. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	The Group		The Company	
	31 December 1986 £000	31 December 1985 £000	31 December 1986 £000	31 December 1985 £000
Finance leases	121	179	12	18
Mortgages on land and buildings	69	72	-	-
	190	251	- 12	18

18. PROVISION FOR LIABILITIES AND CHARGES

	The Group		The Company	
	31 December 1986 £000	31 December 1985 £000	31 December 1986 £000	31 December 1985 £000
Deferred taxation, comprising:				
Excess of tax allowances over book depreciation of fixed assets	328	323	-	-
Other timing differences related to:				
- current assets and liabilities	1,523	667	265	102
- ACT recoverable	(287)	(77)	(203)	(77)
- allowances available for future relief	(1,471)	(727)	-	-
	93	186	62	25

During the year the Group's deferred taxation provision has been increased by the profit and loss account charge of £117,000 and decreased by a credit of £210,000 for ACT on the proposed dividend.

19. CALLED-UP SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

	Share capital £000	Share premium account £000
Authorised:		
10,000,000 ordinary shares of £1 each (notes (i)(a) and (i)(c))	10,000	
Allotted and fully paid:		
4,891,051 ordinary shares of 1p each at 1 January 1986	49	75,869
484,214,049 ordinary shares of 1p each created by capitalisation (note (i)(b))	4,842	(4,842)
Special capital reserve (note (ii))		(4,404)
	4,891	66,623
4,891,051 ordinary shares of £1 each at 31 December 1986 (note (i)(c))	4,891	66,623

NOTES TO THE ACCOUNTS (CONTINUED)

19. CALLED-UP SHARE CAPITAL AND SHARE PREMIUM ACCOUNT (continued)

Notes:

- (i) In accordance with ordinary resolutions passed at an extraordinary general meeting of the Company on 21 August 1986:
- (a) The authorised share capital of the Company was increased to £10,000,000 by the creation of 950,000,000 additional ordinary shares of 1p each.
 - (b) A sum of £4,842,140.49 was transferred from the share premium account in order to create 484,214,049 fully paid ordinary shares of 1p each, which were issued credited as fully paid on the basis of 99 new ordinary shares of 1p each for every existing ordinary share of 1p each held at the close of business on 20 August 1986.
 - (c) Every 100 ordinary shares of 1p each were consolidated into one ordinary share of £1.
- (ii) In accordance with a special resolution passed at an extraordinary general meeting of the Company on 21 August 1986 and as approved by the High Court on 28 October 1986, the share premium account of the Company was reduced by £4,403,759 to create a special capital reserve against which goodwill arising on consolidation at 31 December 1985 has been written off.

20. RESERVES

	The Group Profit and loss account £000	Other reserves £000	The Company Profit and loss account £000	Other reserves £000
Beginning of year	98	6	589	-
Retained profit for the year	2,380	-	3,165	-
Foreign currency translation adjustments	(50)	-	-	-
Equity repurchased in subsidiary	(10)	-	-	-
Special capital reserve (note 19(ii))	-	-	-	4,404
Balance at 31 December 1986	2,418	6	3,754	4,404

At 31 December 1986 the distributable reserves of the Company were those shown in the profit and loss account.

21. COMMITMENTS AND CONTINGENT LIABILITIES

	The Group 31 December 1986 £000	31 December 1985 £000	The Company 31 December 1986 £000	31 December 1985 £000
(a) Capital commitments were:				
Contracted for	317	33	-	-
Authorised but not contracted for	52	-	13	-

- (b) A compensation claim for which provision has not been made in these accounts is outstanding against the Company and a subsidiary in respect of a former consultant. The directors are advised that the outcome of these legal proceedings is unlikely to have a materially adverse effect on the Company or the Group.

NOTICE OF ANNUAL GENERAL MEETING

The fourth annual general meeting of Porton International PLC will be held at 100 Piccadilly, London W1V 9FN on Thursday, 11 June 1987 at 12 noon, for the following purposes:

1. To receive the reports of the directors and auditors and the statement of accounts for the year ended 31 December 1986.
2. To declare a dividend.
3. To re-appoint Messrs. Hacker Young as auditors until the conclusion of the next annual general meeting and to authorise the directors to fix their remuneration.

By order of the Board

A. D. GOVER
Secretary

14 May 1987

Registered office:
100 Piccadilly
London W1V 9FN

NOTES

1. Members who are entitled to vote may appoint a proxy to attend and vote on their behalf. Such proxy need not be a member of the Company. A proxy card is enclosed. To be effective, a proxy card must be deposited at the Company's registered office at least 48 hours before the commencement of the annual general meeting.
2. Copies of the following documents will be available for inspection at the Company's registered office on any weekday (except Saturdays and public holidays) during normal business hours until the date of the annual general meeting and for a period of fifteen minutes prior to the meeting:
 - (a) A statement of all transactions of each director and his family interests in the share capital of the Company.
 - (b) Copies of each contract of service of any director with the Company or with any of its subsidiaries.