

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should immediately consult your stockbroker, solicitor, accountant or other professional adviser authorised pursuant to the Financial Services Act 1986.

If you have sold or otherwise transferred all your Existing Ordinary Shares, please forward this document together with the accompanying Application Form and form of proxy as soon as possible to the purchaser or transferee, or to the stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee, except that the accompanying Application Form should not be forwarded or transmitted into the United States of America, Canada or Australia. If you have sold part of your holding of Existing Ordinary Shares you should refer to the instructions regarding split applications set out in the Application Form.

A copy of this document, which comprises a prospectus relating to API Group plc prepared in accordance with the listing rules made by the London Stock Exchange under section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration as required by section 149 of that Act, as amended by section 154A of that Act.

Application has been made to the London Stock Exchange for the New Ordinary Shares to be admitted to the Official List. It is expected that such admission will become effective and that dealings in those shares will commence on 3 April 1998.

API Group plc



Proposed acquisition of the Astor Universal Group

Proposed Placing and Open Offer of

5,636,146 New Ordinary Shares

at 565p per share

by

Credit Lyonnais Laing

Credit Lyonnais Laing is acting for API Group plc and no one else in relation to the Proposals described in this document and will not be responsible to anyone other than API Group plc for providing the protections afforded to customers of Credit Lyonnais Laing or for providing advice in relation to the Proposals.

The latest time for acceptance and payment in full in relation to the Open Offer is 3.00 p.m. on 31 March 1998. The procedure for acceptance and payment is set out in the letter from Credit Lyonnais Laing in Part II of this document and in the accompanying Application Form.

Notice of an extraordinary general meeting of API Group plc, convened for 11.00 a.m. on 2 April 1998 at the offices of Credit Lyonnais Laing, Broadwalk House, 5 Appold Street, London EC2A 2DA, is set out at the end of this document. To be valid, forms of proxy for use at that meeting must be completed and returned, in accordance with the instructions printed thereon, to IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible and in any event so as to arrive no later than 11.00 a.m. on 31 March 1998. Completion and return of a form of proxy will not preclude Shareholders from attending and voting in person at the meeting should they so wish.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Record Date for the Open Offer	1998 close of business on 2 March
Latest time and date for splitting of Application Forms (to satisfy <i>bona fide</i> market claims only)	3.00 p.m. on 27 March
Latest time and date for receipt of forms of proxy for the Extraordinary General Meeting	11.00 a.m. on 31 March
Latest time and date for receipt of completed Application Forms and payment in full under the Open Offer	3.00 p.m. on 31 March
Extraordinary General Meeting	11.00 a.m. on 2 April
Completion of the Acquisition, CREST members accounts credited and commencement of dealings in the New Ordinary Shares (subject to receipt of regulatory clearances)	3 April
Despatch of definitive share certificates for New Ordinary Shares (if required)	by 8 April

DEFINITIONS

The following terms apply throughout this document unless the context otherwise requires:

"Acquisition"	the proposed acquisition by API of the Astor Universal Group
"Acquisition Agreement"	the conditional agreement relating to the Acquisition made on 10 March 1998, details of which are set out in paragraph 8 of Part V of this document
"Act"	the Companies Act 1985, as amended
"Admission"	the effective admission of the New Ordinary Shares to the Official List
"Annual General Meeting" or "AGM"	the annual general meeting of the Company held on 5 February 1998
"Application Form"	the personalised application form issued to Qualifying Shareholders in connection with the Open Offer
"Approved Scheme"	the Associated Paper Industries plc Approved Executive Share Option Scheme
"Astor Universal"	Astor Universal Corporation, a subsidiary of Markem Corporation
"Astor Universal Group"	the businesses, assets and liabilities (with certain exceptions) of the Vendors, together with Astor Universal S.A., Astor Universal's French subsidiary
"Astor Universal Group of Companies"	Astor Universal and its subsidiary undertakings, including those non-trading and Australian subsidiary undertakings whose shares and assets are not the subject of the Acquisition
"Company" or "API"	API Group plc including, when used in connection with the Acquisition, API Universal Foils Limited and API Universal Foils Inc, the wholly owned subsidiaries of API Group plc which are to be the purchasers of the Astor Universal Group
"Completion"	completion of the Acquisition Agreement
"Credit Lyonnais Laing"	a trading name of Credit Lyonnais Securities, which is regulated by The Securities and Futures Authority Limited and is a member of the London Stock Exchange
"CREST"	the relevant system (as defined in the Uncertificated Securities Regulations 1995) in respect of which CRESTCo Limited is the operator
"Directors" or "Board"	the directors of the Company as set out in paragraph 1(b) of Part V of this document
"Enlarged Group"	the Group as enlarged by the Acquisition
"Executive Scheme"	the API Group plc Executive Share Option Scheme 1993
"Existing Ordinary Shares"	the Ordinary Shares currently in issue
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of the Company convened for 11.00 a.m. on 2 April 1998, notice of which is set out at the end of this document
"Group" or "API Group"	the Company and its subsidiary undertakings
"Issue Price"	565p per New Ordinary Share
"London Stock Exchange"	London Stock Exchange Limited
"New Ordinary Shares"	5,636,146 new Ordinary Shares proposed to be issued pursuant to the Placing and Open Offer
"Official List"	the Official List of the London Stock Exchange
"Open Offer"	the conditional open offer to subscribe for New Ordinary Shares at the Issue Price made by Credit Lyonnais Laing to Qualifying Shareholders on the terms and subject to the conditions set out in Part II of this document and in the Application Form
"Ordinary Shareholders"	holders of Ordinary Shares
"Ordinary Shares"	ordinary shares of 25p each in the capital of the Company

"Overseas Shareholders"	Existing Ordinary Shareholders on the register of members of the Company on the Record Date other than those with a registered address in the United Kingdom
"Placing"	the conditional placing of the New Ordinary Shares, by Credit Lyonnais Laing, subject to recall to satisfy applications under the Open Offer, as described in this document
"Placing Agreement"	the conditional agreement made on 10 March 1998 relating to the Placing and Open Offer, details of which are set out in paragraph 9 of Part V of this document
"Preference Shareholders"	holders of Preference Shares
"Preference Shares"	3.85 per cent. cumulative preference shares of £1 each in the capital of the Company
"Proposals"	the Acquisition and the Placing and Open Offer
"Qualifying Shareholders"	holders of Existing Ordinary Shares on the register of members of the Company at the Record Date, other than certain Overseas Shareholders excluded by virtue of the provisions contained in Part II of this document
"Record Date"	the Record Date for the Open Offer, being the close of business on 2 March 1998
"Resolutions"	the Resolutions set out in the notice of Extraordinary General Meeting at the end of this document
"Shareholders"	Ordinary Shareholders and Preference Shareholders
"Share Option Schemes"	the Approved Scheme, the Executive Scheme and the Unapproved Scheme
"Unapproved Scheme"	the API Group plc Unapproved Share Option Scheme 1993
"Vendors"	Astor Universal and Astor Universal Limited, the UK trading subsidiary of Astor Universal
"\$"	US dollars, the currency of the United States of America

The exchange rate used in this document is \$1.6372:£1.00 (being the mid market rate set out in the Financial Times on 9 March 1998, the latest practicable date prior to the publication of this document) unless otherwise stated.

LETTER FROM THE CHAIRMAN AND THE GROUP CHIEF EXECUTIVE

API Group plc

(Incorporated in England and Wales with registered number 169249)

Directors:

J M Woolley (Non-Executive Chairman)
M J Smith (Group Chief Executive)
D J Holt (Group Finance Director)
J N Sheldrick (Non-Executive Director)

Registered and head office:

Silk House
Park Green
Macclesfield
Cheshire
SK11 7NU

10 March 1998

To Ordinary Shareholders and Preference Shareholders and, for information only, to holders of options under the Share Option Schemes.

Dear Shareholder

**Proposed acquisition of the Astor Universal Group
and
Proposed Placing and Open Offer**

Introduction

It was announced today that API has reached conditional agreement to acquire the Astor Universal Group, a manufacturer of premium-quality hot stamping foils based principally in Kansas (USA) and Salford (UK). The consideration payable to the Vendors is approximately \$49.8 million (£30.4 million), payable in cash on Completion, subject to adjustment by reference to the net assets of the Astor Universal Group at 27 February 1998 and its profits for the three months ending 31 March 1998. In addition, API is assuming approximately \$7.0 million (£4.3 million) outstanding under a finance lease and is to pay approximately \$2.2 million (£1.3 million) towards the discharge of certain liabilities.

In connection with funding the Acquisition, API is proposing to issue 5,636,146 New Ordinary Shares at 565p per share to raise approximately £29.5 million, net of expenses. The New Ordinary Shares have been conditionally placed by Credit Lyonnais Laing with institutional and other investors subject to clawback to satisfy applications from Qualifying Shareholders under the Open Offer. The New Ordinary Shares are being made available to Qualifying Shareholders at 565p per share on the basis of 1 New Ordinary Share for every 5 Existing Ordinary Shares held on the Record Date. The Placing and Open Offer has been fully underwritten by Credit Lyonnais Laing. The balance of the amounts payable by API in connection with the Acquisition is to be funded from the Company's own cash resources and available bank facilities.

The purpose of this document is to provide you with information on the Proposals. In view of its size, in accordance with the listing rules of the London Stock Exchange, the Acquisition is conditional, *inter alia*, upon the approval of Shareholders. This will be sought at the Extraordinary General Meeting convened for 11.00 a.m. on 2 April 1998, notice of which is set out at the end of this document.

Additionally, although not integral to the Proposals, it is proposed that at the EGM the Company's authorised share capital will be increased and the Directors will be granted new authorities and powers to allot securities and to issue securities for cash. Such increase, authorities and powers will become effective only if the Acquisition and the Placing and Open Offer are completed.

Information on the API Group

API was formed in 1920, following the merger of Edward Collins & Son of Glasgow and Henry & Leigh Slater in Bollington. The API Group withdrew from the cyclical paper manufacturing industry in the 1980s and whilst the Group is categorised as though the whole of its business falls under the packaging sector, it has focused its principal area of operation on premium packaging, speciality coatings, security bags, variable information products and office consumables. This has provided the opportunity to supply niche products compared with general commodity items, where margins are under pressure. In the last six years, the API Group's results have been improved from a pre-tax loss of £0.5 million in 1991 to a pre-tax profit of £14.0 million in the year ended 4 October 1997.

The Group operates through its two divisions of Foils and Laminates and Converted Paper and Film:

Foils and Laminates

This division consists of Whiley Foils Limited, Dri-Print Foils, Inc., Henry & Leigh Slater Limited and Peerless Foils Limited. In the year ended 4 October 1997 it achieved operating profits of £7.4 million after absorbing start up losses connected with the Group's new metallising plant (1996: £7.0 million) on sales of £87.9 million (1996: £81.7 million).

The principal activities of this division are the manufacture and supply of hot stamping foils, coding foils, metallised papers and laminated board to the print and packaging industry. The division's products are diverse, ranging from high quality premium packaging to specialist coatings for medical and security applications.

Converted Paper and Film

This division consists of Leonard Stace Limited, Tenza Limited, Data-Label Limited, Arnold Belford Limited, API Coatings Limited and Learoyd Packaging Limited. In the year ended 4 October 1997 it achieved operating profits of £7.7 million (1996: £5.6 million) on sales of £55.9 million (1996: £46.3 million).

The activities of this division include the production of speciality and silicone release coatings and the manufacture of a wide range of self-adhesive products. The products are complementary, with a significant proportion of silicone release materials being consumed in the conversion and production of self-adhesive labels, laminates, document protection envelopes and book covering film. The acquisition of the Learoyd group of companies in 1996 added to this division the manufacture and production of tamper evident security bags and film based packaging for a wide range of consumer merchandise and the extrusion of polypropylene film.

Information on the Astor Universal Group

The Astor Universal Group is a leading manufacturer of premium-quality hot stamping foils. Its products are sold to a wide variety of industrial customers and consumers to decorate, identify and authenticate products.

The Astor Universal Group's business dates back over fifty years when it was established in Manchester as a private company. This business, then called Milford-Astor, was acquired by the Markem Corporation (a United States company) in 1967.

Over the following twenty years the business expanded, and most notably operations were established in the USA. In 1989 Astor Universal Limited acquired Advanced Holographics adding holographic foils to the product range.

In 1992 Markem Corporation merged Milford-Astor, Universal Stamping and Embossing Foils, Inc. to form the Astor Universal Group of Companies. This group currently has manufacturing operations in Salford (UK), Kansas and North Carolina (USA) and, less significantly, through a joint venture (which will remain with the Vendors), in Sydney and Melbourne (Australia). In addition, the Astor Universal Group has conversion and selling operations in Kansas, North Carolina and California (USA) and in Paris (France).

In the year ended 31 December 1997, the Astor Universal Group achieved operating profit before management charges of \$3.1 million (£1.9 million) (1996: loss of \$1.8 million (£1.1 million)) on turnover of \$58.1 million (£35.4 million) (1996: \$55.9 million (£34.1 million)). Since 31 December 1997, the Astor Universal Group has been trading in line with API's expectations and its results are substantially ahead of its results for the same period last year.

The Astor Universal Group has a diversified product range which enables customers to benefit from a "one stop shop" approach. The products manufactured by the Astor Universal Group fall predominantly into the following four product areas:

(a) Metallic Decorative Foils

These foils are used mainly for graphic art applications to decorate consumer products, enabling product differentiation coupled with strong visual promotion. The major applications include dry food cartons, cigarette boxes, wine and spirits labels, cosmetic containers, greetings cards, invitations, business cards, book covers and periodicals along with a variety of miscellaneous applications. In the year ended 31 December 1997, metallic decorative foils generated sales of \$35.6 million (£21.7 million), representing 61.2 per cent. of the turnover of the Astor Universal Group (1996: 55 per cent.).

(b) Pigmented Decorative Foils

These foils are used in the graphics market, complementing the Astor Universal Group's metallic decorative foils products, and in applications including toys, footwear, pens, pencils, medical devices, licence plates and certain plastics. The standard product range offers over twenty colours with many other colours being made to special order. In the year ended 31 December 1997, pigmented decorative foils generated sales of \$7.2 million (£4.4 million), representing 12.3 per cent. of the turnover of the Astor Universal Group (1996: 13 per cent.).

(c) Holographic Foils

Approximately one third of the Astor Universal Group's holographic foils, which are marketed under the registered name Holofoil®, are sold to security related markets, with typical applications including event tickets, gift vouchers, consumer products, currency, credit cards and travellers cheques.

The remaining two thirds of the holographic foils sold are used for decorative purposes, with applications including greeting cards, consumer packaging, food and cosmetic labels. In the year ended 31 December 1997, holographic foils generated sales of \$6.6 million (£4.0 million) representing 11.4 per cent. of the turnover of the Astor Universal Group (1996: 8 per cent.).

(d) Industrial Foils

The Astor Universal Group's industrial foils, marketed under the registered name CSI®, are used in the packaging and labelling of consumer and industrial products. This includes packaging for clothing, which is labelled with size/colour/washing information, and food and pharmaceutical packaging, which is labelled with sell-by dates, bar codes and manufacturers' information. In the year ended 31 December 1997, industrial foils generated sales of \$4.3 million (£2.6 million), representing 7.5 per cent. of the turnover of the Astor Universal Group (1996: 7 per cent.).

Other products sold by the Astor Universal Group, largely comprising ancillary supplies used in conjunction with foils and the provision of coating services, accounted for \$4.4 million (£2.7 million) of sales, representing 7.6 per cent. of the turnover of the Astor Universal Group in the year ended 31 December 1997 (1996: 17 per cent.)

U.S. dollar amounts have been translated into Sterling at the annual average exchange rate of £1 = \$1.6389.

Further information on the Astor Universal Group is set out in the Accountants' report in Part III of this document.

Reasons for and benefits of the Acquisition

The activities carried on by the Astor Universal Group are complementary to those of the API Group and, accordingly, the Directors expect the Acquisition to provide a number of significant benefits.

The amalgamation of the Astor Universal Group's graphic and industrial foils operations with those of the API Group will establish a new foils group with a global presence. The Enlarged Group will have leading positions in North America and Europe, together with developing interests in the Far East and Australasia. The Acquisition will provide an opportunity to create separate speciality and volume businesses in both the UK and the USA, allow for the exploitation of synergies deriving from the merger of the two businesses and, in the Directors' opinion, create one of the industry's most experienced management teams. API has identified significant potential to integrate the two groups' operations which the Directors believe will lead to increased production efficiencies and a reduction in operating costs. The Directors estimate that within a two year period this integration should produce substantial annual cost savings for the Enlarged Group.

In addition to the complementary nature of the expanded product range, the Acquisition will add holography to the API Group's product portfolio. The Directors believe that this will provide a significant opportunity to increase the Enlarged Group's share of the niche security and authentication market.

A further significant operational benefit will be the creation of an expanded technical team which will enable the Enlarged Group to accelerate effective new product development programmes.

The Directors believe that the Astor Universal Group's geographical coverage and excellent product range coupled with the significant opportunities to exploit the complementary nature of the businesses makes the Acquisition an excellent fit with the API Group.

API is proposing to raise approximately £31.8 million by way of the Placing and Open Offer, the net proceeds of which will be applied towards satisfaction of the consideration for the Acquisition. API will finance the balance of the amounts payable in connection with the Acquisition and the costs of achieving the synergies described above from available cash resources and bank facilities.

The Directors believe that the Astor Universal Group will contribute effectively to the Enlarged Group's profitability and expect that before one-off integration costs the Acquisition will enhance API's earnings per share for the current financial year.

Principal terms of the Acquisition

The Acquisition will involve the purchase or assumption by wholly owned subsidiaries of API either directly, or indirectly through share purchase, of the business, assets and liabilities (with certain exceptions) of the Astor Universal Group of Companies. The Astor Universal Group which is being acquired comprises the business and assets of the principal trading members of the Astor Universal Group of Companies and the issued shares in the French subsidiary of that group. The business, assets and liabilities (with certain exceptions) of Astor Universal and of Astor Universal Limited, the UK trading subsidiary of Astor Universal, are to be acquired or assumed with effect from 27 February 1998, together with, through an acquisition of shares, Astor Universal's 100 per cent. interest in the shares of Astor Universal SA, its French subsidiary. API has agreed not to acquire Astor Universal's 51 per cent. interest in its Australian subsidiaries and the Vendors have agreed certain undertakings and restrictions regarding the operation and future ownership of these companies. The Enlarged Group will supply to the Australasian and Far Eastern markets, through the API Group's existing distribution outlets, products manufactured in the UK and the USA.

The consideration payable to the Vendors in connection with the Acquisition (including for the grant of the option relating to the Salford premises as described below) is approximately \$49.8 million (£30.4 million), payable in cash on Completion, subject to reduction if the adjusted net asset value of the Astor Universal Group as at the close of business on 27 February 1998 (ignoring for this purpose profits earned since 31 December 1997) falls short of the equivalent net asset value at 31 December 1997 by more than \$100,000, in which case the amount by which the shortfall exceeds \$100,000 will be repayable to API. The consideration payable at Completion will be increased by the amount (subject to a maximum of \$300,000) by which the profits before tax of the Astor Universal Group for the three months ending 31 March 1998 exceed \$750,000 and will be reduced by the amount by which those profits before tax fall short of \$550,000 (again, subject to a maximum of \$300,000). In addition, API will assume, with certain exceptions, the liabilities of the Astor Universal Group as at 27 February 1998, including approximately \$7.0 million (£4.3 million) outstanding under a finance lease and API is to pay approximately \$2.2 million (£1.3 million) towards the discharge of certain liabilities being retained by the Vendors, principally relating to tax. API is not acquiring the freehold of the Astor Universal Group's premises at Salford (UK) or Charlotte, North Carolina (USA) but will take a 3 year and 2 year lease of these properties respectively, and will in each case have the benefit of an option to purchase the freehold.

Completion of the Acquisition, which (subject to regulatory consents having been obtained) is expected to take place on 3 April 1998, is conditional, *inter alia*, upon:

- (i) the passing of Resolution 1 set out in the notice of Extraordinary General Meeting at the end of this document;

- (ii) all necessary consents, actions, filings and notices, and relevant waiting periods, having been made, obtained, given or expired (as appropriate) in connection with the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the Secretary of State having confirmed that there will be no merger reference to the Monopolies and Mergers Commission;
- (iii) the Placing Agreement becoming unconditional (subject only to Admission taking place) and not having been terminated in accordance with its terms; and
- (iv) Admission taking place.

Further details of the terms and conditions of the Acquisition Agreement are set out in paragraph 8 of Part V of this document.

Current trading and prospects

On 8 December 1997, API announced its results for the year ended 4 October 1997 which showed pre-tax profits increasing 29 per cent. to £14.0 million (1996: £10.8 million) on sales rising 12 per cent. to £144 million (1996: £128 million). This performance was achieved against the backdrop of adverse currency effects of £2.6 million and £7.0 million on profits and sales respectively. Earnings per share for the year ended 4 October 1997 rose 15 per cent. to 36.2p (1996: 31.4p) and the total dividend was increased by 10 per cent. to 12.1p (1996: 11.0p).

The Company said in its 1997 Report and Accounts, which were published on 12 January 1998, that in the short term it expected that the continued strength of sterling, some destocking by the tobacco industry and one-off costs associated with the rationalisation of its UK foils operations would affect its first half results for the current year. On 5 February 1998 the following update on trading was made at the Company's AGM:

"Despite difficult trading conditions during last year, API produced a creditable performance, increasing earnings per share by 15 per cent. and raising the dividend by 10 per cent.

Trading conditions for the current year are as expected and as we reported in the Annual Report, first half results will be affected by the strength of sterling, the development of the paper metallising plant, destocking by the tobacco industry and one-off costs associated with the rationalisation of our UK foils operations.

Nevertheless, the medium to long-term prospects for API are positive. We expect to see improving results from paper metallising and anticipate deriving cost benefits and productivity improvements from the integration of our UK foil businesses. Already, significant new security bag business is being achieved in the current year in both the UK and USA and our continued emphasis on new, high margin, niche market products will continue to provide benefits."

Details of the Placing and Open Offer

Credit Lyonnais Laing, as agent for the Company, has conditionally agreed to place the New Ordinary Shares with institutional and other investors at the Issue Price, subject to recall to satisfy valid applications by Qualifying Shareholders under the Open Offer.

Qualifying Shareholders are being invited to apply under the Open Offer for New Ordinary Shares at the Issue Price on the following basis:

1 New Ordinary Share for every 5 Existing Ordinary Shares

held on the Record Date and so in proportion for any other number of Existing Ordinary Shares then held, rounded down to the nearest whole number of New Ordinary Shares. Fractions of New Ordinary Shares will not be offered to Qualifying Shareholders under the Open Offer but will be aggregated and allotted under the Placing for the benefit of the Company. Qualifying Shareholders may apply for any number of New Ordinary Shares up to their maximum entitlements as set out on their Application Forms.

The New Ordinary Shares to be issued pursuant to the Placing and Open Offer have been fully underwritten by Credit Lyonnais Laing, which has conditionally agreed to procure subscribers for, or itself to subscribe as principal for, such New Ordinary Shares as are not taken up by Qualifying Shareholders under the Open Offer.

The New Ordinary Shares will, when issued, rank *pari passu* in all respects with the Existing Ordinary Shares. It is expected that (subject to regulatory consents having been obtained) Admission will become effective and dealings in the New Ordinary Shares will commence on 3 April 1998.

Further details of the Open Offer and the terms and conditions on which it is being made, including the procedure for acceptance and payment, are contained in the letter from Credit Lyonnais Laing set out in Part II of this document and in the Application Form.

Extraordinary General Meeting

A notice convening the Extraordinary General Meeting, to be held at the offices of Credit Lyonnais Laing, Broadwalk House, 5 Appold Street, London EC2A 2DA at 11.00 a.m. on 2 April 1998, is set out at the end of this document. At this meeting the Resolutions will be proposed for the purpose of:-

- (1) approving the Acquisition;
- (2) (a) increasing the authorised share capital of the Company from £9,878,344 to £11,821,292 by the creation of an additional 7,771,792 Ordinary Shares;
- (b) authorising the Directors pursuant to section 80 of the Act to allot relevant securities up to an aggregate maximum nominal value of £2,818,072 until the earlier of 15 months following the Extraordinary General Meeting and the conclusion of the annual general meeting of the Company to be held in 1999; and
- (c) disapplying the pre-emption rights conferred by the Act in relation to the allotment of equity securities for cash in connection with offers by way of rights or similar offers, and otherwise in respect of the allotment of equity securities up to a maximum aggregate nominal value of £422,711 (representing approximately five per cent. of the Company's enlarged issued Ordinary Share capital following the Placing and Open Offer).

The passing of Resolution 1 at the Extraordinary General Meeting will approve the Acquisition and the Directors are authorised and empowered to allot and issue the New Ordinary Shares in connection with the Placing and Open Offer by the resolutions passed at the AGM. The passing of Resolution 2 at the EGM, and its becoming unconditional, will increase the Company's authorised share capital and enable the Directors to allot and issue in the future Ordinary Shares in accordance with the pre-emption guidelines of investment committees representing United Kingdom institutional investors.

Subject to the passing of Resolution 2 at the Extraordinary General Meeting and its becoming effective, following completion of the Placing and Open Offer and taking account of the 686,200 Ordinary Shares reserved for issue pursuant to the Share Option Schemes, 10,586,090 Ordinary Shares will remain authorised but unissued and unreserved, representing approximately 31.3 per cent. of the enlarged issued Ordinary Share capital of the Company.

The Directors have no present intention to allot any Ordinary Shares, save for the allotment of New Ordinary Shares in connection with the Placing and Open Offer.

Action to be taken

(a) Application Form

The action to be taken to apply under the Open Offer is set out under "Procedure for application and payment" in the letter from Credit Lyonnais Laing set out in Part II of this document and in the Application Form.

(b) Form of proxy

Shareholders will find enclosed a form of proxy for use at the Extraordinary General Meeting. Whether or not you intend to be present at the meeting and even if you do not wish to apply for New Ordinary Shares under the Open Offer, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon so as to arrive at IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible but, in any event, not later than 11.00 a.m. on 31 March 1998. The completion and return of a form of proxy will not preclude you from attending and voting in person at the meeting, if you so wish.

Further information

Your attention is drawn to the letter from Credit Lyonnais Laing relating to the Open Offer set out in Part II and to the Application Form and the further information relating to the Astor Universal Group and the Proposals set out in Parts III to V of this document.

Recommendation

Your Board, which has been so advised by Credit Lyonnais Laing, is of the opinion that the Proposals are in the best interests of the Company and its shareholders as a whole. In providing advice to the Board, Credit Lyonnais Laing has placed reliance upon the Directors' commercial assessment of the Acquisition.

Your Board unanimously recommends you to vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting, as they intend to do in respect of their own beneficial holdings of Existing Ordinary Shares amounting in aggregate to 100,857 Ordinary Shares, representing approximately 0.36 per cent. of the Existing Ordinary Shares.

Yours sincerely

J Moger Woolley
Non-Executive Chairman

Michael J Smith
Group Chief Executive

LETTER FROM CREDIT LYONNAIS LAING



CREDIT LYONNAIS LAING

Corporate Finance

10 March 1998

To Qualifying Shareholders and, for information only, to Preference Shareholders and holders of options under the Share Option Schemes.

Dear Sir or Madam

Proposed Open Offer of 5,636,146 New Ordinary Shares at 565p per share

Introduction

As explained in the letter from your Chairman and Group Chief Executive set out in Part I of this document, in connection with funding the Acquisition the Company is proposing to issue the New Ordinary Shares to raise approximately £29.5 million (net of expenses).

Qualifying Shareholders are being invited to apply for their proportional entitlements to the New Ordinary Shares, at the Issue Price under the Open Offer. This letter, together with the accompanying Application Form, contains the formal terms and conditions of the Open Offer.

The Open Offer

Subject to and on the terms and conditions set out below and in the accompanying Application Form, Credit Lyonnais Laing, as agent for the Company, hereby invites Qualifying Shareholders to apply for New Ordinary Shares, at a price of 565p per share, free of all expenses, payable in full in cash on application, on the following basis:

1 New Ordinary Share for every 5 Existing Ordinary Shares

held by them on the Record Date and so in proportion for any other number of Existing Ordinary Shares then held, rounded down to the nearest whole number of New Ordinary Shares. Fractions of New Ordinary Shares will not be offered to Qualifying Shareholders under the Open Offer but will be aggregated and allotted under the Placing for the benefit of the Company.

Qualifying Shareholders may apply for any whole number of New Ordinary Shares up to their maximum entitlements as set out on their Application Forms. No application in excess of the maximum entitlement will be met and any Qualifying Shareholder so applying will be deemed to have applied only for his maximum entitlement. Any monies paid in excess of the amount due in respect of an application will be returned to the applicant (at the applicant's risk). Completed Application Forms, accompanied with payment in full, must be received by 3.00 p.m. on 31 March 1998.

The Open Offer is conditional upon the Placing Agreement becoming unconditional in all respects by 9.00 a.m. on 3 April 1998 (or such later date and/or time as the Company and Credit Lyonnais Laing may agree, being not later than 9.00 a.m. on 23 April 1998) and upon it not having been terminated in accordance with its terms. The Placing Agreement is conditional, *inter alia*, upon the following:

- i) the passing of Resolution 1 set out in the notice of Extraordinary General Meeting at the end of this document;

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- ii) the Acquisition Agreement having become unconditional and been performed in all respects other than as to settlement of the consideration due thereunder and obligations to be performed after Completion and subject to Admission taking place; and
- iii) Admission taking place.

Application has been made to the London Stock Exchange for admission of the New Ordinary Shares to the Official List. The New Ordinary Shares will be allotted credited as fully paid and will, when issued, rank *pari passu* in all respects with the then Existing Ordinary Shares. It is expected that (subject to regulatory consents having been obtained) Admission will become effective and that dealings in the New Ordinary Shares will commence on 3 April 1998.

Qualifying Shareholders should be aware that the Open Offer is not a rights issue and that New Ordinary Shares not applied for under the Open Offer will not be sold in the market for the benefit of those who do not apply under the Open Offer. Any New Ordinary Shares which are not applied for under the Open Offer will be taken up by placees in accordance with their commitments under the Placing or, failing which, by Credit Lyonnais Laing.

Procedure for application and payment

The enclosed Application Form shows the number of Existing Ordinary Shares registered in your name at the Record Date. It also shows your maximum entitlement to New Ordinary Shares under the Open Offer. The instructions and other terms set out in the Application Form constitute part of the terms of the Open Offer.

If you wish to apply for any or all of the New Ordinary Shares to which you are entitled, you should complete and sign the Application Form in accordance with the instructions printed on it and return it in the reply-paid envelope provided to New Issues Department, IRG plc, P.O. Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH, or by hand (during normal business hours) to IRG plc, 23 Ironmonger Lane, London EC2, together, in each case, with a remittance for the full amount payable, so as to arrive as soon as possible, but in any event not later than 3.00 p.m. on 31 March 1998, after which time, subject as set out below, applications will not be accepted. Credit Lyonnais Laing and the Company reserve the right (but shall not be obliged) to accept applications in respect of which remittances are received prior to 3.00 p.m. on 31 March 1998 from an authorised person (as defined in the Financial Services Act 1986) specifying the New Ordinary Shares concerned and undertaking to lodge the relevant Application Form in due course. Applications will be irrevocable and will not be acknowledged and receipts will not be issued for amounts paid on application. Credit Lyonnais Laing and the Company reserve the right (but shall not be obliged) to treat any application not strictly complying with the terms and conditions of application as nevertheless valid. If you post your Application Form within the United Kingdom by first class post you are recommended to allow at least three days for delivery.

Applications may only be made on the enclosed Application Form (and not via the CREST settlement system) and the enclosed Application Form is personal to the Qualifying Shareholder(s) named therein and may not be assigned or transferred except in the circumstances described below. The Application Form represents the right to apply for New Ordinary Shares and is not a document of title and cannot be traded. It is transferable only to satisfy *bona fide* market claims in relation to purchases in the market pursuant to the rules of the London Stock Exchange prior to the Ordinary Shares being marked "ex" the Open Offer. In these circumstances Box 8 on the Application Form should be completed and the form sent to the stockbroker, bank or other agent through whom the sale was effected for onward transmission to the purchaser, or transferee (save that the Application Forms should not be submitted to or otherwise transmitted to the United States of America, Canada or Australia). Applications may be split, but only to satisfy *bona fide* market claims, up to 3.00 p.m. on 27 March 1998. Any Qualifying Shareholder who has sold or transferred all or part of his holding of Ordinary Shares is advised to consult his stockbroker or other professional adviser authorised under the Financial Services Act 1986 as soon as possible, since the invitation to acquire New Ordinary Shares may represent a benefit which can be claimed from him by the purchaser or transferee under the rules of the London Stock Exchange.

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Payment must be made by cheque or banker's draft, which should be made payable to "IRG plc- a/c API Group plc" and crossed "A/C payee only", and which should be drawn in sterling on an account at a branch (which must be in the United Kingdom, the Republic of Ireland, the Channel Islands or the Isle of Man) of a bank or building society which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or a member of either of the committees of the Scottish or Belfast Clearing Houses or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by either of those companies or those committees (and must bear the appropriate sorting code number in the top right hand corner). An application may be rejected unless these requirements are fulfilled. The Company reserves the right to have any remittance presented on receipt and to instruct IRG plc to seek special clearance of cheques so as to allow value to be obtained for remittances at the earliest opportunity. Return of an Application Form with an appropriate remittance will constitute a warranty that the remittance will be honoured on first presentation. Such warranty will constitute a term of the application. If this term is breached the application may be rejected.

Application monies will be kept in a separate bank account pending fulfilment of the conditions of the Placing and Open Offer. If these conditions are not fulfilled on or before 9.00 a.m. on 3 April 1998 (or such later date as the Company and Credit Lyonnais Laing may agree, being not later than 9.00 a.m. on 23 April 1998) the Open Offer will lapse and all application monies will be refunded to applicants by cheque by post within fourteen days thereafter without interest. Any interest earned on the monies in the separate bank account will be retained for the benefit of the Company.

If you are in any doubt about the action you should take, you should immediately consult your stockbroker or other professional adviser authorised under the Financial Services Act 1986. If you do not wish to apply for any of the New Ordinary Shares you should not complete or return the Application Form. You are nevertheless requested to complete and return the accompanying form of proxy.

Overseas shareholders

(a) General

No person receiving a copy of this document and/or an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him, nor should he in any event use such Application Form, unless, in the relevant territory, such an invitation or offer could lawfully be made to him or such Application Form could lawfully be used without contravention of any legislation or other local legal or regulatory requirements. Receipt of this document and/or an Application Form does not constitute an invitation or offer to Overseas Shareholders in the territories in which it would be unlawful to make an invitation or offer and in such circumstances this document and/or any Application Form are sent for information only. It is the responsibility of any person receiving a copy of this document and/or an Application Form outside the United Kingdom and wishing to make an application for any New Ordinary Shares to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant territory in connection therewith, including obtaining any governmental or other consents which may be required or observing any other formalities required to be observed in such territory and paying any issue, transfer or other taxes due in such other territory. The Company reserves the right in its absolute discretion to treat as invalid any application for New Ordinary Shares under the Open Offer if it appears to the Company or its agents that such application or acceptance thereof may involve a breach of the laws or regulations of any jurisdiction or if in respect of such application the Company is not given the relevant warranty concerning overseas jurisdictions set out in the Application Form. All payments under the Open Offer must be made in pounds sterling.

(b) North America

Neither the Application Form nor the New Ordinary Shares have been or will be registered under the United States Securities Act of 1933, as amended, nor have they been nor will they be qualified for sale under the securities laws of any province or territory of Canada and the relevant exemptions are not being obtained from the Securities Commission of any province of Canada. Except in a transaction which is exempt from the

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registration requirements of such laws, the New Ordinary Shares may not be, directly or indirectly, offered, sold, taken up or delivered in North America, or to or for the benefit of a North American Person (as defined below). Application Forms are not being sent to any Shareholder with a registered address in North America or who is known or believed by the Company to be a North American Person, unless such Ordinary Shareholder satisfies the Company (in its sole discretion) that an allotment is permitted under an exemption from the securities laws referred to above.

In this letter "North America" means the United States of America and Canada, their respective territories and possessions and all areas subject to their respective jurisdictions and any political subdivision thereof and "North American Person" means any person who is in North America, or any citizen or resident of North America, who receives any Application Form in North America or who executes, authorises the execution of or sends in any Application Form from within North America and shall include the estate of any such person or any corporation, partnership or other entity created or organised under the laws of North America. References in this letter to "in North America" shall mean at the time the Open Offer is received and at the time any relevant Application Form is executed or authorised to be executed and returned.

(c) Australia

Neither this document nor the Application Form nor the New Ordinary Shares will be lodged or registered with the Australian Securities Commission under Australia's Corporations Law and the New Ordinary Shares are not being offered for subscription or sale and may not be offered, sold or delivered in or into Australia or for the account or benefit of any person or corporation in Australia. No Application Form will be sent to any person or corporation in Australia, including any Shareholder with a registered address in Australia ("Australian Person").

(d) South Africa

Ordinary Shareholders resident in South Africa may require the approval of the South African Exchange Control Authorities if they wish to take up their entitlements under the Open Offer.

Taxation and stamp duty

Your attention is drawn to the advice on taxation and stamp duty received by the Company described in paragraph 13 of Part V of this document.

If you are in any doubt about your tax position you should consult your professional adviser.

Money Laundering Regulations 1993

It is a term of the Open Offer that, to ensure compliance with the Money Laundering Regulations 1993, IRG plc may, at its absolute discretion, require verification of identity from any person lodging an Application Form (an "applicant") including, without limitation, an applicant who (i) tenders payment by way of cheque or banker's draft drawn on an account in the name of another person or persons other than the applicants or (ii) appears to IRG plc to be acting on behalf of some other person. In the former case, verification of the identity of the applicant may be required. In the latter case, verification of the identity of any person on whose behalf the application appears to be acting may be required. If, by 3.00 p.m. on 31 March 1998, IRG plc has not received evidence satisfactory to it as aforesaid, the Company may, in its absolute discretion, reject the relevant Application Form in which event the applicant's remittance may be returned without interest to the account of the drawee bank from which such monies were originally debited.

As a guide, if the value of the New Ordinary Shares applied for exceeds £11,500 the verification of identity requirements of the Money Laundering Regulations 1993 will apply and verification of identity may be required. IRG plc shall be entitled in its absolute discretion to determine whether the verification of identity requirements apply to any applicant and whether such requirements have been satisfied and neither IRG plc nor the Company will be liable to any person for any loss suffered or incurred as a result of the exercise of such discretion.

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Applications made as agent for one or more persons by a United Kingdom or European Union regulated person or institution (for example a bank or stockbroker) must specify the status of such regulated person or institution and be accompanied by written confirmation that evidence has been obtained and recorded to verify the identity of the applicants.

Settlement and dealings

Application has been made to the London Stock Exchange for the New Ordinary Shares to be admitted to the Official List. Subject to fulfilment of the conditions of the Placing and the Open Offer, it is expected that (subject to regulatory consents having been obtained) dealings will commence in the New Ordinary Shares on 3 April 1998. On this basis, for those Qualifying Shareholders who do not hold their Existing Ordinary Shares in the CREST settlement system, definitive certificates in respect of New Ordinary Shares are expected to be despatched on or before 8 April 1998. For those Qualifying Shareholders who hold their Existing Ordinary Shares in a CREST stock account, it is expected that the relevant account will be credited with New Ordinary Shares on the day of Admission. However, notwithstanding any other provision of this document or the Application Form, the Company reserves the right to issue any New Ordinary Shares the subject of the Open Offer in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST), or on the part of the facilities and/or systems operated by the Company's registrars in connection with CREST. This right may also be exercised if the correct details (such as participant ID and member ID details) are not provided as requested on the Application Form in respect of *bona fide* market claims. No temporary documents of title will be issued and, prior to the receipt of definitive share certificates, transfers will be certified against the register.

All documents or remittances sent by or to applicants, or as they may direct, will be sent through the post at their own risk.

Further information

Your attention is drawn to the further information set out in this document and the terms and conditions set out on the Application Form.

Yours faithfully
for and on behalf of
Credit Lyonnais Laing

Nicholas J Donaldson
Head of UK Corporate Finance

Shaun H Dobson
Director - Corporate Finance

ACCOUNTANTS' REPORT ON THE ASTOR UNIVERSAL GROUP OF COMPANIES

The following is the text of a report from Ernst & Young, Chartered Accountants:



■ Chartered Accountants
100 Barbirolli Square
Manchester
M2 3EY

10 March 1998

The Directors
API Group plc
Silk House
Park Green
Macclesfield
Cheshire SK11 7NU

The Directors
Credit Lyonnais Laing
Broadwalk House
5 Appold Street
London EC2A 2DA

Gentlemen

1. Introduction

We report in connection with the proposed acquisition ("the Acquisition") by wholly owned subsidiaries of API Group plc of the trade and assets of Astor Universal Corporation and its UK subsidiary Astor Universal Limited, together with the entire issued share capital of its French subsidiary Astor Universal SA, referred to in the prospectus to API shareholders dated 10 March 1998 ("the prospectus"). In this report "Astor Universal Group of Companies" means Astor Universal Corporation and its subsidiaries, including Markem Pty Limited and Foilmakers Manufacturing Company Pty Limited, Astor Universal Corporation's Australian subsidiaries which are not to be acquired as part of the Acquisition.

We have examined the audited consolidated financial statements of Astor Universal Corporation for the three years ended 31 December 1997. These financial statements were audited by Arthur Andersen LLP. All audit reports for the period under review were unqualified.

Audited consolidated financial statements have not been prepared in respect of Astor Universal Corporation for any period subsequent to 31 December 1997. Our work has been carried out in accordance with the Auditing Guideline: "Prospectuses and the reporting accountant".

The financial information contained in this report is based on the audited consolidated financial statements of Astor Universal Corporation, after making such adjustments as we consider necessary. Astor Universal Corporation's Australian subsidiaries, Markem Pty Limited and Foilmakers Manufacturing Company Pty Limited are not being acquired and have therefore been disclosed as discontinuing operations in this report. Furthermore, certain assets and liabilities are not being assumed by API Group plc and these have been excluded in the unaudited pro forma statement of net assets of the Enlarged Group set out in Part IV of the prospectus.

In our opinion the financial information gives, for the purposes of the prospectus, a true and fair view of the profits, cash flows and total recognised gains and losses of the Astor Universal Group of Companies for the three years ended 31 December 1997 and of the state of affairs of the Astor Universal Group of Companies at each 31 December from 1995 to 1997 inclusive.

2. Accounting policies

The principal accounting policies which have been applied consistently in arriving at the financial information set out in this report are:

(i) Accounting convention

The financial information is prepared under the historical cost convention in accordance with applicable UK accounting standards.

PART III

(ii) Basis of consolidation

The consolidated financial information incorporates the accounts of each subsidiary of Astor Universal Corporation.

(iii) Inter company transactions

Throughout the period of this report the Astor Universal Group of Companies has been part of a larger group and certain services have been provided by Markem Corporation, the ultimate parent undertaking, on differing bases. In particular:

- certain employee related costs, principally healthcare plans and pension schemes, were administered by Markem Corporation as part of larger schemes also relating to employees of other companies ("Markem schemes"). An annual charge was made to the Astor Universal Group of Companies by means of an allocation of the total cost of such Markem schemes. This annual charge is not necessarily an indication of the actual ongoing cost of such benefit schemes, as under the terms of the agreement relating to the Acquisition, neither the Markem schemes nor their assets or liabilities will be assumed by API;
- an annual allocation of corporate overheads was made by Markem Corporation to the Astor Universal Group of Companies. The level of this charge was not necessarily indicative of the level of services provided in any particular year;
- amounts owed to Markem Corporation under interest bearing loan notes are not being assumed under this transaction and consequently the interest charge in the profit and loss account is not necessarily indicative of the ongoing interest cost;
- in common with other US groups the tax returns of the Astor Universal Group of Companies were consolidated with those of Markem Corporation. The liability to taxation recorded by the Astor Universal Group of Companies represents an allocation of the consolidated taxation liability of the larger group. This is explained more fully in the taxation policy note below; and
- certain fixed assets owned by the Astor Universal Group of Companies are not being acquired under this transaction as shown in note (ix), and consequently the depreciation charge in the profit and loss account is not necessarily indicative of the ongoing depreciation cost.

(iv) Goodwill

Goodwill represents purchased goodwill or the excess of the cost of the business or shares in a subsidiary undertaking over the fair value of the net tangible assets acquired. Goodwill is amortised using the straight line method over 15 years.

(v) Depreciation

Depreciation is provided on all tangible fixed assets, excluding freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset by equal instalments or the reducing balance method, over its expected useful life as follows:

Buildings and improvements	5 to 40 years
Machinery and equipment	3 to 12 years
Furniture and fixtures	5 to 12 years

(vi) Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The capital element of the rental obligations is included in creditors; the interest element is charged to the profit and loss account over the period of the contract or lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

PART III

(vii) Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises amounts incurred in bringing each item to its present location and condition as follows:

Raw materials	— purchase cost on a first-in, first out basis
Work in progress and finished goods	— cost of direct materials and labour plus manufacturing overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

(viii) Foreign exchange

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contract rate if the transaction is covered by a forward currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date, or if appropriate, at the forward contract rate. All differences are taken to the profit and loss account.

The assets and liabilities of foreign subsidiaries are translated at the rates ruling at the balance sheet dates, the profit and loss accounts are translated at the weighted average rate for the period. Resulting translation adjustments are taken directly to reserves.

(ix) Research and development

Research and development expenditure is written off as incurred.

(x) Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that the liability will crystallise.

(xi) Corporation tax

Astor Universal Corporation and Markem Corporation had a tax allocation agreement under which the results of Astor Universal Corporation were included in the consolidated US federal and state income tax returns filed by Markem Corporation. The agreement provided that in years in which Astor Universal Corporation had taxable income, it would pay to Markem Corporation amounts comparable to the taxes it would have paid if it had filed separate tax returns. In years in which Astor Universal Corporation incurs a loss, Markem Corporation would reimburse Astor Universal Corporation the amount of any refund or carry-back claim that Astor Universal Corporation would have received if it had filed separate tax returns.

To the extent Markem Corporation could benefit from Astor Universal Corporation's tax attributes, including the utilisation of deferred tax assets in its consolidated return, Markem Corporation reimbursed Astor Universal Corporation for such assets. As at 31 December 1997, Markem Corporation had reimbursed Astor Universal Corporation for all deferred tax assets generated, as Markem Corporation anticipated such assets would be utilised (see note (vii)).

(xii) Pensions

Astor Universal Corporation participates in two Markem Corporation pension plans, a defined contribution plan and a defined benefit plan. The defined contribution plan is a USA revenue approved plan and requires up to 25 per cent. of employee contributions to be matched by employer contributions up to a maximum of 10 per cent. of an employee's salary. The defined benefit plan requires contributions to be made to a separately administered fund.

The UK subsidiary maintains a pension scheme covering substantially all its employees providing defined benefits relating to final salary. The assets of the scheme are held outside the company in an independent trust. The amount charged to the profit and loss account in the year represents the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations for that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged or credited to the profit and loss account over the estimated average remaining working life of scheme members.

Subsidiaries in other countries do not participate in any group schemes but do contribute annually to mandated government sponsored retirement programmes.

PART III

3. Profit and loss accounts

	Notes	Year ended 31 December		
		1995 \$000	1996 \$000	1997 \$000
Turnover:				
Continuing activities		56,187	55,900	58,054
Discontinuing activities		1,947	2,319	1,849
	(i)(ii)	58,134	58,219	59,903
Cost of sales		(43,398)	(45,714)	(42,655)
Gross profit		14,736	12,505	17,248
Distribution costs		(5,327)	(4,802)	(5,348)
Selling and administrative expenses		(9,566)	(10,116)	(9,375)
Operating (loss)/profit	(iii)	(157)	(2,413)	2,525
Net interest payable and similar charges	(vi)	(438)	(1,434)	(1,066)
(Loss)/profit on ordinary activities before taxation:				
Continuing activities		(1,010)	(4,361)	1,124
Discontinuing activities		415	514	335
	(ii)	(595)	(3,847)	1,459
Taxation	(vii)	(43)	2,242	(118)
(Loss)/profit on ordinary activities after taxation		(638)	(1,605)	1,341
Minority interests		(120)	(139)	(103)
(Loss)/profit for the year	(xx)	(758)	(1,744)	1,238

As explained in the accounting policies, depreciation, interest and taxation costs may not necessarily be indicative of ongoing charges.

4. Statements of total recognised gains and losses

The recognised gains and losses of the Astor Universal Group of Companies for the three years ended 31 December 1997 are as follows:

	Note	Year ended 31 December		
		1995 \$000	1996 \$000	1997 \$000
(Loss)/profit for the year after taxation and minority interests		(758)	(1,744)	1,238
Exchange differences on retranslation of net assets of subsidiary undertakings		(278)	1,982	(1,146)
Total recognised gains and (losses) in the year	(xxi)	(1,036)	238	92

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5. Balance sheets

The consolidated balance sheet of the Astor Universal Group of Companies at each 31 December from 1995 to 1997 inclusive is set out below:

	Note	At 31 December		
		1995 \$000	1996 \$000	1997 \$000
Fixed assets				
Intangible assets	(viii)	361	332	303
Tangible fixed assets	(ix)	17,488	17,437	15,730
		17,849	17,769	16,033
Current assets				
Stocks	(x)	16,071	13,397	11,400
Debtors	(xi)	12,327	12,006	13,116
Cash at bank and in hand	(xvi)	248	2,270	2,020
		28,646	27,673	26,536
Creditors: amounts falling due within one year	(xii)	(9,276)	(7,712)	(7,323)
Net current assets		19,370	19,961	19,213
Total assets less current liabilities		37,219	37,730	35,246
Creditors: amounts falling due after more than one year	(xiii)	(16,548)	(16,604)	(14,070)
Provision for liabilities and charges	(xvii)	—	(78)	—
Minority interest		(580)	(719)	(755)
		20,091	20,329	20,421
Capital and reserves				
Called up share capital	(xviii)	40	40	40
Share premium account	(xix)	20,059	20,059	20,059
Profit and loss account	(xx)	(8)	230	322
Equity shareholders' funds	(xxi)	20,091	20,329	20,421

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6. Cash flow statements

The cash flow statements of the Astor Universal Group of Companies for the three years ended 31 December 1997 are set out below:

	Note	Year ended 31 December		
		1995 \$000	1996 \$000	1997 \$000
Net cash (outflow)/inflow from operating activities	(iii)(b)	(565)	2,102	2,751
Returns on investments and servicing of finance				
Interest paid		(524)	(864)	(597)
Interest received		86	31	96
Interest element of finance lease payments		—	(601)	(565)
Net cash outflow from returns on investments and servicing of finance		(438)	(1,434)	(1,066)
Taxation				
Corporation tax (paid)/received		(829)	2,353	(22)
Capital expenditure				
Payments to acquire tangible fixed assets		(1,598)	(1,088)	(470)
Receipts from sales of tangible fixed assets		—	34	186
Cash outflow from capital expenditure		(1,598)	(1,054)	(284)
Financing				
Net movements in loan notes from parent undertaking		2,347	592	(1,835)
Repayment of capital element of finance leases		—	(305)	(332)
Net cash inflow/(outflow) from financing		2,347	287	(2,167)
Net (decrease)/increase in cash	(xvi)	(1,083)	2,254	(788)

PART III

7. Notes to the financial information

(i) Turnover and segmental reporting

Turnover comprises the invoiced value of goods and services supplied by the Astor Universal Group of Companies, stated net of sales taxes. All turnover, profits and net assets relate to the one continuing activity of the manufacture and distribution of stamping foils and are analysed as follows:

(a) Turnover

	Year ended 31 December		
	1995	1996	1997
	\$000	\$000	\$000
Destination:			
United Kingdom	13,042	12,825	17,123
Rest of Europe	14,452	14,354	14,324
USA	36,258	30,996	32,956
Rest of World	7,125	8,796	6,322
Inter group sales	(12,743)	(8,752)	(10,822)
	58,134	58,219	59,903

	Year ended 31 December		
	1995	1996	1997
	\$000	\$000	\$000
Origin:			
United Kingdom	35,224	32,884	36,099
Rest of Europe	4,308	4,358	4,285
USA	28,975	27,165	28,398
Rest of World	2,370	2,564	1,943
Inter group sales	(12,743)	(8,752)	(10,822)
	58,134	58,219	59,903

(b) (Loss)/profit on ordinary activities before taxation

	Year ended 31 December		
	1995	1996	1997
	\$000	\$000	\$000
Geographical:			
United Kingdom	961	242	2,707
Rest of Europe	213	88	77
USA	(2,184)	(4,691)	(1,722)
Rest of World	415	514	397
	(595)	(3,847)	1,459

(c) Net assets

	Year ended 31 December		
	1995	1996	1997
	\$000	\$000	\$000
Geographical			
Continuing:			
United Kingdom	17,284	19,681	16,216
Rest of Europe	187	223	995
USA	2,045	(260)	2,809
	19,516	19,644	20,020
Discontinuing:			
Australia	575	685	401
	20,091	20,329	20,421

PART III

(ii) Analysis of continuing and discontinuing operations

	Continuing \$000	Dis- continuing \$000	1995 Total \$000	Continuing \$000	Dis- continuing \$000	1996 Total \$000
Turnover	56,187	1,947	58,134	55,900	2,319	58,219
Cost of sales	(42,077)	(1,321)	(43,398)	(44,110)	(1,604)	(45,714)
Gross profit	14,110	626	14,736	11,790	715	12,505
Distribution costs	(5,327)	—	(5,327)	(4,802)	—	(4,802)
Selling and administration expenses	(9,372)	(194)	(9,566)	(9,919)	(197)	(10,116)
Operating (loss)/profit before management charges included in selling and administration expenses	623	432	1,055	(1,764)	518	(1,246)
Management charges	(1,212)	—	(1,212)	(1,167)	—	(1,167)
Operating (loss)/profit	(589)	432	(157)	(2,931)	518	(2,413)
Net interest payable and similar charges	(421)	(17)	(438)	(1,430)	(4)	(1,434)
(Loss)/profit on ordinary activities before taxation	(1,010)	415	(595)	(4,361)	514	(3,847)

	Continuing \$000	Dis- continuing \$000	1997 Total \$000
Turnover	58,054	1,849	59,903
Cost of sales	(41,384)	(1,271)	(42,655)
Gross profit	16,670	578	17,248
Distribution costs	(5,348)	—	(5,348)
Selling and administration expenses	(9,186)	(189)	(9,375)
Operating profit before management charges included in selling and administration expenses	3,070	389	3,459
Management charges	(934)	—	(934)
Operating profit	2,136	389	2,525
Net interest payable and similar charges	(1,074)	8	(1,066)
Profit on ordinary activities before taxation	1,062	397	1,459

Discontinuing operations comprise Astor Universal Corporation's 51 per cent. interest in Markem Pty Limited, which is not being acquired by API Group plc.

PART III

(iii) Operating (loss)/profit

(a) Operating (loss)/profit is stated after charging/(crediting):

	Year ended 31 December		
	1995 \$000	1996 \$000	1997 \$000
Auditors' remuneration	56	79	83
- audit services	7	30	35
- non-audit services	1,443	1,509	1,353
Depreciation of owned tangible fixed assets	46	280	290
Depreciation of leased tangible fixed assets	30	29	29
Amortisation of goodwill	294	294	384
Operating leases - land and buildings	474	882	1,269
Operating leases - other	(22)	(7)	(27)
Profit on disposal of tangible fixed assets	3	(15)	(6)
Currency exchange losses/(gains)			

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

	Year ended 31 December		
	1995 \$000	1996 \$000	1997 \$000
Operating (loss)/profit	(157)	(2,413)	2,525
Depreciation of tangible fixed assets	1,489	1,789	1,643
Profit on disposal of tangible fixed assets	(22)	(7)	(27)
Amortisation of goodwill	30	29	29
(Increase)/decrease in stock	(5,748)	3,363	1,654
(Increase)/decrease in debtors	(83)	1,259	(1,519)
Increase/(decrease) in creditors	3,926	(1,918)	(1,554)
Net cash (outflow)/inflow from operating activities	(565)	2,102	2,751

(iv) Remuneration of officers of the company

	Year ended 31 December		
	1995 \$000	1996 \$000	1997 \$000
Fees	8	5	11
Other emoluments	823	1,155	892
	831	1,160	903

	Year ended 31 December		
	1995 \$000	1996 \$000	1997 \$000
Emoluments of the highest paid officer	195	241	169

PART III

(v) Staff costs

An analysis of staff costs is as follows:

	Year ended 31 December		
	1995 \$000	1996 \$000	1997 \$000
Wages and salaries	15,104	15,639	16,153
Social security and health care costs	1,614	1,759	1,741
Other pension costs	820	1,035	1,106
	17,538	18,433	19,000

The average weekly number of employees for each period was as follows:

	Year ended 31 December		
	1995 Number	1996 Number	1997 Number
Continuing operations:			
Finance	17	18	17
Administration	139	142	123
Production	296	312	303
	452	472	443

(vi) Net interest payable and similar charges

The composition of net interest payable and similar charges was:

	Year ended 31 December		
	1995 \$000	1996 \$000	1997 \$000
Bank loans and overdrafts	15	85	41
Finance charges payable under finance leases	—	601	565
Other	10	52	51
External interest payable	25	738	657
On loan notes due to the ultimate parent undertaking	499	727	505
	524	1,465	1,162
Interest receivable	(86)	(31)	(96)
	438	1,434	1,066

As noted in the accounting policies, as the loan notes due to Markem Corporation are not being acquired, the interest charge may not necessarily be indicative of ongoing costs.

PART III

(vii) Taxation

The taxation (credit)/charge, based on the (loss)/profit on ordinary activities for each year comprises:

	Year ended 31 December		
	1995	1996	1997
	\$000	\$000	\$000
Current taxation:			
USA	(562)	(2,048)	(840)
Other	605	(272)	1,036
	43	(2,320)	196
Deferred taxation:			
USA	—	—	—
Other	—	78	(78)
	—	78	(78)
	43	(2,242)	118

Deferred income taxes result from differences between financial reporting income and taxable income resulting primarily from accelerated tax depreciation methods.

(viii) Intangible assets

	Goodwill
	\$000
Cost:	
At 31 December 1995, 1996 and 1997	479
Amortisation:	
At 1 January 1996	118
Provided during the year	29
At 31 December 1996	147
Provided during the year	29
At 31 December 1997	176
Net book amount at 31 December 1995	361
Net book amount at 31 December 1996	332
Net book amount at 31 December 1997	303

PART III

(ix) Tangible fixed assets

At 31 December 1996 and 1997 tangible fixed assets comprised:

	Land and buildings \$000	Plant and machinery \$000	Fixtures and fittings \$000	Total \$000
Cost:				
At 1 January 1996	13,649	15,031	3,447	32,127
Additions	327	761	—	1,088
Disposals	—	(70)	(65)	(135)
Foreign exchange movement	404	1,059	268	1,731
At 31 December 1996	14,380	16,781	3,650	34,811
Additions	38	393	39	470
Disposals	—	(783)	(629)	(1,412)
Foreign exchange movement	(209)	(600)	(96)	(905)
At 31 December 1997	14,209	15,791	2,964	32,964
Depreciation:				
At 1 January 1996	2,111	10,171	2,357	14,639
Provided during the year	505	1,058	226	1,789
Disposals	—	(63)	(45)	(108)
Foreign exchange movement	157	701	196	1,054
At 31 December 1996	2,773	11,867	2,734	17,374
Provided during the year	510	960	173	1,643
Disposals	—	(690)	(563)	(1,253)
Foreign exchange movement	(65)	(385)	(80)	(530)
At 31 December 1997	3,218	11,752	2,264	17,234
Net book amount at 31 December 1995	11,538	4,860	1,090	17,488
Net book amount at 31 December 1996	11,607	4,914	916	17,437
Net book amount at 31 December 1997	10,991	4,039	700	15,730

Included in the total cost for land and buildings is land with a cost of \$526,000 at 31 December 1995, 1996 and 1997.

The above includes the freehold of two properties with a net book amount at 31 December 1997 of \$3.1m which are not being acquired under the Acquisition.

Included in tangible fixed assets are the following amounts relating to leased assets and assets acquired under hire purchase contracts:

	Net book amount at 31 December	
	1996	1997
	\$000	\$000
Land and buildings	7,724	7,434

(x) Stocks

Stocks comprised:

	At 31 December	
	1996	1997
	\$000	\$000
Raw materials	2,037	1,740
Work in progress and finished goods	11,360	9,660
	13,397	11,400

PART III

(xi) Debtors

These comprised:

	At 31 December	
	1996	1997
	\$000	\$000
Trade debtors	11,260	12,383
Prepayments and accrued income	746	733
	12,006	13,116

(xii) Creditors: amounts falling due within one year

Creditors falling due within one year comprised:

	At 31 December	
	1996	1997
	\$000	\$000
Bank overdraft	236	960
Obligations under finance leases and hire purchase contracts (see note (xiv) below)	332	355
Trade creditors	4,583	3,898
Corporation tax	487	582
Other taxes and social security	514	539
Amounts owed to parent undertaking	1,125	74
Other creditors	435	915
	7,712	7,323

(xiii) Creditors: amounts falling due after more than one year

These comprised:

	At 31 December	
	1996	1997
	\$000	\$000
Loan notes from parent underaking	8,713	6,878
Amount due to related party	293	158
Finance lease obligations (see note (xiv) below)	7,367	7,012
Other creditors	231	22
	16,604	14,070

Interest is payable on the unsecured loan notes at a rate of 7.5 per cent. There are no formal terms for repayment.

The amount due to the related party represents the liability in respect of a non compete agreement payable to Glen Hutchison, who is a director of Astor Universal Corporation. The balance will be repaid fully by 31 December 2000.

PART III

(xiv) Obligations under finance leases and hire purchase contracts

Amounts due under finance lease and hire purchase contracts were as follows:

	At 31 December	
	1996	1997
	\$000	\$000
Amounts payable:		
Within one year	893	893
Between one and two years	893	893
Between two and five years	2,679	2,679
After five years	7,887	6,997
	12,352	11,462
Less: finance charge allocated to future periods	(4,653)	(4,095)
	7,699	7,367
Finance leases and hire purchase contracts are shown as:		
Current obligations (see note (xii) above)	332	355
Non-current obligations (see note (xiii) above)	7,367	7,012
	7,699	7,367

(xv) Reconciliation of cash flow to movement in net debt

	Year ended 31 December		
	1995	1996	1997
	\$000	\$000	\$000
(Decrease)/increase in cash and bank overdraft	(1,083)	2,254	(788)
(Increase)/decrease in loan notes from parent undertaking	(2,347)	(592)	1,835
Repayment of capital element of finance leases	—	305	332
Change in net debt resulting from cash flows	(3,430)	1,967	1,379
Inception of finance lease contracts	(8,004)	—	—
Exchange movements	(6)	11	(186)
Movements in net debt in the year	(11,440)	1,978	1,193
Opening net debt	(4,916)	(16,356)	(14,378)
Closing net debt	(16,356)	(14,378)	(13,185)

(xvi) Analysis of net debt

	At 31 December 1994 \$000	Cash flows \$000	Exchange movements \$000	Inception of finance lease \$000	At 31 December 1995 \$000
Cash at bank and in hand	858	(604)	(6)	—	248
Bank overdraft	—	(479)	—	—	(479)
	858	(1,083)	(6)	—	(231)
Loan notes from parent undertaking	(5,774)	(2,347)	—	—	(8,121)
Finance leases	—	—	—	(8,004)	(8,004)
	(4,916)	(3,430)	(6)	(8,004)	(16,356)

PART III

	At 31 December 1995 \$000	Cash flows \$000	Exchange movements \$000	At 31 December 1996 \$000
Cash at bank and in hand	248	2,011	11	2,270
Bank overdraft	(479)	243	—	(236)
	(231)	2,254	11	2,034
Loan notes from parent undertaking	(8,121)	(592)	—	(8,713)
Finance leases	(8,004)	305	—	(7,699)
	(16,356)	1,967	11	(14,378)

	At 31 December 1996 \$000	Cash flows \$000	Exchange movements \$000	At 31 December 1997 \$000
Cash at bank and in hand	2,270	(34)	(216)	2,020
Bank overdraft	(236)	(754)	30	(960)
Overdrafts	2,034	(788)	(186)	1,060
Loan notes from parent undertaking	(8,713)	1,835	—	(6,878)
Finance leases	(7,699)	332	—	(7,367)
	(14,378)	1,379	(186)	(13,185)

(xvii) Provisions for liabilities and charges

The analysis of deferred taxation at 31 December 1996 and 1997 was as follows:

	Provided		Not provided	
	1996 \$000	1997 \$000	1996 \$000	1997 \$000
Capital allowances in advance of depreciation	78	—	1,121	925
Other timing differences	—	—	425	699
	78	—	1,546	1,624

(xviii) Share capital

At 31 December 1996 and 1997 share capital comprised:

	At 31 December	
	1996 \$000	1997 \$000
Authorised:		
5,000,000 \$0.01 ordinary shares	50	50
Allotted and called up:		
4,000,000 \$0.01 ordinary shares	40	40

(xix) Share premium account

	At 31 December	
	1996 \$000	1997 \$000
Share premium account	20,059	20,059

PART III

(xx) Profit and loss account

Movements in the profit and loss account for the period under review are as follows:

	Year ended 31 December		
	1995 \$000	1996 \$000	1997 \$000
At 1 January	1,028	(8)	230
(Loss)/profit for the year	(758)	(1,744)	1,238
Exchange differences on retranslation of net assets of subsidiary undertakings	(278)	1,982	(1,146)
At 31 December	(8)	230	322

(xxi) Reconciliation of movements in shareholders' funds

The movements in shareholders' funds during the three years ended 31 December from 1995 to 1997 inclusive are as follows:

	Year ended 31 December		
	1995 \$000	1996 \$000	1997 \$000
(Loss)/profit for the year	(758)	(1,744)	1,238
Exchange differences on retranslation of net assets of subsidiary undertakings	(278)	1,982	(1,146)
Net (deduction)/addition (from)/to shareholders' funds	(1,036)	238	92
Opening shareholders' funds	21,127	20,091	20,329
Closing shareholders' funds	20,091	20,329	20,421

(xxii) Financial commitments

At 31 December 1996 and 1997 the annual commitments under operating leases are as follows:

	Land and buildings		Land and buildings	
	31 December 1996 \$000	Other 1996 \$000	31 December 1997 \$000	Other 1997 \$000
Other:				
Within one year	—	—	—	—
Within one to two years	—	—	194	—
Within two to five years	194	—	84	1,027
After five years	84	1,121	—	146
	278	1,121	278	1,173

(xxiii) Pension commitments

The latest actuarial valuation of the UK subsidiary's pension scheme was as at 1 January 1997 and used the projected unit method. The main actuarial assumptions were that salaries would increase by 7 per cent. per annum, pensions in payment by 3 per cent. per annum and that investment returns would be 9 per cent. per annum. At the date of the latest actuarial valuation, the market value of the assets of the scheme was £9.0m and the actuarial value of the assets were sufficient to cover 90 per cent. of the benefits that had accrued to the members after allowing for expected future increases in earnings. Whilst the actuary advised employer pension contributions be increased to 7.5 per cent. to eliminate the deficit, the UK subsidiary made employer contributions of 8.9 per cent.

The UK subsidiary's pension scheme will remain responsible for past service benefits of employees of Astor Universal Limited. As described in paragraph 2(iii) of this report, API will not assume the Markem schemes or their assets or liabilities. The historical contributions made by the Astor Universal Group of Companies may therefore not be indicative of future pension costs.

Yours faithfully

Ernst & Young
Chartered Accountants

PART IV

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP

The following table sets out an unaudited pro forma statement of net assets of the Enlarged Group following completion of the Proposals. It has been prepared for illustrative purposes only and because of its nature may not give a true picture of the financial position of the Enlarged Group. It has been derived from the consolidated balance sheet of the API Group as at 4 October 1997 and the audited consolidated balance sheet of the Astor Universal Group of Companies as at 31 December 1997 adjusted in accordance with the notes set out below:

	API Group at 4 October 1997 £000	Astor Universal Group of Companies at 31 December 1997 £000	Adjustments (Note 3) £000	Pro forma £000
Fixed Assets	40,912	9,717	13,721	64,350
Current Assets				
Stock	13,190	6,909	(188)	19,911
Debtors	37,856	7,949	(87)	45,718
Cash at bank and in hand	10,213	1,224	(1,142)	10,295
	61,259	16,082	(1,417)	75,924
Creditors: amount falling due within one year	(35,341)	(4,438)	786	(38,993)
Net current assets	25,918	11,644	(631)	36,931
Total assets less current liabilities	66,830	21,361	13,090	101,281
Creditors: amount falling due after more than one year	(853)	(8,527)	4,168	(5,212)
Provisions for liabilities and charges	(442)	—	—	(442)
Deferred credit - Government grants	(22)	—	—	(22)
Minority interest	—	(458)	458	—
Net assets	65,513	12,376	17,716	95,605

Notes:

1. The net assets of the API Group have been extracted, without material adjustment, from its audited results for the year ended 4 October 1997.
2. The net assets of the Astor Universal Group of Companies have been extracted, without material adjustment, from the Accountants' report set out in Part III of this document and translated into sterling in accordance with SSAP 20 principles.
3. The adjustments reflect:
 - (a) the exclusion of two freehold properties not being acquired and the reinstatement of one of those properties under an option;
 - (b) the exclusion of a property owned previously by a director of Astor Universal Limited with a book amount of £70,000, not being acquired by the API Group;
 - (c) intra-group loan notes and balances with Markem Corporation and tax and other liabilities not being assumed by API;
 - (d) the net assets of Astor Universal's Australian subsidiary, Markem Pty Limited, which is not being acquired by the API Group;
 - (e) the proceeds of the Placing and Open Offer net of consideration paid for (and associated costs of) the Acquisition; and
 - (f) goodwill generated as a result of the Acquisition, accounted for pursuant to FRS10.
4. The statement does not include any adjustments to reflect the fair values of the assets and liabilities of the Astor Universal Group of Companies. No adjustments have been made to reflect the trading results or changes in working capital since the date of each balance sheet.

The following is the text of a report from Ernst & Young, the Reporting Accountants:



■ Chartered Accountants
100 Barbirolli Square
Manchester
M2 3EY

The Directors
API Group plc
Silk House
Park Green
Macclesfield
Cheshire
SK11 7NU

10 March 1998

The Directors
Credit Lyonnais Laing
Broadwalk House
5 Appold Street
London
EC2A 2DA

Dear Sirs

We have reviewed the accounting policies, bases and calculations for the unaudited pro forma statement (the "Statement") of the combined net assets of API Group plc ("API") and its subsidiary undertakings and Astor Universal Corporation and its subsidiary undertakings, for which the directors of API are solely responsible, set out in Part IV of the prospectus dated 10 March 1998.

In our opinion the Statement has been properly compiled on the bases set out in Part IV of the prospectus and has been prepared on a basis consistent with the accounting policies of API.

We confirm that, in our opinion, the adjustments set out in Part IV of the prospectus are appropriate for the purposes of the Statement as required pursuant to paragraph 12.29 of the Listing Rules.

Yours faithfully

Ernst & Young
Chartered Accountants

PART V

ADDITIONAL INFORMATION

1. Responsibility

- (a) The Directors, whose names are set out in paragraph 1(b) below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

- (b) The Directors and their functions are as follows:

John Moger Woolley	Non-Executive Chairman
Michael John Smith	Group Chief Executive
Dennis James Holt	Group Finance Director
John Nicholas Sheldrick	Non-Executive Director,

all of Silk House, Park Green, Macclesfield, Cheshire SK11 7NU, which is the registered office of the Company.

2. Share capital

- (a) The authorised and issued share capital of API, as it is at present and as it will be immediately following the Placing and Open Offer becoming unconditional in all respects and being completed and following each of the Resolutions being passed and becoming effective, assuming no exercise of options granted under the Share Option Schemes before such time, is set out in the tables below:

Present	Authorised		Issued and fully paid	
	£	Number	£	Number
Preference Shares	549,000	549,000	549,000	549,000
Ordinary Shares	9,329,344	37,317,376	7,045,183	28,180,732

Proposed	Authorised		Issued and fully paid	
	£	Number	£	Number
Preference Shares	549,000	549,000	549,000	549,000
Ordinary Shares	11,272,292	45,089,168	8,454,219.50	33,816,878

- (b) The Existing Ordinary Shares are, and the New Ordinary Shares will be, in registered form. Listing of the New Ordinary Shares is not being sought on any stock exchange other than the London Stock Exchange, on which the Existing Ordinary Shares are listed. The New Ordinary Shares, on issue, will rank *pari passu* in all respects with the Ordinary Shares then in issue and have the rights and restrictions attaching thereto set out in the Articles of Association of the Company.
- (c) None of the New Ordinary Shares is being, and none of them has been, sold or made available in whole or in part to the public in conjunction with the application for Admission, save under the terms of the Placing and Open Offer.
- (d) As at 9 March 1998 (the latest practicable date before the publication of this document), options over 686,200 Ordinary Shares were outstanding under the terms of the Share Option Schemes.

These options, granted either for nil or for nominal consideration, are held by Directors as set out in paragraph 5(b) below and additionally by other Group employees. All outstanding options (including those as set out in paragraph 5(b) below) can be summarised as follows:

PART V

(i) Executive Scheme

Date of grant	Subscription price (p)	Exercisable (in normal circumstances)		Ordinary Shares under option
		from	to	
27.05.1994	394	27.05.1997	27.05.2004	5,000
23.06.1995	454	23.06.1998	23.06.2005	172,500
02.01.1996	553	02.01.1999	02.01.2006	22,800
03.01.1996	553	03.01.1999	03.01.2006	272,200
11.06.1997	694	11.06.2000	11.06.2007	28,935

(ii) Unapproved Scheme

Date of grant	Subscription price (p)	Exercisable (in normal circumstances)		Ordinary Shares under option
		from	to	
27.05.1994	394	27.05.1997	27.05.2004	10,000
23.06.1995	455	23.06.1998	23.06.2005	10,000
03.01.1996	553	03.01.1999	03.01.2006	30,000
11.06.1997	694	11.06.2000	11.06.2007	121,065

(iii) Approved Scheme

Date of grant	Subscription price (p)	Exercisable (in normal circumstances)		Ordinary Shares under option
		from	to	
30.05.1989	218	30.05.1992	30.05.1999	10,000
13.07.1992	183	13.07.1995	13.07.2002	3,700

- (e) Save as disclosed in paragraphs 2(d) and 5(b) of this Part V and save in connection with the Placing and Open Offer, no share or loan capital of API or any other member of the API Group has been agreed conditionally or unconditionally to be placed under option or has been agreed conditionally or unconditionally to be issued or is now proposed to be issued fully or partly paid either for cash or for a consideration other than cash.
- (f) At the Annual General Meeting, resolutions were passed to, *inter alia*:
- generally authorise the Directors to allot relevant securities up to a maximum nominal amount of £2,284,161, representing 9,136,644 Ordinary Shares, being approximately 32.42 per cent. of the Existing Ordinary Shares (such authority to expire on the earlier of 5 May 1999 and the conclusion of the next annual general meeting of API);
 - generally empower the Directors, until the earlier of 5 May 1999 and the conclusion of the next annual general meeting of API, to allot equity securities for cash other than *pro rata* to existing holders in connection with a rights or similar issue and otherwise up to an aggregate nominal amount of £352,259, representing 1,409,036 Ordinary Shares, being approximately 5 per cent. of the Existing Ordinary Shares.

The Directors intend to utilise this general authority and power described in paragraph 2(f), in accordance with their general authority under the Company's Articles of Association, to allot New Ordinary Shares in connection with the Placing and Open Offer.

- (g) Resolution 2 is to be proposed at the Extraordinary General Meeting which, if it is passed and becomes unconditional and effective, will have the following effect:
- the authorised share capital of the Company will be increased from £9,878,344 to £11,821,292, a percentage increase of 20.8 per cent. in the authorised Ordinary Share capital as at the date of this document, by the creation of 7,771,792 new Ordinary Shares (which will mean that, following the issue of the New Ordinary Shares and on the assumption described in paragraph 2(a) above, 25 per cent. of the Ordinary Share capital will remain authorised but unissued);

- (ii) the Directors will be authorised (such authority to expire at the conclusion of the next annual general meeting of API or, if earlier, on the date that is 15 months following the date of the relevant resolution) to allot relevant securities up to maximum nominal amount of £2,818,072, representing 11,272,288 Ordinary Shares (40 per cent. of the existing issued Ordinary Share capital at the date of this document and 33.3 per cent. of the issued Ordinary Share capital following the issue of the New Ordinary Shares and on the assumption described in paragraph 2(a) above); and
- (iii) the Directors will be empowered (such power to expire as described in the previous paragraph (ii)) to allot equity securities for cash as if section 89(1) of the Act did not apply to such allotment in connection with a rights or similar issue, and otherwise up to a maximum nominal amount of £422,711, representing 1,690,844 Ordinary Shares (6 per cent. of the Existing Ordinary Share capital at the date of this document and approximately 5 per cent. of the issued Ordinary Share capital following the issue of the New Ordinary Shares and on the assumption described in paragraph 2(a) above).
- (h) The provisions of section 89 of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in section 94 of the Act) which are, or are to be, paid up in cash) will apply to the authorised but unissued share capital of API to the extent that such rights are not disapplied by the resolutions referred to in paragraph 2(f) or 2(g) above or otherwise pursuant to the provisions of section 95 of the Act.
- (i) Following the issue of the New Ordinary Shares and on the assumption described in paragraph 2(a) above and that Resolution 2 is passed and becomes effective, 11,272,290 Ordinary Shares will be authorised but unissued, of which up to 686,200 may be issued under existing options granted under the Share Option Schemes. Other than in connection with the Placing and Open Offer, or upon the exercise of options under the Share Option Schemes, there is no present intention to issue any of the authorised but unissued share capital of API.

3. Subsidiary companies

API is the ultimate holding company of the API Group. The principal trading subsidiaries and associated companies of API will, following completion of the Acquisition, be as follows:

Name	Principal activity	Registered Office	Percentage of share capital held (%)
API Coatings Limited	Manufacture of coated film	Gloucester Road Cheltenham GL51 8NH	100
Data-Label Limited	Supply of labelling systems	Silk House Park Green Macclesfield Cheshire SK11 7NU	100
Dri-Print Foils, Inc	Manufacture and supply of hot stamping foil	PO Box 1251D 329 New Brunswick Avenue, Rahway New Jersey 07065, USA	100
Henry & Leigh Slater Limited	Manufacture and supply of metallised laminated board and metallised paper	Second Avenue Poynton Industrial Estate Poynton, Stockport Cheshire SK12 1ND	100

Name	Principal activity	Registered Office	Percentage of share capital held (%)
Learoyd Group Limited	Manufacture and supply of niche packaging products, flexible film products and precision injection moulding	Heasandford Mill Netherwood Road Burnley Lancashire BB10 2EJ	100
Learoyd Packaging (USA) Inc.	Supply of security bags and other tamper-evident products	1409 Peachtree Street Fulton County, Atlanta, Georgia 30309 USA	100
Leonard Stace Limited	Manufacture and supply of silicone and anti-corrosive coatings	Gloucester Road Cheltenham GL51 8NH	100
Peerless Foils Limited	Manufacture and supply of hot stamping foil and thermal transfer ribbon	Hillcroft Road London Industrial Park Beckton London E6 4LW	100
Tenza Limited	Manufacture and supply of converted film, paper products and office consumables	Carlton Park Industrial Estate Saxmundham Suffolk IP17 2NL	100
Whiley Foils Limited	Manufacture and supply of hot stamping foil	Silk House Park Green Macclesfield Cheshire SK11 7NU	100
API Universal Foils Limited ¹	Manufacture and supply of hot stamping foil	Silk House Park Green Macclesfield Cheshire SK11 7NU	100
API Universal Foils Inc. ¹	Manufacture and supply of hot stamping foil	Corporation Trust Center 1209 Orange Street Wilmington Delaware 19801 USA	100
Astor Universal SA ²	Distribution of hot stamping foil	15-17 Rue Auguste Perret 94800 Villejuif France	100

¹ API Universal Foils Limited and API Universal Foils Inc. are newly incorporated subsidiaries of API Group plc and will be the purchasers under the Acquisition.

² To be acquired as part of the Acquisition.

4. Rights attaching to Ordinary Shares and Preference Shares

The Articles of Association of the Company contain provisions, *inter alia*, to the effect summarised in sub-paragraphs (a) to (g) inclusive below. In this paragraph 4 references to Directors are to directors of API for the time being.

(a) Voting rights

Subject to the restrictions described in paragraph (d) below, every holder of Ordinary Shares or Preference Shares present in person shall upon a show of hands have one vote and every holder of Ordinary Shares or Preference Shares present in person at a meeting of shareholders or by proxy shall upon a poll have one vote for every such share of which he is the holder.

(b) *Dividends and distributions*

- (i) The Preference Shares confer on the holders thereof the right to receive in priority to all other shares out of the profits of API which it shall be determined to distribute a cumulative preferential dividend at the rate of 3.85 per cent. per annum on the capital for the time being paid up thereon, but shall not confer any further right to participate in the profits of API. This dividend is paid half-yearly, on 31 March and 30 September, in any relevant year. Subject to these rights attaching to the Preference Shares, API's profits available for distribution and resolved to be distributed may be applied in the payment of dividends to holders of Ordinary Shares.
- (ii) Unless the rights or privileges attached to any shares otherwise provide, all dividends shall be declared and paid according to the amounts paid up on the shares (otherwise than in advance of calls) and shall be apportioned and paid *pro rata* (as nearly as may be) according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid, but, if any share is issued on terms providing that it shall rank for dividend as from a particular date, such share shall rank for dividend accordingly. API in general meeting may sanction or declare dividends, but no larger dividend shall be sanctioned or declared than is recommended by the Directors. The Directors may from time to time, if they think fit, and if in their opinion the position of API justifies such payment, pay interim dividends.
- (iii) On a return of assets whether in a winding up or a reduction of capital or otherwise in priority to all other shares, the Preference Shares confer on the holders thereof the right to a return of the nominal amount of the capital paid up thereon together with:
 - (aa) a premium in respect of each Preference Share equal to the amount by which the average of the respective means of the daily nominal quotation of the said Preference Shares on the Official List during the six months preceding the date of the notice of the meeting at which the resolution for such winding up or reduction of capital is passed exceeds the nominal amount paid up on such shares (such average to be calculated and certified by API's auditors for the time being); and
 - (bb) the payment of all arrears and accruals of the cumulative preferential dividends calculated in the case of a winding up to the date of the commencement of the winding up (and whether earned or declared or not) and in any other case to the date of repayment of capital.

In the event of a repayment of capital involving the payment of a part only of the amount paid up on the Preference Shares, a part only of the premium described above proportionate to the amount of capital to be repaid on each of such Preference Shares shall become payable.

The Preference Shares confer no further right to participate in API's profits or assets save as described in this paragraph (b)(iii) and paragraph (b)(i) above.

- (iv) Any unclaimed dividend may in the absolute discretion of the Directors be invested or otherwise made use of by the Directors for the benefit of API until claimed. Any dividend unclaimed for a period of 12 years after having been declared or becoming due for payment shall, if so resolved by the Directors, be forfeited and shall revert to API. No such unclaimed dividend shall bear interest as against API.

(c) *On a winding up*

- (i) On a winding-up, the Preference Shares carry the preferential rights described in paragraph (b)(iii) above. Subject to these rights, the balance of assets available for distribution will fall to be applied in repaying to the holders of Ordinary Shares the amount paid-up thereon and any surplus assets will fall to be distributed to the holders of Ordinary Shares *pari passu*.
- (ii) On a winding up, the liquidator may, with the sanction of a special resolution, and any other sanction required by the Act, divide among the members in kind the whole or any part of the assets of API (whether they shall consist of property of the same kind or not) and may, for such purpose, set such values as he deems fair upon any property to be divided and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with similar sanction, vest the whole or any part of the assets of API in trustees upon such trusts for the benefit of the members as the liquidator, with similar sanction, shall think fit, and if thought expedient any such division may be otherwise than in accordance with the legal rights of the members of API, and in particular any

class may be given preferential or special rights, or may be excluded altogether or in part, but in case any division, otherwise than in accordance with the legal rights of members, shall be determined on, any member who would be prejudiced thereby shall have a right to dissent and ancillary rights, as if such determination were by special resolution passed pursuant to section 110 of the Insolvency Act 1986.

(d) *Restriction on voting and dividends*

- (i) Unless the Directors otherwise determine, no person holding any share shall be entitled to be present or vote or receive any dividend or exercise any privilege as a member in respect of any shares held by him until he shall have paid all calls for the time being due and payable on every share held by him whether alone or jointly with any other person, together with interest and expenses (if any).
- (ii) Where a member, or any other person appearing to be interested in shares held by that member, has been issued with a notice pursuant to section 212 of the Act and has failed in relation to any shares ("default shares", which expression includes any shares issued after the date of the notice in respect of those shares) to give the Company the required information within 14 days from service of the notice, the following sanctions shall apply unless the Directors otherwise determine:
 - (aa) the member shall not be entitled in respect of the default shares to be present or to vote (whether in person or by representative or proxy) at any general meeting or any separate meeting of the holders of any class of shares or on any poll to exercise any other right conferred by membership in relation to any such meeting or poll; and
 - (bb) where the default shares represent at least 0.25 per cent. in nominal value of the issued shares of their class:
 - (A) any dividend or other money payable in respect of the shares shall be withheld by the Company (which shall not have any obligation to pay interest on it) and the member shall not be entitled to elect to receive shares in lieu of that dividend; and
 - (B) no transfer, other than an excepted transfer (as defined below), of any of the shares shall be registered unless the member is not himself in default as regards supplying the required information and the member proves to the satisfaction of the Directors that no person who is so in default is interested in any of the shares the subject of the transfer.

(An "excepted transfer" means: one by way of, or pursuant to, the acceptance of a takeover offer for the Company; one in consequence of a sale through a recognised investment exchange (which includes the Official List of the London Stock Exchange) or any other exchange outside the UK on which the Company's shares are normally traded; or a transfer which is shown to the Directors' satisfaction to be made in consequence of a sale of the whole of the beneficial interest in the relevant shares to a person who is unconnected with the member and with any other person appearing to be interested in the shares).

The sanctions described in sub-paragraphs (aa) and (bb) above cease to have effect (and any dividends withheld become payable):

- (aa) if the shares are transferred by means of an excepted transfer, but only in respect of the shares transferred; or
- (bb) at the end of seven days (or such shorter period as the Directors may determine), following receipt by the Company of the required information and the Directors being satisfied of this.

(e) *Variation of class rights and alteration of capital*

- (i) Subject to the provisions of the Act, the rights, privileges or conditions for the time being attached to any class of shares may be affected, modified, dealt with or abrogated with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting, the provisions of the Articles relating to general meetings shall apply *mutatis mutandis* but the necessary quorum at any such meeting shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the relevant class and each holder of shares of the relevant class present, in person or by proxy, may demand

a poll and on a poll shall have one vote for each such share held by him and, at an adjourned meeting, the quorum shall be one person personally present or his proxy holding shares of that class. The rights attached to any class of shares shall not, unless expressly provided by the terms of the issue thereof, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith or subsequent thereto.

- (ii) Any share may be allotted with such preferred, deferred, qualified or other special rights or such restrictions as API by ordinary resolution at the time of creation of such shares, or in default the Directors, may determine provided that no new shares entitled to rank *pari passu* with or to any preference over the Preference Shares shall be issued without the sanction of an extraordinary resolution passed at a separate meeting of the holders of the Preference Shares.
- (iii) API may from time to time by ordinary resolution increase its capital into shares of larger or smaller amounts and cancel any shares not taken or agreed to be taken by any person and diminish the amount of its share capital by the nominal value of the shares so cancelled.
- (iv) Subject to such sanction of the Court as may be required by the Act, API may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way.
- (v) API may at any time and from time to time exercise any powers conferred by the Act of purchasing its own shares subject to such consent or sanction on the part of the holders of any class of shares in the capital of API convertible into Ordinary Shares for the time being in issue as would be required for a variation of the special rights attached to such shares.

(f) Transfer of shares

On 29 April 1996 the Company resolved by resolutions of the Directors that title to both the Ordinary Shares and to the Preference Shares, in issue or to be issued, may be transferred by means of a "relevant system" (as defined in the Uncertificated Securities Regulations 1995 ("the Regulations")) and these resolutions became effective immediately prior to CRESTCo Limited granting permission for such shares to be transferred by means of the CREST system. The effect of those resolutions has been to disapply, in relation to the Ordinary Shares and Preference Shares, those provisions of the Articles of Association of the Company for the time being which are inconsistent with the holding or transfer of those shares in CREST and any provisions of the Regulations. However, the Company's Articles of Association now provide specifically for the transfer of uncertificated shares and subject thereto the following is a summary of the provisions relating to transfer of shares:

- (i) The instrument of transfer of a share shall be executed by or on behalf of the transferor (and, in the case of a partly paid share, by the transferee) and the transferor shall remain the holder of the share until the name of the transferee is entered in the register in respect thereof. All transfers must be in writing in any usual or common form or such other form as the Directors may from time to time approve.
- (ii) The Directors may, in their absolute discretion and without assigning any reason therefor, refuse to register:
 - (aa) the transfer of any share (not being a fully paid share) to any person whom they shall not approve as transferee although this cannot be so where the partly paid shares are listed on the London Stock Exchange and refusal would prevent dealings in the shares taking place on an open and proper basis; and
 - (bb) the transfer of any share on which API has a lien;
- (iii) The Directors may decline to register a transfer unless:
 - (aa) the instrument of transfer in an approved form, duly completed and stamped is lodged at the place where the register of members is for the time being kept;
 - (bb) the instrument of transfer is in respect of only one class of shares; and
 - (cc) the instrument of transfer is in favour of not more than four persons as the transferee.

(g) Non-United Kingdom shareholders

There are no limitations in the Memorandum of Association or the Articles on the rights of non-United Kingdom shareholders to hold or exercise voting rights attached to Ordinary Shares. However, non-United Kingdom shareholders are not entitled to receive notices of general meetings or class meetings unless they have given an address in the United Kingdom to API at which such notices may be served.

5. Directors' and other interests

- (a) As at 9 March 1998, the latest practicable date before the publication of this document, the interests of the Directors, their immediate families and related trusts, all of which are beneficial (unless otherwise stated) in the Ordinary Share capital of the Company which have been notified to the Company pursuant to sections 324 or 328 of the Act or which are required to be entered in the register of directors' interests maintained under the provisions of section 325 of the Act and (so far as are known to the Directors or could with reasonable diligence be ascertained by the Directors having made appropriate enquiries) persons connected with the Directors (within the meaning of section 346 of the Act), were as follows:

Name of Director	Existing Ordinary Shares	Percentage of issued Ordinary Share capital before Admission	Percentage of issued Ordinary Share capital after Admission
		%	%
J M Woolley	40,000	0.14	0.12
M J Smith	27,000	0.10	0.08
D J Holt	21,000	0.07	0.06
J N Sheldrick	12,857	0.05	0.04

The above figures do not take into account any New Ordinary Shares which the Directors may elect to take up pursuant to the Open Offer.

- (b) As at 9 March 1998, the latest practicable date prior to the publication of this document, the Directors have been granted outstanding options over Ordinary Shares as follows under the Share Option Schemes:-

Name of Director	Ordinary Shares	Exercise Price	Earliest Exercise
		(p)	Date*
M J Smith	40,000	454	23 June 1998
	60,000	553	3 January 1999
	30,000	694	11 June 2000
D J Holt	20,000	454	23 June 1998
	25,000	553	3 January 1999
	15,000	694	11 June 2000

*The exercise period in respect of options granted under each of the Share Option Schemes is seven years from the earliest exercise date as shown above.

PART V

- (c) As at 9 March 1998, the latest practicable date before the publication of this document, the Company has been notified under section 198 of the Act or the Directors were otherwise aware of the following persons (not being Directors) who are interested in 3 per cent. or more of the Existing Ordinary Shares and the existing issued Preference Shares respectively:

Name	Existing Ordinary Shares	Percentage of issued Ordinary Share capital before Admission %	Percentage of issued Ordinary Share capital after Admission %
Lloyds TSB Group plc	3,435,131	12.20	10.16
M8-G Group plc	2,885,707	10.24	8.53
Standard Life Assurance Company and subsidiaries	2,747,621	9.75	8.12
Edinburgh Fund Managers plc	1,786,658	6.34	5.28
Framlington Investment Management Limited	1,679,571	5.96	4.97
Prudential Corporation plc	1,552,758	5.51	4.59
AXA Sun Life Holdings plc and subsidiaries	1,448,489	5.14	4.28
General Accident plc	1,265,314	4.49	3.74
Norwich Union Life Assurance Society	986,326	3.50	2.92

The above figures do not take into account any New Ordinary Shares which may be taken up pursuant to the Open Offer.

Name	Preference Shares	Percentage of issued Preference Share Capital %
Jove Investment Trust plc	190,000	34.61
The Investment Company plc	123,950	22.58
Aboyne-Clyde Rubber Estates of Ceylon plc	50,470	9.19
Danae Investment Trust plc	50,000	9.10

- (d) The Directors are not aware of any persons who, directly or indirectly, jointly or severally, exercise or could exercise, control over API.
- (e) No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and was effected by API or any of its subsidiaries during the current or immediately preceding financial year or during any earlier financial year and which remains outstanding and unperformed.
- (f) There are no loans or guarantees granted or provided by API or any of its subsidiaries to or for the benefit of any of the Directors which are outstanding.

6. Directors' service agreements and remuneration

- (a) No contract of service between the Company or any of its subsidiaries and any Director has been entered into or varied since 5 February 1998 (the most recent date on which the service contracts of the Directors were made available for inspection) and there will be no change to such service contracts as a result of the Proposals. The Directors' service contracts are available for inspection as set out in paragraph 17 below.
- (b) The aggregate remuneration and benefits in kind (including salaries, fees, pension contributions) paid or granted by any member of the Group to the Directors was £494,000 in the year ended 4 October 1997. The total emoluments receivable by the Directors will not be varied as a result of the Proposals.
- (c) There is no arrangement under which any Director has waived or agreed to waive future emoluments, nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.

7. Material contracts

- (a) The following contracts, not being contracts entered into in the ordinary course of business, and not being contracts which have been made available for inspection in the last two years (which contracts are summarised in the circular to shareholders dated 23 May 1996 and are available for inspection as specified in paragraph 17 below), have been entered into by the Company and its subsidiary undertakings within the two years preceding the publication of this document and are or may be material:
- (i) the Acquisition Agreement described in paragraph 8 below; and
 - (ii) the Placing Agreement described in paragraph 9 below.
- (b) Neither Astor Universal nor any of its subsidiaries has entered into any contracts (not being contracts entered into in the ordinary course of business) during the two years immediately preceding this document and which are or may be material.

8. Acquisition Agreement

On 10 March 1998 API Universal Foils Limited and API Universal Foils Inc., wholly owned subsidiaries of API Group plc, ("the Purchasers") pursuant to a letter of offer, made offers to Astor Universal and Astor Universal Limited ("the Vendors") to effect the Acquisition which have been accepted as required by that letter. Accordingly, a contract for the Acquisition ("the Acquisition Agreement") has been constituted on the terms and subject to the conditions set out in the offer letter under which the Purchasers have agreed to purchase and the Vendors have agreed to sell the Astor Universal Group, comprising the business, assets and liabilities (with certain limited exceptions) of the Vendors and the issued shares in Astor Universal S.A., Astor Universal's French subsidiary. The liabilities not to be assumed by the Purchasers include tax liabilities of the Vendors, liabilities of members of the Astor Universal Group Companies in respect of third party claims for breach of contract, product liability or on other grounds relating to acts, events, or omissions occurring before the close of business on 27 February 1998 ("Effective Time"), intra-group loan notes and balances with Markem Corporation and liabilities for environmental claims. The assets not to be acquired include a property owned previously by a Director of Astor Universal Limited, the shares held by the Vendors in Markem Pty Limited, Astor Universal's direct Australian subsidiary which itself holds the entire issued share capital of Foilmakers Manufacturing Company Pty Limited, Astor Universal's Australian trading subsidiary.

Completion of the Acquisition Agreement, is conditional, *inter alia*, upon:

- (a) the passing of Resolution 1 set out in the notice of EGM at the end of this document;
- (b) the Placing Agreement becoming unconditional (subject only to Admission taking place) and not having been terminated in accordance with its terms;
- (c) there having been made, obtained or given (as appropriate) all necessary consents, approvals, actions, filings and notices pursuant to the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, the same being in full force and unconditional, and all relevant related waiting periods having expired or been terminated;
- (d) the Secretary of State having confirmed that there will be no merger reference to the Monopolies and Mergers Commission under section 75 of the Fair Trading Act 1973 in respect of the Acquisition; and
- (e) Admission taking place.

The consideration in connection with the Acquisition (including for the grant of the option in respect of the Salford premises as described below) will be the payment by API at Completion of approximately \$49.8 million (£30.4 million) in cash, subject to adjustment by reference to the adjusted net asset value of the Astor Universal Group as at the Effective Time and its profits before tax for the three months ending 31 March 1998. In addition, API will assume, with certain exceptions including those described above, the liabilities of the Astor Universal Group as at that time, including approximately \$7.0 million (£4.3 million) outstanding under a finance lease and is to pay approximately \$2.2 million (£1.3 million) towards the discharge of certain liabilities of the Vendors, principally relating to tax. If the relevant net asset value at the Effective Date (ignoring for this purpose the profits of the Astor Universal Group since 31 December 1997) falls short of the equivalent net asset value at 31 December 1997 by more than \$100,000, API will receive a cash repayment equal to the amount by which the shortfall exceeds \$100,000. If the relevant profits before tax for the three months ending

31 March 1998 exceed \$750,000 or fall short of \$550,000, the consideration will be increased or reduced as the case may be by the amount of the excess or the amount of the shortfall respectively (subject in each case to a maximum of \$300,000). API is to purchase the business of the Astor Universal Group with effect from the Effective Time.

API is not acquiring as part of the Acquisition the freehold of the Astor Universal Group's premises at Salford, England or Charlotte, North Carolina, USA. The Salford premises will be occupied under a three year lease with API being granted, in return for part of the consideration referred to above, an option to acquire the freehold, exercisable within a three year period for a nominal sum. The Charlotte premises will be occupied under a two year lease, subject to termination on three months' notice by API with API being granted an option to acquire the freehold for \$629,000, exercisable before the date the lease terminates or, if sooner, the date that is 12 months following Completion.

The Acquisition Agreement includes warranties and indemnities given by the Vendors to the Purchasers relating to the businesses, assets and liabilities of the Astor Universal Group. The Vendors have also given certain undertakings relating to the management and operation of those businesses until Completion and relating to the running and future ownership of Markem Pty Limited and Foilmakers Manufacturing Company Pty Limited following Completion. API has guaranteed the obligations and liabilities of the Purchasers, and Markem Corporation has guaranteed the obligations and liabilities of the Vendors, under the Acquisition Agreement and related documents.

The Vendors have agreed certain covenants regarding not competing with the Astor Universal Group's business for three years from Completion.

9. Placing Agreement

By a placing and open offer agreement dated 10 March 1998 and made between the Company (1) and Credit Lyonnais Laing (2) ("the Placing Agreement"), Credit Lyonnais Laing has conditionally agreed, as agent for the Company, to make the Open Offer and to use reasonable endeavours to procure subscribers, and failing which itself to subscribe as principal, at the Issue Price, for those New Ordinary Shares for which valid applications are not received under the Open Offer.

The obligations of Credit Lyonnais Laing under the Placing Agreement are conditional on, *inter alia*:

- (a) Resolution 1 set out in the notice of Extraordinary General Meeting having been passed;
- (b) the Acquisition Agreement having become unconditional and been performed in all respects other than as to settlement of the consideration due thereunder and obligations to be performed after Completion and subject to Admission taking place; and
- (c) Admission taking place.

Credit Lyonnais Laing reserves the right to agree with the Company to extend the time for satisfaction of any of the conditions (being not later than 9.00 a.m. on 23 April 1998).

The Company will pay Credit Lyonnais Laing a commission of 1.25 per cent. on the aggregate value at the Issue Price of the New Ordinary Shares in respect of the first thirty days of commitment under the Placing Agreement, and a further commission of 0.125 per cent. on such aggregate value for each additional seven days of commitment or part thereof (if any) up to and including the date immediately before the day on which the Placing Agreement becomes unconditional in all respects or, if earlier, the date upon which the obligations of Credit Lyonnais Laing under the Placing Agreement are terminated. If the Placing Agreement becomes unconditional in all respects, the Company will pay Credit Lyonnais Laing an additional commission of 0.75 per cent. on such aggregate value. Out of the amounts received by it Credit Lyonnais will pay commissions that may be payable to placees. In addition the Company will pay Credit Lyonnais Laing a fee. Value added tax will, where appropriate, be paid on such commissions and fee.

The Company will pay all other costs, charges and expenses for, or incidental to, the Placing and Open Offer, including all advertising expenses, postage and professional costs and the reasonable expenses of Credit Lyonnais Laing, including its legal fees.

The Placing Agreement contains certain warranties and indemnities given by the Company to Credit Lyonnais Laing relating to, *inter alia*, the accuracy of this document and the affairs of the Group. Credit Lyonnais Laing is entitled to terminate the Placing Agreement in certain specified circumstances prior to Admission taking place, principally in the event of a material breach of the Placing Agreement or any of the warranties contained in it or in the event of a material breach of any of the warranties under the Acquisition Agreement.

10. Litigation

- (a) No member of the Group is or has been engaged in any legal or arbitration proceedings which may have or have had during the 12 months preceding the date of this document a significant effect on the Group's financial position nor, so far as the Directors are aware, are any such proceedings pending or threatened.
- (b) No member of the Astor Universal Group is or has been engaged in any legal or arbitration proceedings which may have or have had during the 12 months preceding the date of this document a significant effect on the Astor Universal Group's financial position nor, so far as the Directors are aware, are any such proceedings pending or threatened.

11. Working Capital

API is of the opinion that, taking into account existing bank and other facilities and the estimated net proceeds receivable by the Company under the Placing and Open Offer, the Enlarged Group has sufficient working capital for its present requirements.

12. Indebtedness

At the close of business on 30 January 1998, the Enlarged Group had total outstanding borrowings or indebtedness in the nature of borrowings as follows:

	API Group £000	Astor Universal Group £000	Enlarged Group £000
Overdraft (secured)	—	(489)	(489)
Overdraft (unsecured)	(9)	(7)	(16)
Hire purchase and finance leases	(237)	(4,380)	(4,617)
	(246)	(4,876)	(5,122)

Save as aforesaid, and apart from intra-group liabilities, the Enlarged Group as at the close of business on 30 January 1998, had no loan capital outstanding or created but unissued, term loans, any other borrowings or indebtedness in the nature of borrowing (whether guaranteed, unguaranteed, secured or unsecured and including bank overdrafts, liabilities under acceptances (other than normal trade bills), or acceptance credits, hire purchase or finance lease commitments) or guarantees or other contingent liabilities.

At the close of business on 30 January 1998, the Enlarged Group had cash balances of £6,903,000.

13. United Kingdom Taxation

The following paragraphs, which are intended as a general guide only and are based on legislation in force on the date of this document and current Inland Revenue practice, summarise the position of Shareholders who (unless the position of non-UK resident Shareholders is expressly referred to) are resident or ordinarily resident in the UK for tax purposes and who hold their Ordinary Shares as an investment.

Any person who is in any doubt as to his position or who is resident or otherwise is subject to tax in a jurisdiction other than the UK should consult an appropriate professional adviser.

(a) Dividends

Under current UK legislation, no tax will be withheld from any dividend paid by the Company. However, the Company will have to account to the Inland Revenue for advance corporation tax ("ACT") in respect of dividends it pays. The rate of ACT is currently one quarter of the dividend paid.

An individual Shareholder who is resident for UK tax purposes in the UK is entitled to a tax credit equivalent to 25 per cent. of the dividend. Such Shareholder will generally be liable to income tax on the aggregate sum of the dividend and the tax credit (the aggregate of the dividend and the associated tax credit being referred to as "the grossed-up amount of the dividend"). The tax credit will discharge the income tax liability of a lower rate tax payer and the liability of a basic rate tax payer but a higher rate tax payer will have a tax liability of an extra 20 per cent. of the grossed-up amount of the dividend. To the extent that the tax credit exceeds his overall liability to income tax (taking into account any other tax credits and allowances) an individual Shareholder who is resident in the UK for UK tax purposes will be able to claim payment of the excess from the Inland Revenue. UK resident trustees of discretionary trusts liable to account for income tax at the rate of 34 per cent. on trust income may also be required to account for additional tax.

Pension providers and most UK corporate shareholders (including authorised unit trusts and open ended investment companies) are no longer entitled to repayment of the tax credit attaching to dividends from UK companies.

A UK resident corporate Shareholder (other than certain insurance companies) will not normally be liable to UK corporation tax on any dividend received and the grossed-up amount of the dividend will represent franked investment income in the hands of such a Shareholder.

In the pre-Budget report of 25 November 1997 the Chancellor of the Exchequer announced proposals to abolish ACT with effect from 6 April 1999. It is intended that from that date the tax credit regime for Shareholders will be as follows:

With effect from 6 April 1999, the tax credit regime will change for individual Shareholders. The rate of tax credits will change to 10 per cent. of the grossed-up amount of the dividend and tax credits will no longer be repayable to an individual Shareholder where the tax credit exceeds his overall liability to income tax.

After 5 April 1999, an individual Shareholder whose income is within the lower or basic rate band will be liable to tax at 10 per cent. on his dividend income. The effect of this is that tax credits attaching to a dividend will continue to satisfy an individual's income tax liability on UK dividends. An individual Shareholder liable to higher rate tax after 5 April 1999 (currently 40 per cent.) will have a liability to income tax of 32.5 per cent. of the grossed-up amount of the dividend. The effect of this, for most higher rate tax payers, should be to put them in the same after tax position as under the current regime.

Special provisions apply to individuals who are not resident in the UK for UK tax purposes but who are Commonwealth citizens, nationals of states in the European Economic Area, residents of the Isle of Man or the Channel Islands or who fall within certain other classes, which entitle them to a tax credit which may be set off against their total UK income tax liability, or claimed in cash, to the same extent as if they were resident in the UK. Otherwise, the right of a Shareholder who is not resident for tax purposes in the UK to claim any part of the tax credit will generally depend upon the existence and terms of any double tax treaty between the UK and the jurisdiction in which that person is resident.

The proposed reduction in the UK tax credit regime for an individual Shareholder with effect from 6 April 1999 (see above) may eliminate or restrict a Shareholder's entitlement to reclaim payments from the Inland Revenue under the appropriate double taxation treaty in respect of dividends paid on or after 6 April 1999. Any such Shareholder should consult his tax adviser as to whether or not he is entitled to reclaim any part of the tax credit, the procedure for claiming payment and what relief or credit may be available in the jurisdiction in which he is resident for tax purposes.

Non-UK Shareholders may be subject to foreign taxation on dividend income in their country of residence. Persons who are not resident in the UK should consult their own tax advisers concerning their tax liabilities (in the UK and any other jurisdiction) on dividends received, whether they are entitled to claim any part of the tax credit and, if so, the procedure for doing so, and whether any double taxation relief is due in any jurisdiction in which they are subject to tax.

This summary assumes that the Company does not pay dividends as foreign income dividends ("FIDs"). The tax treatment of a FID is different from that outlined above. The Company has no present intention of electing to pay dividends as FIDs. This summary also assumes that dividends paid by the Company will not be subject to the special treatment which will apply to certain distributions in consequence of legislation included in Schedule 7 to the Finance Act 1997.

(b) Capital gains tax, stamp duty and stamp duty reserve tax

The Company has been advised as follows:

- (i) It is considered likely that the acquisition by Qualifying Shareholders of New Ordinary Shares pursuant to the Open Offer will in practice be treated as a reorganisation of the share capital of the Company for the purposes of UK capital gains tax. On that basis, any New Ordinary Shares taken up by Qualifying Shareholders under the Open Offer will be treated as if they had been acquired at the same time as the Existing Ordinary Shares. For the purposes of the indexation allowance, the expenditure incurred on taking up the New Ordinary Shares will be treated as having been incurred at the time the amounts in respect of the New Ordinary Shares are paid. The amount subscribed for the New Ordinary Shares will be added to the base cost of the Existing Ordinary Shares to which they relate.
- (ii) No stamp duty or stamp duty reserve tax ("SDRT") will be payable on the issue of the New Ordinary Shares pursuant to the Open Offer.
- (iii) The transfer on sale of the New Ordinary Shares will generally be subject to ad valorem stamp duty which is normally payable at the rate of 50 pence for each £100 or part thereof of the consideration paid. A charge of SDRT at the rate generally of 0.5 per cent. of the consideration paid will arise on an agreement to transfer becoming unconditional. However, where, an instrument of transfer is executed pursuant to the agreement within six years of the date of the agreement, and stamp duty is paid on that instrument, any liability to SDRT will be cancelled or repaid. A transfer of shares effected on a paperless basis through CREST will generally be subject to SDRT at the rate of 0.5 per cent. of the value of the consideration.
- (iv) Special rules apply to market makers, broker dealers, persons issuing depository receipts or providing clearance services (or their nominees or agents) and certain other persons.

The above comments are intended as a general guide only and may not apply to certain classes of Shareholders such as dealers. Any Shareholder who is in doubt as to his tax position or who may be subject to tax in any jurisdiction other than the UK should consult an appropriate professional adviser without delay. The Chancellor of the Exchequer intends to make a budget speech on 17 March 1998. The above comments take no account of any changes which may be announced in that Budget.

14. Market Quotations

The following table shows the closing middle market quotation for Ordinary Shares, as derived from the London Stock Exchange Daily Official List, on the first dealing day of each of the last six months and on 9 March 1998 (the latest practicable date prior to the publication of this document):

	p
1 October 1997	630
3 November 1997	600
1 December 1997	595
2 January 1998	580
2 February 1998	520
2 March 1998	600
9 March 1998	607.5

15. Consents

- (a) Ernst & Young have given and not withdrawn their written consent to the issue of this document with the inclusion herein of their report in Part III and letter in Part IV of this document and references thereto in the form and context in which they are respectively included and have authorised the contents of their report in Part III and letter in Part IV of this document for the purposes of section 152(1)(e) of the Financial Services Act 1986.

PART V

- (b) Credit Lyonnais Laing has given and not withdrawn its written consent to the issue of this document with the inclusion herein of its name and letter in Part II of this document and references to its name and letter in the form and context in which they are respectively included and has authorised the contents of its letter in Part II of this document for the purposes of section 152(1)(e) of the Financial Services Act 1986.

16. General

- (a) There has been no significant change in the trading or financial position of the API Group since 4 October 1997, the latest date to which audited accounts have been prepared.
- (b) There has been no significant change in the trading or financial position of the Astor Universal Group since 31 December 1997, the latest date to which audited accounts have been prepared.
- (c) The costs and expenses of the Proposals, including the application for the New Ordinary Shares to be admitted to the Official List, are payable by the Company and are estimated to amount to approximately £2.3 million, exclusive of value added tax. Of this sum approximately £0.64 million is payable to financial intermediaries.
- (d) The Placing and Open Offer has been fully underwritten by Credit Lyonnais Laing, a trading name of Credit Lyonnais Securities, which is registered in England and Wales with number 1008262 and has its registered office at Broadwalk House, 5 Appold Street, London EC2A 2DA.
- (e) The auditors of the Company for the last three financial years were Ernst & Young, Chartered Accountants, 100 Barbirolli Square, Manchester M2 3EY. Statutory accounts for the three financial years ended 4 October 1997 have been delivered to the Registrar of Companies and were reported on by Ernst & Young without qualification.
- (f) The registrars of the Company and receiving agents for the Placing and Open Offer are IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
- (g) The Issue Price represents a premium of 540p over the nominal value of 25p for each New Ordinary Share.

17. Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Norton Rose, Kempson House, Camomile Street, London EC3A 7AN and at the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this document until the close of business at the Extraordinary General Meeting:

- (i) the Memorandum of Association of the Company;
- (ii) the Articles of Association of the Company;
- (iii) the audited consolidated accounts of the API Group for the two years ended 4 October 1997;
- (iv) the Accountants' report set out in Part III of this document together with the statement of adjustments relating thereto;
- (v) the letter by Ernst & Young relating to the pro forma statement of consolidated net assets set out in Part IV of this document;
- (vi) the rules of the Share Option Schemes;
- (vii) the letter of offer referred to in paragraph 8 above and the Placing Agreement referred to in Paragraph 9 above together with the other material contracts which have been made available for inspection in the last two years;
- (viii) the contracts of service referred to in paragraph 6 above;
- (ix) the written consents referred to in paragraph 15 above;
- (x) the circular to API Shareholders dated 23 May 1996; and
- (xi) this document and the Application Form.

Dated: 10 March 1998 ➤

NOTICE OF EXTRAORDINARY GENERAL MEETING

API GROUP plc

(Registered in England and Wales with number 169249)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of API Group plc will be held at the offices of Credit Lyonnais Laing, Broadwalk House, 5 Appold Street, London EC2A 2DA at 11.00 a.m on 2 April 1998 for the purpose of considering and, if thought fit, passing the following resolutions of which resolution 1 will be proposed as an ordinary resolution and resolution 2 will be proposed as a special resolution:

ORDINARY RESOLUTION

1. THAT the acquisition by subsidiaries of the Company of the business, assets and liabilities, with certain exceptions, of Astor Universal Corporation and Astor Universal Limited and the issued shares in Astor Universal SA ("the Acquisition") on the terms and subject to the conditions of the Acquisition Agreement as defined and referred to in the circular to shareholders of the Company comprising a prospectus relating to the Company dated 10 March 1998 ("the Prospectus") (a copy of the letter of offer setting out such terms and conditions as referred to in Part V of the Prospectus being produced to the meeting and signed by the Chairman of the meeting for the purposes of identification) be and is hereby approved and the Directors be and are hereby authorised to complete the same and to make such variations and amendments to the terms and conditions relating to the Acquisition Agreement as the Directors may approve and consider not to be material in the context of the Acquisition and take all steps they consider necessary or desirable to effect or facilitate the Acquisition.

SPECIAL RESOLUTION

2. THAT, subject to and conditionally upon the New Ordinary Shares as defined in the Prospectus (as defined in the resolution numbered 1 set out in the notice of extraordinary general meeting of which this resolution numbered 2 forms part) being admitted to the Official List of London Stock Exchange Limited ("the London Stock Exchange") and such admission becoming effective by the announcement of the decision of the London Stock Exchange to admit such securities to the Official List ("Effective Admission"):
 - (a) the authorised share capital of the Company be increased from £9,878,344 to £11,821,292 by the creation of 7,771,792 new ordinary shares of 25p in the Company;
 - (b) the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (as defined for the purposes of section 80 of the Companies Act 1985 ("the Act")) up to an aggregate nominal amount of £2,818,072 (this authority from the time of its becoming unconditionally effective to be in substitution for all then existing authorities pursuant to section 80 of the Act but to be without prejudice to any allotment of relevant securities made pursuant to any such existing authority or pursuant to any offer or agreement which would or might require relevant securities to be allotted after such substitution), provided that this authority shall expire at the conclusion

of the next Annual General Meeting of the Company after the passing of this resolution (or, if earlier, on the date that is 15 months following the date of such passing) save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired; and

- (c) the Directors be and are hereby empowered to allot equity securities (as defined for the purposes of section 95 of the Act) for cash pursuant to the authority conferred by paragraph (b) of this resolution as if section 89(1) of the Act did not apply to any such allotment, this power to be in substitution for all then existing powers pursuant to section 95 of the Act (but to be without prejudice to any allotment of equity securities made pursuant to any such existing power or pursuant to any offer or agreement which would or might require equity securities to be allotted after such substitution), provided that this power shall be limited to:

- (i) the allotment of equity securities in connection with a rights issue or other issue in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all holders of ordinary shares are proportionate (as nearly as practicable) to the respective numbers of ordinary shares held or deemed to be held by them, subject only to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory, or by virtue of shares being represented by depositary receipts, the requirements of any regulatory body or stock exchange, or any other matter; and

- (ii) the allotment (otherwise than pursuant to sub-paragraph (i) of this paragraph (c)) of equity securities up to an aggregate nominal amount of £422,711,

and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (or, if earlier, on the date following 15 months after the date of passing of this resolution) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

By Order of the Board

T K Johnston LLB

Secretary

Registered Office:

Silk House

Park Green

Macclesfield

Cheshire

SK11 7NU

10 March 1998

Notes:

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his place. A proxy need not be a member of the Company. A form of proxy is enclosed and, to be valid, it must be lodged at the offices of the Company's registrars, IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU, together with the power of attorney or other authority, if any, under which it is signed (or a notarially certified or office copy of such power or authority) not less than 48 hours before the time fixed for the meeting. The appointment of a proxy does not preclude the appointor from subsequently attending and voting at the meeting.
- (2) Pursuant to Regulation 34 of The Uncertificated Securities Regulations 1995, the Company specifies that only those Shareholders registered in the register of members of the Company as at 6.00 p.m. on 31 March 1998 shall be entitled to attend or vote at the above general meeting in respect of the number of shares registered in their name at the time. Changes to entries on the relevant register of securities after 6.00 p.m. on 31 March 1998 will be disregarded in determining the rights of any person to attend or vote at the meeting.

LISTING PARTICULARS

COMPANY NAME: THE PARAGON GROUP OF PLC
COMPANIES

COMPANY NUMBER: 2336032

DATE OF DOCUMENT: 05 MAR 98

DATE OF RECEIPT: 05 MAR 98