

# SEPARATOR SHEET



169249.

API Group PLC



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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, Canada or Australia.

A copy of this document, which comprises a prospectus relating to API Group plc prepared in accordance with the listing rules made 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. ✓

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 admission of the New Ordinary Shares will become effective and that dealings in the New Ordinary Shares will commence on 21st June 1996.

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## API Group plc ✓

Proposed acquisition of Learoyd Group Limited  
and  
Learoyd Packaging (USA) Inc.

Proposed Placing and Open Offer  
of 6,219,562 New Ordinary Shares  
at 615p per share  
by  
Credit Lyonnais Laing

Interim results to 30th March 1996

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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 17th June 1996. The procedure for acceptance and payment is set out on page 14 of this document and on the accompanying Application Form.

Notice of an extraordinary general meeting of the Company convened for 11.00 a.m. on Monday, 17th June 1996 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 the meeting must be completed and returned to Independent Registrars Group Limited 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 Saturday, 15th June 1996.

## CONTENTS

	<i>Page</i>
Definitions	3
Expected timetable of principal events	4
<b>PART I</b> Letter from the Chairman and Chief Executive	5
Introduction	5
Information on API Group	6
Information on Learoyd Group	6
Reasons for and benefits of the Acquisition and the Placing	7
Principal terms of the Acquisition	8
Interim results, current trading and prospects of API Group	9
Details of the Placing and Open Offer	9
Share Option Schemes	10
Extraordinary General Meeting	10
Action to be taken	11
CREST	11
Further information	11
Recommendation	12
<b>PART II</b> Letter from Credit Lyonnais Laing	13
<b>PART III</b> Financial information on API Group	18
<b>PART IV</b> Interim results of API Group for the period ended 30th March 1996	37
<b>PART V</b> Accountants' report on Learoyd Group	42
<b>PART VI</b> Pro forma unaudited statement of combined net assets of the Enlarged Group	54
<b>PART VII</b> Additional information	55
Notice of Extraordinary General Meeting	76

## DEFINITIONS

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

"Acquisition"	the proposed acquisition by API of Learoyd UK and Learoyd USA pursuant to the Acquisition Agreement
"Acquisition Agreement"	the conditional agreement dated 23rd May 1996, relating to the Acquisition, details of which are set out in paragraph 16 of Part VII of this document
"Act"	the Companies Act 1985
"Admission"	the admission of the New Ordinary Shares to the Official List
"Application Form"	the application form which accompanies this document issued to Qualifying Shareholders in connection with the Open Offer
"Cash Placing Shares"	the 2,967,529 New Ordinary Shares proposed to be issued for cash pursuant to the Placing and Open Offer
"Company" or "API"	API Group plc
"Credit Lyonnais Laing"	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
"Directors" or "Board"	the directors of the Company
"Enlarged Group"	the Group as enlarged by the Acquisition
"Existing Ordinary Shares"	the Ordinary Shares currently in issue
"Extraordinary General Meeting"	the extraordinary general meeting of the Company convened for 11.00 a.m. on 17th June 1996
"Group" or "API Group"	the Company and its existing subsidiaries
"Issue Price"	615p per New Ordinary Share
"Learoyd Group"	together Learoyd UK, its subsidiaries and Learoyd USA
"Learoyd UK"	Learoyd Group Limited
"Learoyd USA"	Learoyd Packaging (USA) Inc.
"London Stock Exchange"	London Stock Exchange Limited
"New Ordinary Shares"	the 6,219,562 new Ordinary Shares proposed to be issued in connection with the Proposals, comprising the Vendor Placing Shares and the Cash Placing Shares
"Official List"	the Official List of the London Stock Exchange
"Open Offer"	the conditional open offer to subscribe for New Ordinary Shares 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 the Application Form
"Ordinary Shares"	ordinary shares of 25p each in the Company
"Placing"	the conditional placing by Credit Lyonnais Laing of 6,219,562 New Ordinary Shares in accordance with the Placing Agreement
"Placing Agreement"	the conditional agreement dated 23rd May 1996 relating to the Placing and Open Offer, details of which are set out in paragraph 17 of Part VII of this document

“Preference Shares”	3.85% (formerly 5½%) cumulative preference shares of £1 each in the Company
“Proposals”	the Acquisition and the Placing and Open Offer as described in this document
“Qualifying Shareholders”	holders of Ordinary Shares on the register of members of the Company on the Record Date other than certain overseas shareholders as described in this document
“Record Date”	the record date for the Open Offer, being the close of business on 15th May 1996
“Share Option Schemes”	the share option schemes of the Group, details of which are set out in paragraph 12.1 of Part VII of this document
“Vendors”	the shareholders in Learoyd UK and Learoyd USA
“Vendor Placing Shares”	the 3,252,033 New Ordinary Shares proposed to be issued, credited as fully paid, in satisfaction of the initial consideration for the Acquisition

#### EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	1996
Record Date for the Open Offer	close of business on 15th May
Latest time and date for splitting of Application Forms (to satisfy <i>bona fide</i> market claims only)	3.00 p.m. on 13th June
Latest time for receipt of forms of proxy	11.00 a.m. on 15th June
Extraordinary General Meeting	11.00 a.m. on 17th June
Latest time for receipt of completed Application Forms and payment in full under the Open Offer	3.00 p.m. on 17th June
Completion of the Acquisition and commencement of dealings in the New Ordinary Shares	21st June
Despatch of definitive share certificates for the New Ordinary Shares	1st July

## PART I

### LETTER FROM THE CHAIRMAN AND CHIEF EXECUTIVE

# API Group plc

(Registered in England and Wales with number 169249)

#### Directors:

J M Woolley (Non-Executive Chairman)  
M J Smith (Chief Executive)  
D J Holt (Finance Director)  
J F Adey \*  
J N Sheldrick \*

\* Non-Executive

#### Registered office:

Silk House  
Park Green  
Macclesfield  
Cheshire  
SK11 7NU

23rd May 1996 ✓

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

Dear Shareholder

Proposed acquisition of Learoyd Group Limited and Learoyd Packaging (USA) Inc.  
Placing and Open Offer  
Interim Results to 30th March 1996

## Introduction

It was announced today that API has entered into a conditional agreement to acquire Learoyd Group, a producer and distributor of specialised film and security packaging products. The maximum consideration for the Acquisition is £22 million, of which £20 million is payable on completion through the allotment and issue of 3,252,033 Vendor Placing Shares. The balance of up to a further £2 million may become payable in cash, depending, *inter alia*, on the profitability of Learoyd Group for the year ending 30th April 1997. The Vendor Placing Shares have been conditionally placed at 615p per share by Credit Lyonnais Laing with institutional and other investors.

In addition to the issue of the Vendor Placing Shares, API proposes to issue 2,967,529 Cash Placing Shares at 615p per share. The issue of the Cash Placing Shares will raise approximately £16.7 million, net of expenses, which will be applied in reducing Group indebtedness, paying any deferred consideration due under the Acquisition Agreement and providing additional funds to invest in the growth of API Group. The Cash Placing Shares have also been conditionally placed by Credit Lyonnais Laing with institutional and other investors.

The Vendor Placing Shares and the Cash Placing Shares, being 6,219,562 New Ordinary Shares in total, are being made available to Qualifying Shareholders at 615p per share on the basis of 2 New Ordinary Shares for every 7 Existing Ordinary Shares held on the Record Date. The Placing and Open Offer has been fully underwritten by Credit Lyonnais Laing.

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 API shareholders. This will be sought at the Extraordinary General Meeting of API convened for 11.00 a.m. on 17th June 1996, notice of which is set out at the end of this document.

## **Information on API Group**

API was formed in 1920, following the merger of Edward Collins & Son of Glasgow and Henry & Leigh Slater in Bollington. The Group withdrew from paper making in the 1980s, moving its principal area of operation away from the cyclical paper manufacturing industry and into packaging, speciality coatings and office products. In the last four years, API Group's results have been transformed from a pre-tax loss of £0.5 million in 1991 to pre-tax profits of £8.4 million in the year ended 30th September 1995. Progress has continued in the first half of 1995/6 with pre-tax profits, announced today, of £4.2 million (1995: £3.3 million).

The Group now operates through two main divisions:

### *Foils and Laminates:*

This division consists of Whiley Foils Limited, Dri-Print Foils, Inc., Henry & Leigh Slater Limited, Peerless Foils Limited and Data-Label Limited and in the year ended 30th September 1995 achieved operating profits of £6.5 million (1994 : £4.7 million) on sales of £70.3 million (1994 : £50.9 million).

The principal activities of this division are the manufacture and supply of hot stamping foils, coding foils, metallised papers, laminated board and variable information systems to the print and packaging industry. The division's products are diverse, ranging from high quality image packaging to specialist coatings for medical and security applications. Over the past two years, substantial capital expenditure has been invested in this division with over £8.5 million spent or committed on the Group's new paper metallisation plant. This plant recently commenced operations and enables the Group to service a market which the Directors believe is currently under-supplied and has attractive growth prospects.

### *Converted Film, Paper Products and Office Consumables:*

This division consists of Leonard Stace Limited, Tenza Limited, Arnold Belford Limited and API Coatings Limited and in the year ended 30th September 1995 achieved operating profits of £3.7 million (1994 : £3.2 million) on sales of £33.7 million (1994 : £27.3 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. Over the last two years the division has been strengthened by the acquisitions of Arnold Belford and API Coatings. Both of these operations have now been fully integrated into the Cheltenham site of Leonard Stace.

## **Information on Learoyd Group**

Learoyd Group is a producer and distributor of specialised film and security packaging products and comprises a UK holding company with three trading subsidiaries and a US sales and distribution company.

The business of Learoyd Group was established in 1976 with the acquisition from Coloroll of Learoyd Packaging Limited by its current chairman, Roland Brown. Morris Plastics Limited, a precision injection moulding business, was acquired in 1989 and in 1993 Filmcast Extrusions Limited, a business producing cast polypropylene film, was established; these businesses manufacture components utilised in Learoyd Packaging's products. Learoyd UK was formed in 1995 as the UK holding company for these three businesses and Learoyd USA was formed in 1992 as a US sales operation, based in Atlanta, for the distribution of Learoyd Packaging's products.

In the year ended 30th April 1996, Learoyd Group achieved a pre-tax profit of £2.3 million (1995: £1.7 million) on turnover of £12.6 million (1995: £9.1 million). Learoyd Group has been strongly cash generative and this has enabled the management to invest £3.5 million over the last three years in modern well-equipped premises.

A brief description of the businesses of Learoyd Group is set out below:

*(a) Learoyd Packaging and Learoyd USA*

Learoyd Packaging's business is the manufacture and printing of quality film products, including tamper evident security bags, drawstring bags and a wide variety of customised bags. The company's high quality customer list includes high street multiples, armoured and document couriers, banks and financial institutions, healthcare and mail order businesses.

Learoyd Packaging, Learoyd UK's principal subsidiary, is based in Burnley, Lancashire in a well-equipped long leasehold factory of 88,000 square feet and employs 151 people. Learoyd Packaging's sales for the year ended 30th April 1996 (including sales through Learoyd USA) totalled £10.0 million, generating pre-tax profits of £2.0 million.

Learoyd USA acts as the sales office for Learoyd Packaging's growing US security bag business. To date two significant long term supply contracts have been entered into, with John H Harland and Wells Fargo Armored Service Corp.

The Directors believe that the growth prospects for Learoyd Packaging and Learoyd USA are excellent, particularly as banks and security businesses increasingly are switching from traditional canvas security bags to tamper evident film bags.

*(b) Filmcast Extrusions*

Filmcast Extrusions was established by Learoyd UK in 1993 to produce cast polypropylene films. The business was set up in part to reduce Learoyd Packaging's dependence on its supplier of polypropylene film, and is now also developing into new markets for video, stationery, automotive and security products. Sales in the year ended 30th April 1996 totalled £1.7 million (including intra-group sales of £0.5 million), generating pre-tax profits of £0.1 million.

The business operates from modern leasehold premises of 14,000 square feet in Nelson, Lancashire and currently employs 12 people. The company's plant and equipment, which was commissioned in 1994, has significant additional capacity, providing the Enlarged Group with the opportunity to develop a business which the Directors believe has good growth prospects.

*(c) Morris Plastics*

Morris Plastics, which was acquired in 1989, carries on the business of the precision injection moulding of a broad range of polymers for the production of components used in a wide variety of applications, including packaging, window blinds, domestic appliances, electrical components and DIY/home furnishings. In the year ended 30th April 1996, Morris Plastics achieved pre-tax profits of £0.2 million on sales of £1.5 million (including intra-group sales of £0.1 million). The business operates from an 11,000 square feet freehold factory in Sowerby Bridge, Yorkshire and employs 43 people. Morris Plastics has recently won a substantial new contract, the full benefit of which should be seen over the coming year.

Further financial information on Learoyd Group is set out in the Accountants' report in Part V of this document.

## **Reasons for and benefits of the Acquisition and the Placing**

The activities carried on by Learoyd Group are complementary to those of API Group and, accordingly, the Acquisition is expected to provide a number of significant benefits to the Enlarged Group. In general terms, the integration of Learoyd Group into API Group will provide the scope to enhance margins as a result of increased buying power and the supply of raw materials and products intra-group. Furthermore, the Acquisition will increase the sales opportunities for Learoyd Group's products, both geographically and in terms of new business sectors.



API Group's existing distribution channels in the United Kingdom and continental Europe will be of significant benefit to Learoyd Group in penetrating these new markets and Dri-Print's well-established production and marketing resource in the US will serve to strengthen Learoyd Group's position in the Americas.

In addition, API Group's new product development in the field of embossable foils will be complementary to Learoyd Group's higher value added security products, where increasing emphasis is being attached to authentication and tracking systems.

Learoyd Group's business has particular synergy with API Group's operations at Tenza and API Coatings. Tenza converts a variety of films, including polypropylene, into "consignment note enclosed" bags/envelopes and self-adhesive films for book and document protection. API Coatings produces silicone coated release films used by both Tenza and Learoyd Group in the production of self-seal bags, envelopes and document wallets.

The Directors consider that Learoyd Group has an impressive record of profits growth, built on the development of good products and an ability to identify and participate in new opportunities in its sector. The Directors believe that this strategy, which is shared by API Group's management, will ensure that considerable opportunities are generated for the development of Learoyd Group's business as part of the Enlarged Group.

The Directors believe that Learoyd Group will contribute effectively to the Enlarged Group's profitability. The Directors expect that the Acquisition will enhance API's earnings per share for the financial year ending 30th September 1997.

Over the last two years, API Group has invested £23.8 million on capital expenditure (including current commitments) and acquisitions (including related working capital and deferred consideration). This expenditure, which has been financed out of retained earnings and borrowings, includes £8.5 million invested in the Group's new paper metallisation plant and £9.8 million relating to the acquisitions of Arnold Belford, J & J Makin Converting, API Coatings and Data-Label. The Directors believe that this investment has enhanced API Group's growth prospects and that API's success in investing prudently to develop the Group's business is amply demonstrated by its trading performance in recent years. The requirement for capital expenditure is expected to continue, *inter alia*, to support the development of a number of projects which the Directors believe will make a positive contribution to the Enlarged Group's performance in the future. In order to reduce Group borrowings and to strengthen the Enlarged Group's balance sheet, API is raising approximately £16.7 million, net of expenses, by way of the issue of the Cash Placing Shares. The net proceeds of the Cash Placing, after reduction of the Group's indebtedness (which stood at £10.0 million net of cash held at 30th April 1996), will enable API to settle the deferred consideration under the Acquisition Agreement and provide additional funds to invest in the growth of the Enlarged Group.

### **Principal terms of the Acquisition**

Under the terms of the Acquisition Agreement, API has conditionally agreed to acquire Learoyd UK and Learoyd USA.

The maximum consideration for the Acquisition is £22 million. The initial consideration is to be satisfied at completion by the allotment and issue of the Vendor Placing Shares, which will be placed by Credit Lyonnais Laing with institutional and other investors enabling the Vendors to receive £20 million in cash. Additional cash consideration of up to £2 million will become payable, subject to the aggregated profit before tax of Learoyd Group for the financial year ending 30th April 1997 being at least £3 million and certain key executives remaining with Learoyd Group.

Completion of the Acquisition Agreement, which is expected to take place on 21st June 1996, is conditional, *inter alia*, upon:

- (i) the passing of resolution number 1 set out in the notice of Extraordinary General Meeting at the end of this document;
- (ii) Admission having become effective; and
- (iii) the Placing Agreement becoming unconditional and not having been terminated in accordance with its terms.

A more detailed summary of the terms and conditions of the Acquisition Agreement is set out in paragraph 16 of Part VII of this document.

### **Interim results, current trading and prospects of API Group**

API Group has achieved a good performance in the half year ended 30th March 1996. Turnover rose by 32 per cent. to £58.2 million (1995: £44.1 million), pre-tax profit rose 28 per cent. to £4.2 million (1995: £3.3 million) and earnings per share rose 26 per cent. to 13.59p (1995: 10.78p). The interim dividend has been increased by 10 per cent. to 4.48p per share (1995: 4.07p).

The good start to the year, notwithstanding demanding conditions, coupled with a healthy order book, less volatile raw material prices, major new product introductions and strategic alliances generate a strong foundation for optimism. The commitment of management to continuous improvement remains absolute and, with our robust management techniques and skilled, motivated team, the Group expects sound overall progress this year.

The full text of the interim results is set out in Part IV of this document.

### **Details of the Placing and Open Offer**

Credit Lyonnais Laing, as agent of the Company, has conditionally agreed to place the New Ordinary Shares with institutional and other investors at 615p per share, 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 on the following basis:-

#### **2 New Ordinary Shares for every 7 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. Qualifying Shareholders may apply for any number of New Ordinary Shares up to their maximum entitlement as set out on their Application Form.

The New Ordinary Shares to be issued under the Placing and Open Offer have been fully underwritten by Credit Lyonnais Laing, which has conditionally agreed to procure placees for, or itself subscribe at the Issue Price for, any New Ordinary Shares which 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, save that they will not rank for the interim dividend of 4.48p (net) per share payable on 5th July 1996 in respect of the year ending 30th September 1996.

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 accompanying Application Form.

## Share Option Schemes

The rules of the Share Option Schemes provide that a maximum of 1,100,000 unissued Ordinary Shares may be issued under both schemes. This number of shares represented 5.2 per cent. of the issued Ordinary Share capital of the Company when the schemes were adopted in February 1993. Having regard to the substantial increase in the Company's issued Ordinary Share capital if Admission takes place, resolution number 2 set out in the notice of Extraordinary General Meeting at the end of this document proposes that this limit be deleted from the rules of both Share Option Schemes conditionally upon Admission taking place. The rules of both Share Option Schemes will thereafter continue to contain the percentage limits which are described in paragraph 12.1(b)(viii) of Part VII of this document.

Under the rules of both Share Option Schemes, invitations to apply for the grant of options may normally only be issued within a period that starts on the fourth business day after the announcement of the Company's interim or final results and ends on the 25th day after such an announcement. Such a period begins on 30th May 1996 and ends on 17th June 1996. In view of the Acquisition, the Company does not intend to issue invitations to apply for options in that period but would wish to do so after dealings have commenced in the New Ordinary Shares. Accordingly, resolution number 2 also seeks authority to permit the Directors to issue invitations within a period of 21 days commencing on the fourth dealing day after Admission.

## 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 17th June 1996, is set out at the end of this document. Resolutions will be proposed at the Extraordinary General Meeting to:

- (a) approve the Acquisition;
- (b) increase the authorised share capital of the Company from £7,549,000 to £9,878,344 by the creation of an additional 9,317,376 Ordinary Shares;
- (c) authorise the Directors pursuant to section 80 of the Act to allot relevant securities up to an aggregate maximum nominal value of £3,887,227 until the earlier of 15 months following the Extraordinary General Meeting and the conclusion of the next Annual General Meeting of the Company, which authority will be in substitution for the existing authority taken at the Company's Annual General Meeting held on 8th February 1996;
- (d) disapply the pre-emption rights conferred by the Act in relation to the allotment of equity securities for cash in connection with the allotment of the New Ordinary Shares pursuant to the Placing and Open Offer, offers by way of rights, and otherwise in respect of the allotment of equity securities up to a maximum aggregate nominal value of £349,850 (representing approximately five per cent. of the Company's enlarged issued Ordinary Share capital following the Placing and Open Offer); and
- (e) amend the Share Option Schemes and authorise the Directors to issue invitations to apply for options as described above.

The passing of resolution 1 at the Extraordinary General Meeting will enable the Directors to allot the New Ordinary Shares in connection with the Placing and Open Offer and to allot other Ordinary Shares in accordance with the pre-emption guidelines of investment committees representing United Kingdom institutional investors.

Subject to the passing of resolution 1 at the Extraordinary General Meeting, following completion of the Placing and Open Offer and taking account of the 768,900 Ordinary Shares reserved for issue pursuant to the Share Option Schemes, 8,560,444 Ordinary Shares will remain authorised but unissued and unreserved, representing approximately 30.6 per cent. of the enlarged issued Ordinary Share capital of the Company.

The Directors have no present intention to allot any Ordinary Shares pursuant to the authority proposed to be granted to them at the Extraordinary General Meeting, 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 accompanying 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 thereon so as to arrive as soon as possible at Independent Registrars Group Limited, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU but, in any event, so that it is received not later than 11.00 a.m. on 15th June 1996. 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.

## **CREST**

This is to give you notice, in accordance with the Uncertificated Securities Regulations 1995 ("the Regulations"), that, on 29th April 1996, the Company resolved by resolutions of the Directors that title to both Ordinary Shares and Preference Shares, in issue or to be issued, may be transferred by means of a relevant system (as defined in the Regulations). The resolutions of the Directors will become effective immediately prior to CRESTCo Limited granting permission for the shares concerned to be transferred by means of the CREST system.

### *Explanatory note*

The above notice is the notice which the Company is obliged to give to its members, under the Regulations, of the passing of "directors' resolutions" (as defined in the Regulations) in relation to Ordinary Shares and Preference Shares. The Directors' resolutions will enable Ordinary Shares and Preference Shares to join CREST. The shares have not become transferable by means of the CREST system merely by virtue of the passing of the Directors' resolutions: the permission of the operator of the system, CRESTCo Limited, must also be given before the shares can become so transferable. This is anticipated to occur during January 1997.

The effect of the Directors' resolutions is to disapply, in relation to Ordinary Shares and Preference Shares, those provisions of the Company's Articles of Association which are inconsistent with the holding and transfer of those shares in CREST and any provision of the Regulations, as and when the shares concerned enter the CREST system.

Private shareholders will find enclosed with this document the leaflet published by CRESTCo Limited: "CREST. What it means for you - the private shareholder".

## **Further information**

Your attention is drawn to the letter from Credit Lyonnais Laing relating to the Open Offer set out in Part II and the further information set out in Parts III to VII 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 of shareholders as a whole. In providing advice to the Board in relation to the Acquisition, Credit Lyonnais Laing has placed reliance upon the Directors' commercial assessment of the Acquisition. Accordingly, your Board unanimously recommends you to vote in favour of the resolutions to be proposed at the Extraordinary General Meeting, as your Directors intend to do in respect of their own beneficial holdings, amounting in aggregate to 153,000 Existing Ordinary Shares, representing approximately 0.7 per cent. of the Existing Ordinary Shares.

Yours sincerely

J Moger Woolley  
*Non- Executive Chairman*

Michael J Smith  
*Group Chief Executive*

## PART II

### LETTER FROM CREDIT LYONNAIS LAING



**CREDIT LYONNAIS LAING**

Corporate Finance

23rd May 1996

*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 6,219,562 New Ordinary Shares at 615p per share**

As explained in the letter from your Chairman and Chief Executive set out in Part I of this document, the Company is proposing to finance the Acquisition by the issue of 3,252,033 Vendor Placing Shares and to raise approximately £16.7 million (net of expenses) by an issue of 2,967,529 Cash Placing Shares.

Qualifying Shareholders are being offered the opportunity to apply for their proportional entitlements of the aggregate of Vendor Placing Shares and Cash Placing Shares, being 6,219,562 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 of the Company, hereby invites Qualifying Shareholders to apply for New Ordinary Shares, at a price of 615p per share, free of all expenses, payable in full on application, on the following basis:

##### **2 New Ordinary Shares for every 7 Existing Ordinary Shares**

held on the Record Date and so in proportion for any other number of Existing Ordinary Shares then held, except that fractions of New Ordinary Shares will not be allotted 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. 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. Completed Application Forms, accompanied by payment in full, must be received by 3.00 p.m. on Monday, 17th June 1996.

The Open Offer is conditional upon the Placing Agreement becoming unconditional in all respects by 9.00 a.m. on Friday 21st June 1996 (or such later date and/or time as Credit Lyonnais Laing may agree, being not later than 9.00 a.m. on Friday, 5th July 1996) 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;

- ii) the Acquisition Agreement having become unconditional in all respects (subject only to Admission becoming effective); and
- iii) Admission having become effective.

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, when issued, rank *pari passu* in all respects with the Existing Ordinary Shares, save that they will not rank for the interim dividend of 4.48p (net) per share payable on 5th July 1996 in respect of the year ending 30th September 1996. It is expected that Admission will become effective and that dealings in the New Ordinary Shares will commence on 21st June 1996.

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 on 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 all or any 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, or by hand, together with a remittance for the full amount payable, to New Issues Department, Independent Registrars Group Limited, PO Box 166, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TH or by hand (during normal business hours) to Independent Registrars Group Limited, 5th Floor, 56-60 Gresham Street, London EC2, so as to arrive as soon as possible, but in any event not later than 3.00 p.m. on 17th June 1996, after which time, save 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 17th June 1996 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 two days for delivery.

Applications may only be made on the enclosed Application Form which 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. Applications may be split, but only to satisfy *bona fide* market claims, up to 3.00 p.m. on 13th June 1996. 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.

Payment must be made by cheque or banker's draft, which should be made payable to "Independent Registrars - A/C API Group plc" and crossed "a/c payee only", 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 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 the above company 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 Independent Registrars Group Limited 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.

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 21st June 1996 (or such later date as Credit Lyonnais Laing may agree, being not later than 9.00 a.m. on Friday, 5th July 1996), 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 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, or under the securities laws of any state of the United States 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 registration requirements of such laws, the New



Ordinary Shares may not be, directly or indirectly, offered, sold, taken up or delivered, renounced or transferred 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 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 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*

Qualifying 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**

Your attention is drawn to the advice received by the Company set in paragraph 8 of Part VII 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 Placing and Open Offer that, to ensure compliance with the Money Laundering Regulations 1993, Independent Registrars Group Limited may require, at its absolute discretion, verification of identity from any person lodging an Application Form. Further information regarding the circumstances in which such verification may be required and the consequences of failure to supply such verification are set out in paragraph 18 of Part VII of this document.

## **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 dealings will commence in the New Ordinary Shares on 21st June 1996. Definitive certificates in respect of the New Ordinary Shares (which will be in registered form) are expected to be despatched on or before 1st July 1996; no temporary documents of title will be issued and pending such despatch 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 in the Application Form.

Yours faithfully  
for and on behalf of  
Credit Lyonnais Laing

Nicholas J Donaldson  
*Head of UK Corporate Finance*

Shaun H Dobson  
*Assistant Director*

# PART III

## FINANCIAL INFORMATION ON API GROUP

The financial information given in this Part III has been extracted without material adjustment from the published audited consolidated accounts of API for the years ended 2nd October 1993, 1st October 1994 and 30th September 1995.

### 1. Group profit and loss account

		<i>Years ended</i>		
		<i>2nd October</i>	<i>1st October</i>	<i>30th September</i>
		<i>1993</i>	<i>1994</i>	<i>1995</i>
	<i>Note</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Turnover</b>				
Continuing operations		69,431	78,164	94,709
Acquisitions		—	—	9,305
		<u>69,431</u>	<u>78,164</u>	<u>104,014</u>
Discontinued operations		3,934	1,393	—
<b>Total</b>	<b>2</b>	<b>73,365</b>	<b>79,557</b>	<b>104,014</b>
Cost of sales	<b>3</b>	(53,677)	(58,147)	(77,628)
		<u>19,688</u>	<u>21,410</u>	<u>26,386</u>
<b>Gross profit</b>				
Distribution costs	<b>3</b>	(2,521)	(2,895)	(3,739)
Selling and administrative expenses	<b>3</b>	(12,057)	(11,712)	(14,203)
		<u>4,902</u>	<u>6,618</u>	<u>7,926</u>
<b>Operating profit</b>				
Continuing operations		4,902	6,618	7,926
Acquisitions		—	—	740
Pre redundancy costs		—	—	(222)
Redundancy costs		<u>4,902</u>	<u>6,618</u>	<u>8,444</u>
Discontinued operations		208	185	—
		<u>5,110</u>	<u>6,803</u>	<u>8,444</u>
<b>Total</b>				
<b>Exceptional items</b>				
Profit on disposal of discontinued operations		—	203	—
Profit on sale of fixed assets		291	—	—
		<u>5,401</u>	<u>7,006</u>	<u>8,444</u>
<b>Trading profit</b>	<b>2</b>			
Net finance income/(costs)	<b>5</b>	13	9	(90)
		<u>5,414</u>	<u>7,015</u>	<u>8,354</u>
<b>Profit before taxation</b>				
Taxation	<b>8</b>	(1,814)	(2,350)	(2,464)
		<u>3,600</u>	<u>4,665</u>	<u>5,890</u>
<b>Profit for the financial year</b>				
Preference dividends	<b>9</b>	(21)	(21)	(21)
		<u>3,579</u>	<u>4,644</u>	<u>5,869</u>
<b>Profit attributable to Ordinary Shareholders</b>				
Ordinary dividends	<b>9</b>	(1,753)	(1,938)	(2,148)
		<u>1,826</u>	<u>2,706</u>	<u>3,721</u>
<b>Balance transferred to reserves</b>	<b>18</b>			
<b>Earnings per Ordinary Share</b>	<b>10</b>	<b>16.8p</b>	<b>21.8p</b>	<b>27.4p</b>
Adjustment for exceptional items		(1.3p)	(1.0p)	—
Adjustment for discontinued operations		(1.0p)	(0.8p)	—
		<u>14.5p</u>	<u>20.0p</u>	<u>27.4p</u>
<b>Adjusted earnings per Ordinary Share</b>				

#### *Note on historical cost profit*

The difference between the historical cost depreciation charge and the actual charge for the year, calculated on revalued amounts, is insignificant in terms of the reported profit for the year.

## 2. Group balance sheet

	Note	2nd October		As at 1st October		30th September	
		1993 £'000	1993 £'000	1994 £'000	1994 £'000	1995 £'000	1995 £'000
Tangible fixed assets	11		20,519		20,232		28,393
Current assets							
Stocks	12	5,792		5,653		9,281	
Debtors	13	17,706		20,736		28,815	
Cash at bank and in hand		6,698		8,462		5,888	
		<u>30,196</u>		<u>34,851</u>		<u>43,984</u>	
Creditors - amounts falling due within one year							
Creditors	14	(14,782)		(17,613)		(28,345)	
Short term borrowings	15	(1,022)		(1,704)		—	
Current taxation		(1,518)		(2,371)		(2,227)	
Dividends		(1,043)		(1,149)		(1,278)	
		<u>(18,365)</u>		<u>(22,837)</u>		<u>(31,850)</u>	
Net current assets			11,831		12,014		12,134
Total assets less current liabilities			32,350		32,246		40,527
Creditors - amounts falling due after more than one year							
Loans	15	(2,076)		(396)		(8,474)	
Other creditors	21	—		(1,046)		(917)	
			(2,076)		(1,442)		(9,391)
Provisions for liabilities and charges	16		(645)		(712)		(470)
Deferred credit - government grants			(265)		(237)		(221)
Total net assets			<u>29,364</u>		<u>29,855</u>		<u>30,445</u>
Share capital and reserves							
Called up share capital	17		5,869		5,890		5,936
Share premium account	18	4,301		4,404		4,722	
Other reserves	18	1,871		1,871		1,871	
Profit and loss account	18	17,323		17,690		17,916	
			23,495		23,965		24,509
Non-equity shareholders' funds		549		549		549	
Equity shareholders' funds		<u>28,815</u>		<u>29,306</u>		<u>29,896</u>	
		<u>29,364</u>		<u>29,855</u>		<u>30,445</u>	

### 3. Cash flow statement

	Note	2nd October		Years ended 1st October		30th September	
		1993 £'000	1993 £'000	1994 £'000	1994 £'000	1995 £'000	1995 £'000
Net cash inflow from operating activities	A		7,128		8,775		5,955
Returns on investments and servicing of finance							
Interest received		201		132		115	
Interest paid		(188)		(123)		(88)	
Dividends paid		<u>(1,671)</u>		<u>(1,853)</u>		<u>(2,040)</u>	
Net cash outflow from returns on investments and servicing of finance			(1,658)		(1,844)		(2,013)
Taxation							
Corporation tax paid (including advance corporation tax)			(806)		(1,670)		(2,666)
Investment activities							
Acquisition of businesses	D&E	(658)		(1,793)		(3,364)	
Disposal of business	F	—		1,127		—	
Payments to acquire tangible fixed assets		(1,635)		(2,252)		(7,318)	
Receipts from sales of tangible fixed assets		<u>407</u>		<u>274</u>		<u>94</u>	
Net (outflow) from investment activities			<u>(1,886)</u>		<u>(2,644)</u>		<u>(10,588)</u>
Net inflow/(outflow) before financing			2,778		2,617		(9,312)
Financing							
Issue of shares	17 & 18	262		124		364	
(Repayment of)/increase in short and medium term loans	C	<u>(1,000)</u>		<u>(713)</u>		<u>6,487</u>	
Net (outflow)/inflow from financing			<u>(738)</u>		<u>(589)</u>		<u>6,851</u>
Increase/(decrease) in cash and cash equivalents	B		<u>2,040</u>		<u>2,028</u>		<u>(2,461)</u>

## Notes to the cash flow statement

### A Reconciliation of profit to net cash inflow from operating activities

	1993 £'000	1994 £'000	1995 £'000
Operating profit	4,902	6,618	8,444
Depreciation less government grants	1,940	1,972	2,337
Loss/(profit) on replacement of tangible fixed assets	7	(11)	5
Decrease/(increase) in stocks	202	159	(1,647)
(Increase) in debtors	(3,792)	(3,041)	(7,088)
Increase in creditors	4,033	2,882	4,169
(Decrease) in provisions including reorganisation provision	(35)	(29)	(265)
Net cash inflow from continuing operating activities	7,257	8,550	5,955
Net cash (outflow)/inflow in respect of discontinued activities	(129)	225	—
	<u>7,128</u>	<u>8,775</u>	<u>5,955</u>

The increase in debtors during the year ended 30th September 1995 includes £3,300,000 to fund the build up of debtors on acquisition of J&J Makin Converting, the assets of which were purchased net of receivables (Note 21).

### B Analysis of increase/(decrease) in cash and cash equivalents

	1993 £'000	1994 £'000	1995 £'000
Cash at bank and in hand			
Balance at beginning of period	4,394	6,698	8,462
Change in the period	2,304	1,764	(2,574)
Balance at end of period	<u>6,698</u>	<u>8,462</u>	<u>5,888</u>
Short term borrowings			
Balance at beginning of period	(126)	(275)	(119)
Change in the period	(149)	156	119
Balance at end of period	<u>(275)</u>	<u>(119)</u>	<u>—</u>
Net increase/(decrease) in cash and cash equivalents	<u>2,155</u>	<u>1,920</u>	<u>(2,455)</u>
	1993 £'000	1994 £'000	1995 £'000
Balance at beginning of period	4,268	6,423	8,343
Increase/(decrease) in cash and cash equivalents before adjustments for the effect of foreign exchange rates	2,040	2,028	(2,461)
Effect of foreign exchange rates	115	(108)	6
Change in period	<u>2,155</u>	<u>1,920</u>	<u>(2,455)</u>
Balance at end of period	<u>6,423</u>	<u>8,343</u>	<u>5,888</u>

### C Analysis of changes in group loan financing during the year

	1993 £'000	1994 £'000	1995 £'000
Balance at start of year	3,462	2,823	1,981
Net cash (outflow)/inflow from financing	(1,000)	(713)	6,487
Effect of foreign exchange rates	361	(129)	6
Balance at end of year	<u>2,823</u>	<u>1,981</u>	<u>8,474</u>

**D Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiary undertakings and businesses 1994/95**

	<i>Data Label Ltd</i> £'000	<i>API Coatings Ltd</i> £'000	<i>J&amp;J Makin Converting</i> £'000	<i>Gold Impressions</i> £'000	<i>Total</i> £'000
Cash consideration paid	1,023	1,311	1,118	126	3,578
Cash at bank and in hand acquired	(214)	—	—	—	(214)
Net outflow in respect of acquisitions	<u>809</u>	<u>1,311</u>	<u>1,118</u>	<u>126</u>	<u>3,364</u>

**E Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiary undertakings and business 1993/94**

	<i>Arnold Belford Ltd</i> £'000	<i>Gold Impressions</i> £'000	<i>T-APF</i> £'000	<i>Total</i> £'000
Cash consideration paid	1,715	95	346	2,156
Cash at bank and in hand acquired	(363)	—	—	(363)
Net outflow in respect of acquisitions	<u>1,352</u>	<u>95</u>	<u>346</u>	<u>1,793</u>

The T-APF consideration is a deferred payment resulting from a business acquired in 1992/93. The payment was fully provided for in the 1992/93 statutory accounts.

The Gold Impressions payment relates to an ongoing agreement, the contractual terms of which have changed during 1994/95 (note 21).

**F Analysis of the net inflow of cash and cash equivalents in respect of the sale of subsidiary undertakings 1993/94**

	<i>Diffusion Environmental Systems Limited</i> £'000
Cash consideration received	1,500
Cash at bank and in hand disposed of	(338)
Other costs of disposal	(35)
Net inflow of cash and cash equivalents in respect of the sale of subsidiary undertaking	<u>1,127</u>

**4. OTHER STATEMENTS**

**Statement of total recognised gains and losses**

	1993 £'000	1994 £'000	1995 £'000
Profit for the financial year	3,600	4,665	5,890
Currency transaction differences on foreign currency net investments	<u>757</u>	<u>(449)</u>	<u>60</u>
Total gains and losses recognised since previous annual report and accounts	<u>4,357</u>	<u>4,216</u>	<u>5,950</u>

## Reconciliation of movements in shareholders' funds

	1993	1994	1995
	£'000	£'000	£'000
Profit for the financial year	3,600	4,665	5,890
New shares issued	39	21	46
Premium on shares issued	223	103	318
Dividends	(1,774)	(1,959)	(2,169)
Currency translation differences on foreign currency net investments	757	(449)	60
Goodwill realised on sale of subsidiary undertaking	—	612	—
Goodwill written off (note 23)	(700)	(2,502)	(3,555)
Net addition to shareholders' funds	2,145	491	590
Opening shareholders' funds	27,219	29,364	29,855
Closing shareholders' funds	29,364	29,855	30,445

## 5. NOTES TO THE ACCOUNTS

### 1. Accounting policies

The following are the more important policies adopted by the Group.

#### Accounting convention

The accounts have been prepared under the historical cost convention except for the inclusion of certain assets which are at valuation and have been prepared in accordance with applicable accounting standards.

#### Basis of consolidation

The accounting dates of all companies in the Group are coterminous, and results for the year ended on the accounting date are included in the Group results in full, except where subsidiary undertakings are acquired or sold during the year, when results are included from or to the date of acquisition or sale. No transfer to share premium account is made on account of premiums on shares issued in consideration for the acquisition of companies which fulfil the conditions of Section 131 of the Companies Act 1985 in respect of merger relief.

#### Turnover

Turnover represents amounts invoiced to third parties excluding value added tax.

#### Fixed assets

Fixed assets are included in the accounts at valuation or cost.

#### Depreciation

Freehold and long leasehold land is not depreciated. The cost or valuation of other fixed assets is written off in equal annual instalments over the expected useful lives as follows:

Freehold and long leasehold properties	— 14 to 50 years
Short leasehold properties	— over period of lease
Plant	— 5 to 20 years
Vehicles	— 4 years
Furniture and equipment	— 5 to 10 years

#### Government grants

Government grants, being investment and development grants and energy conservation grants, received and receivable are credited to the government grants account and are released to the profit and loss account over the estimated lives of the assets concerned.

#### Research and development

Expenditure in respect of pure and applied research is charged in the profit and loss account in the year in which it is incurred.

#### Stock and work in progress

Stocks are stated at the lower of cost and estimated net realisable value. Cost is determined on a first in first out basis. Cost of work in progress and finished goods comprises the cost of raw materials, direct labour and overheads attributable to the production of stock. Net realisable value comprises the estimated selling value less selling costs.



## 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. Deferred taxation is not provided in respect of the effects of remitting overseas earnings to the United Kingdom.

## Pensions

### *Non-contributory pension schemes*

Admission to the Group's non-contributory schemes has now ceased, the principal ones ceasing admission on 31st March 1974. The provision for future payments under the schemes is shown in the balance sheet at their net present value as estimated by the Group's actuary. The profit and loss account is charged with the change in the estimated net present value over the financial year, together with interest on the provision at the commencement of the year.

### *Pension and life assurance funds*

Pension costs are recognised on a systematic basis so that the cost of providing retirement benefits to members are evenly matched, so far as possible, to the service lives of the members concerned. Any excess or deficiency of the actuarial value of assets over the actuarial value of liabilities of the pension funds is allocated over the average remaining service lives of current members.

## Foreign currencies

Assets and liabilities in foreign currencies are translated at rates ruling at the balance sheet date and trading items at the average rate for the period. Exchange differences arising in individual companies' accounts are taken to the profit and loss account. Those unrealised exchange differences arising on consolidation on the translation of foreign manufacturing subsidiary undertakings' accounts and related foreign currency loans are dealt with in retained profit. Realised exchange gains and losses arising on the repayment of foreign currency borrowings are dealt with through the profit and loss account.

## Goodwill

Goodwill arising on consolidation is written off against reserves as it arises.

## Leases

The costs of operating leases are charged to the profit and loss account in equal annual instalments over the periods of the leases.

## 2. Segmental analysis

	1993 £'000	1994 £'000	1995 £'000
Analysis of turnover by destination			
United Kingdom	34,318	40,959	58,655
France	2,374	5,362	6,281
Germany	3,137	3,049	3,927
Scandinavia	3,084	3,769	4,921
Other European countries	10,661	7,182	10,537
Asia and Australasia	5,301	5,728	6,496
Americas	10,556	12,115	13,197
	<u>69,431</u>	<u>78,164</u>	<u>104,014</u>
Discontinued operations	3,934	1,393	—
	<u>73,365</u>	<u>79,557</u>	<u>104,014</u>

### Analysis of turnover, trading profit and net operating assets by origin

	1993	1994	1995
	<i>Turnover</i>	<i>Turnover</i>	<i>Turnover</i>
	£'000	£'000	£'000
United Kingdom	53,035	60,518	83,265
Continental Europe	2,276	3,081	4,378
Asia and Australasia	214	297	948
Americas	13,906	14,268	15,423
	<u>69,431</u>	<u>78,164</u>	<u>104,014</u>
Discontinued operations	3,934	1,393	—
	<u>73,365</u>	<u>79,557</u>	<u>104,014</u>
	1993	1994	1995
	<i>Trading</i>	<i>Trading</i>	<i>Trading</i>
	<i>Profit</i>	<i>Profit</i>	<i>Profit</i>
	£'000	£'000	£'000
United Kingdom	4,911	6,298	7,794
Continental Europe	(199)	(223)	131
Asia and Australasia	75	108	118
Americas	1,330	1,736	2,150
	<u>6,117</u>	<u>7,919</u>	<u>10,193</u>
Group company costs	(1,215)	(1,301)	(1,749)
Discontinued operations	208	185	—
Exceptional item	291	203	—
	<u>5,401</u>	<u>7,006</u>	<u>8,444</u>
	1993	1994	1995
	<i>Net Operating</i>	<i>Net Operating</i>	<i>Net Operating</i>
	<i>Assets</i>	<i>Assets</i>	<i>Assets</i>
	£'000	£'000	£'000
United Kingdom	19,940	20,342	28,543
Continental Europe	796	972	1,400
Asia and Australasia	227	284	851
Americas	7,968	6,978	6,997
	<u>28,931</u>	<u>28,576</u>	<u>37,791</u>
Discontinued operations	740	—	—
Non operating assets	(307)	1,279	(7,346)
	<u>29,364</u>	<u>29,855</u>	<u>30,445</u>

Turnover originating in the United Kingdom includes £24,769,000 of sales to overseas destinations (1994: £20,084,000; 1993: £18,768,000).

### Analysis of turnover, trading profit and net operating assets by activity

	1993	1994	1995
	<i>Turnover</i>	<i>Turnover</i>	<i>Turnover</i>
	£'000	£'000	£'000
Foils and laminates	44,777	50,910	70,293
Converted film, paper products and office consumables	24,654	27,254	33,721
	<u>69,431</u>	<u>78,164</u>	<u>104,014</u>
Discontinued operations	3,934	1,393	—
	<u>73,365</u>	<u>79,557</u>	<u>104,014</u>

	1993	1994	1995
	<i>Trading</i>	<i>Trading</i>	<i>Trading</i>
	<i>Profit</i>	<i>Profit</i>	<i>Profit</i>
	£'000	£'000	£'000
Foils and laminates	3,617	4,721	6,522
Converted film, paper products and office consumables	2,500	3,198	3,671
	<u>6,117</u>	<u>7,919</u>	<u>10,193</u>
Group company costs	(1,215)	(1,301)	(1,749)
Discontinued operations	208	185	—
Exceptional item	291	203	—
	<u>5,401</u>	<u>7,006</u>	<u>8,444</u>

	1993	1994	1995
	<i>Net Operating</i>	<i>Net Operating</i>	<i>Net Operating</i>
	<i>Assets</i>	<i>Assets</i>	<i>Assets</i>
	£'000	£'000	£'000
Foils and laminates	17,593	16,105	24,620
Converted film, paper products and office consumables	5,882	6,988	7,935
	<u>23,475</u>	<u>23,093</u>	<u>32,555</u>
Group company assets	5,456	5,483	5,236
Discontinued operations	740	—	—
Non operating assets	(307)	1,279	(7,346)
	<u>29,364</u>	<u>29,855</u>	<u>30,445</u>

Net operating assets comprise total assets less current liabilities and exclude all assets and liabilities of a financing nature.

### 3. Analysis of cost of sales and operating expenses

Cost of sales are all costs allocated to production.

Distribution costs are costs incurred in distributing the goods from the production site to the customer.

Selling and administrative expenses are costs other than cost of sales and distribution costs.

The analysis of cost of sales and operating expenses between continuing and discontinued businesses is as follows:

	1993	1993	1993
	<i>Continuing</i>	<i>Discontinued</i>	<i>Total</i>
	£'000	£'000	£'000
Cost of sales	51,155	2,522	53,677
Distribution costs	2,457	64	2,521
Selling and administrative expenses	10,917	1,140	12,057
	<u>64,529</u>	<u>3,726</u>	<u>68,255</u>
	1994	1994	1994
	<i>Continuing</i>	<i>Discontinued</i>	<i>Total</i>
	£'000	£'000	£'000
Cost of sales	57,277	870	58,147
Distribution costs	2,869	26	2,895
Selling and administrative expenses	11,400	312	11,712
	<u>71,546</u>	<u>1,208</u>	<u>72,754</u>

	1995 Continuing £'000	1995 Discontinued £'000	1995 Total £'000
Cost of sales	77,628	—	77,628
Distribution costs	3,739	—	3,739
Selling and administrative expenses	14,203	—	14,203
	<u>95,570</u>	<u>—</u>	<u>95,570</u>

Continuing operations in 1995 include the following relating to acquisitions: cost of sales £7,724,000, distribution costs £273,000, selling and administrative expenses £790,000.

#### 4. Trading profit

	1993 £'000	1994 £'000	1995 £'000
Trading profit is stated after charging/(crediting)			
Depreciation - less government grants of £16,000 (1994: £28,000; 1993: £27,000)	2,009	1,993	2,335
Hire of plant	54	24	40
Other operating lease costs	689	552	595
Research and development costs written off	180	330	512
(Gains) on exchange	(29)	(31)	(11)
Auditors' remuneration - audit services	123	118	137
- non audit services	22	52	16

#### 5. Net finance income/(costs)

	1993 £'000	1994 £'000	1995 £'000
Interest payable on bank overdrafts and loans repayable within five years	(188)	(123)	(382)
Interest receivable	201	132	115
Interest capitalised (note 11)	—	—	177
Net interest income/(cost)	<u>13</u>	<u>9</u>	<u>(90)</u>

#### 6. Directors' emoluments

	1993 £'000	1994 £'000	1995 £'000
Chairman	40	46	50
Highest paid director	173	194	233
Other directors	123	121	132
Management remuneration	<u>336</u>	<u>361</u>	<u>415</u>

Management remuneration includes bonuses of £58,225 (1994: £47,966; 1993: £58,500) of which the highest paid director received £39,150 (1994: £32,349; 1993: £32,500) which were payable based on the achievement of both personal objectives and profit performance. The Chairman did not receive a bonus. The pension contribution for the highest paid director was £9,400 (1994: £8,850; 1993: £Nil). No other contributions were made (1994: £Nil; 1993: £Nil).

	1993	1994	1995
Number of directors whose remuneration (excluding pension contributions) was within the range:			
£5,001 - £10,000	—	1*	1**
£10,001 - £15,000	2	1	1
£35,001 - £40,000	1	—	—
£45,001 - £50,000	—	1	1
£95,001 - £100,000	1	1	—
£105,001 - £110,000	—	—	1
£170,001 - £175,000	1	—	—
£185,001 - £190,000	—	1	—
£220,001 - £225,000	—	—	1

\*until date of resignation \*\*from date of appointment

## 7. Employment costs - including directors

	1993 £'000	1994 £'000	1995 £'000
The total group employment costs were:			
Wages and salaries	13,924	14,312	16,359
Employers' national insurance and similar costs	1,782	1,781	1,623
Pensions (note 16):			
Provided under non-contributory pension schemes	40	37	188
Contributions provided under pension and life assurance funds	228	293	180
	<u>15,974</u>	<u>16,423</u>	<u>18,350</u>

Average number of persons employed:

	1993	1994	1995
Foils and laminates	395	415	488
Converted film, paper products and office consumables	247	267	296
API Group plc	<u>8</u>	<u>9</u>	<u>9</u>
	650	691	793
Discontinued operations	<u>54</u>	<u>17</u>	<u>—</u>
	<u>704</u>	<u>708</u>	<u>793</u>

## 8. Taxation

	1993 £'000	1994 £'000	1995 £'000
Corporation tax payable at 33% (1994: 33%; 1993: 33%)	1,417	1,867	1,629
Overseas taxation	549	621	866
Prior year adjustments	(38)	50	(6)
Deferred taxation	<u>(114)</u>	<u>(188)</u>	<u>(25)</u>
	<u>1,814</u>	<u>2,350</u>	<u>2,464</u>

The taxation charge has been reduced/(increased) by:

Accelerated capital allowances	115	76	410
Decrease in deferred taxation provision	114	188	25
Prior year adjustments	38	(50)	6
Other factors	<u>(294)</u>	<u>(249)</u>	<u>(148)</u>
	<u>(27)</u>	<u>(35)</u>	<u>293</u>

A full taxation charge at 33% (1994: 33%; 1993: 33%) on the profit before taxation would be:

	<u>1,787</u>	<u>2,315</u>	<u>2,757</u>
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## 9. Dividends

	1993 £'000	1994 £'000	1995 £'000
Preference Shares			
Paid 31st March 1995	11	11	11
Paid 30th September 1995	<u>10</u>	<u>10</u>	<u>10</u>
	<u>21</u>	<u>21</u>	<u>21</u>

	1993 £'000	1994 £'000	1995 £'000
Ordinary Shares			
Interim paid	710	789	870
Final paid	<u>1,043</u>	<u>1,149</u>	<u>1,278</u>
	<u>1,753</u>	<u>1,938</u>	<u>2,148</u>

	1993 pence per share	1994 pence per share	1995 pence per share
Ordinary Shares			
Interim paid	3.35	3.70	4.07
Final paid	<u>4.90</u>	<u>5.38</u>	<u>5.93</u>
	<u>8.25</u>	<u>9.08</u>	<u>10.00</u>

## 10. Earnings per share

The basic earnings per share, the fully diluted earnings per share and the basic earnings with taxation charge on a nil distribution basis are not materially different. They are calculated by dividing the profit after taxation and after preference dividends by 21,427,637, being the weighted average number of shares in issue during the year (1994 divisor 21,322,870; 1993 divisor 21,240,847). The adjusted earnings per share figure shown on the face of the profit and loss account provides a more meaningful comparison on an ongoing basis.

## 11. Tangible fixed assets

	<i>Freehold land £'000</i>	<i>Freehold buildings £'000</i>	<i>Leasehold land and buildings long £'000</i>	<i>Leasehold land and buildings short £'000</i>	<i>Plant and equipment £'000</i>	<i>Total £'000</i>
<b>Group cost or valuation</b>						
At 3rd October 1993	3,251	6,756	1,548	63	27,339	38,957
Acquisition of businesses	—	—	—	4	208	212
Additions	—	69	—	—	2,183	2,252
Foreign exchange movement	(86)	(116)	—	—	(384)	(586)
Disposals	(3)	—	—	(63)	(957)	(1,023)
<b>At 1st October 1994</b>	<b>3,162</b>	<b>6,709</b>	<b>1,548</b>	<b>4</b>	<b>28,389</b>	<b>39,812</b>
<b>Being</b>						
Cost	281	6,583	1,448	4	28,389	36,705
Professional valuation 1971	—	126	—	—	—	126
Professional valuation 1989	2,881	—	100	—	—	2,981
	<b>3,162</b>	<b>6,709</b>	<b>1,548</b>	<b>4</b>	<b>28,389</b>	<b>39,812</b>
<b>Depreciation</b>						
At 3rd October 1993	—	3,061	621	51	14,705	18,438
Acquisition of businesses	—	—	—	4	199	203
Provided during period	—	164	31	4	1,822	2,021
Foreign exchange movement	—	(97)	—	—	(227)	(324)
Disposals	—	—	—	(55)	(703)	(758)
<b>At 1st October 1994</b>	<b>—</b>	<b>3,128</b>	<b>652</b>	<b>4</b>	<b>15,796</b>	<b>19,580</b>
<b>Net book value at 1st October 1994</b>	<b>3,162</b>	<b>3,581</b>	<b>896</b>	<b>—</b>	<b>12,593</b>	<b>20,232</b>

	Freehold land £'000	Freehold buildings £'000	Leasehold land and buildings long £'000	Leasehold land and buildings short £'000	Plant and equipment £'000	Assets under construction £'000	Total £'000
Group cost or valuation							
At 2nd October 1994	3,162	6,709	1,548	4	28,389	—	39,812
Acquisition of businesses	400	1,232	—	—	5,172	—	6,804
Additions	—	26	—	—	2,162	5,129	7,317
Foreign exchange movement	(1)	(8)	—	—	12	—	3
Disposals	—	—	—	(4)	(703)	—	(707)
At 30th September 1995	<u>3,561</u>	<u>7,959</u>	<u>1,548</u>	<u>—</u>	<u>35,032</u>	<u>5,129</u>	<u>53,229</u>
Being							
Cost	680	7,833	1,448	—	35,032	5,129	50,122
Professional valuation 1971	—	126	—	—	—	—	126
Professional valuation 1989	2,881	—	100	—	—	—	2,981
	<u>3,561</u>	<u>7,959</u>	<u>1,548</u>	<u>—</u>	<u>35,032</u>	<u>5,129</u>	<u>53,229</u>
Depreciation							
At 2nd October 1994	—	3,128	652	4	15,796	—	19,580
Acquisition of businesses	—	298	—	—	3,233	—	3,531
Provided during period	—	185	31	—	2,137	—	2,353
Foreign exchange movement	—	(7)	—	—	(13)	—	(20)
Disposals	—	—	—	(4)	(604)	—	(608)
At 30th September 1995	<u>—</u>	<u>3,604</u>	<u>683</u>	<u>—</u>	<u>20,549</u>	<u>—</u>	<u>24,836</u>
Net book value at 30th September 1995	<u>3,561</u>	<u>4,355</u>	<u>865</u>	<u>—</u>	<u>14,483</u>	<u>5,129</u>	<u>28,393</u>

Interest capitalised included in the net book value of tangible fixed assets is £177,000 (1994: £nil; 1993: £nil). The 1989 valuation was on the basis of open market value for existing use; the 1971 valuation was on an estimated realisation basis. The potential liability for deferred taxation on the revaluation reserve is regarded as remote and therefore not quantified.

## 12. Stocks

	1994 £'000	1995 £'000
Raw materials	2,056	4,310
Finished goods and work in progress	3,561	4,959
Stores	36	12
	<u>5,653</u>	<u>9,281</u>

The estimated replacement cost of stock does not exceed the balance sheet value by a material amount.

## 13. Debtors

	1994 £'000	1995 £'000
Under one year		
Trade debtors	19,014	26,779
Prepayments	597	518
Other debtors	668	907
VAT	10	106
	<u>20,289</u>	<u>28,310</u>
Over one year		
Deferred taxation	160	185
Advance corporation tax recoverable	287	320
	<u>20,736</u>	<u>28,815</u>

## Deferred taxation

The major components of the provision for deferred taxation and the amounts not provided for are as follows:

	1994	1995	1994	1995
	<i>Provided</i>	<i>Provided</i>	<i>Not Provided</i>	<i>Not Provided</i>
Accelerated capital allowances	—	—	(2,616)	(3,035)
Future pension payments	194	185	—	—
Tax losses	—	—	—	148
Other timing differences	(34)	—	147	(32)
	<u>160</u>	<u>185</u>	<u>(2,469)</u>	<u>(2,919)</u>

## 14. Creditors—amounts falling due within one year

	1994	1995
	£'000	£'000
Trade creditors	12,956	19,989
Bills of exchange	33	102
Accruals	3,153	4,274
Other creditors	354	2,757
National insurance and income tax	338	421
VAT	779	802
	<u>17,613</u>	<u>28,345</u>

Other creditors at 30th September 1995 includes £1,925,000 deferred consideration payable in respect of the acquisition of Data-Label Limited.

## 15. Borrowings

	1994	1995
	£'000	£'000
Short term borrowings		
Bank overdrafts	119	—
Short term loan	1,585	—
	<u>1,704</u>	<u>—</u>
Loans—falling due after more than one year		
—due between 1 to 2 years	396	—
—due between 2 to 5 years	—	8,474
	<u>396</u>	<u>8,474</u>

## 16. Provisions for liabilities and charges

	1994	1995
	£'000	£'000
Reorganisation costs	124	—
Pension scheme provision	588	470
	<u>712</u>	<u>470</u>

Group re-organisation costs of £124,000 provided on the acquisition of Arnold Belford Limited in 1994 have been fully utilised in 1995.

## Pension scheme provisions

The total pension cost for the Group for 1995 was £368,000 (1994: £330,000). The Group made payments to a number of schemes during the year with £127,000 charged to the accounts under transitional arrangements in respect of acquisitions (£72,000 of which relates to prior year acquisition of Arnold Belford Limited).

Pension scheme assets are managed by independent professional investment managers. The contributions to the schemes are assessed in accordance with independent actuarial advice and it is the Group's policy that none of the assets of the funds are invested directly or indirectly in any Group company.

The principal pension schemes operate in the UK and North America and further disclosures in respect of these schemes are set out below:



## Principal pension schemes

On 3rd October 1994 the API Group plc and Tenza Limited Pension and Life Assurance Funds merged. The Group now operates one funded pension scheme for the company and its UK subsidiaries, providing benefits based on final pensionable earnings. The assets of the scheme are held separately from those of the Group, being invested in a number of UK and overseas equities, unit trusts and other securities. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over members' working lives with the Group. The contributions charged are determined by a qualified actuary. The assets and liabilities of the Group's UK pension scheme were reviewed as at 1st April 1995 using a Projected Unit Costing method. The assumptions which have the most significant effect on the results of the review are those relating to the rate of return on investments, the rate of growth of dividends and the rate of increase in salaries and pensions. It was assumed that investment returns will be 10 per cent. per annum, dividends will grow on average by 5.5 per cent. per annum, salary increases will average 7.5 per cent. per annum and that present and future pensions will increase at the rate of 5 per cent. per annum.

The actuarial review as at 1st April 1995 showed that the market value of the assets of API Group plc Pension and Life Fund was £25,918,000 and that the actuarial value of those assets represented 120 per cent. of the benefits which had accrued to members on an ongoing basis. The surplus revealed by the review and the provision in the balance sheet are being amortised over 15 years in equal instalments. After taking account of interest credits on the balance of the unamortised surplus and interest charges on the pensions provision, the pensions charge taken for 1995 is £nil (1994: £nil) with the exception of £9,400 charged for specific purposes (1994: £8,850). Tenza Limited have, however, made contributions to the scheme totalling £89,000 in accordance with the advice of the Actuaries. These payments have reduced the balance sheet provision to £160,000 (1994: £249,000).

The Group still pays pensions under three unfunded, non-contributory pension schemes, membership of which is now closed. A provision of £310,000 stood at 30th September 1995 (1994: £339,000) for the present value of future payments under these schemes and the charge to the accounts in the year ended 30th September 1995 was £34,000 (1994: £37,000). The amount amortised from the provision for the year was £29,000 (1994: £29,000).

Dri-Print Foils, Inc. has three funded pension schemes. In the context of the Group, none of these funds has a material deficiency or surplus of assets and there is believed by the directors to be no material difference between the funding rate as recommended by the actuaries and charged in the accounts and the charge which would have been required under the provisions of SSAP24. The charge to the accounts in respect of these pension schemes is £154,000 (1994: £230,000).

## 17. Share capital

	1994	1995	1994	1995
	Authorised £'000	Authorised £'000	Allotted, called up and fully paid £'000	Allotted, called up and fully paid £'000
549,000 3.85% (formerly 5.5%) Cumulative preference shares of £1 each	549	549	549	549
Ordinary Shares of 25p each				
At 2nd October 1994	7,000	7,000	5,320	5,341
Shares issued - options exercised	—	—	21	46
At 30th September 1995 (21,549,270 Ordinary Shares in issue - 1994: 21,366,070)	7,000	7,000	5,341	5,387
Total shares	7,549	7,549	5,890	5,936

The holders of the non-equity Preference Shares have the following rights:

- to a cumulative preferential dividend at the rate of 3.85 per cent. (formerly 5.5 per cent.) per annum;
- on a return of assets whether in a winding up, reduction of capital or otherwise in priority to all other shares in the capital of the company, to a return of the nominal amount paid up on each share together with any arrears and accruals of dividend if any. In addition, a premium is also payable calculated as the difference between the average quoted price of each such share on the London Stock Exchange during the period of six months preceding a notice of a meeting for the winding up, reduction of capital or otherwise and the nominal amount paid up on each such share.

In the event of a repayment of capital involving the payment of a part only of the amount paid up on each such share the aforementioned premium shall be paid in proportion to the amount of capital repaid;

iii) one vote for every share held, whether on a show of hands or on a poll.

Full exercise of the options granted under the company's share option schemes would result in the issue, not later than June 2005, of a further of £156,975 ordinary share capital made up of 10,000 Ordinary Shares at 455p, 182,500 Ordinary Shares at 454p, 35,000 Ordinary Shares at 394p, 40,000 Ordinary Shares at 328p, 16,000 Ordinary Shares at 321p, 2,400 Ordinary Shares at 308p, 12,000 Ordinary Shares at 264p, 15,200 Ordinary Shares at 218p, 209,200 Ordinary Shares at 211p, 95,200 Ordinary Shares at 183p and 10,400 Ordinary Shares at 143p.

## 18. Reserves

	1994 £'000	1995 £'000
<b>Share premium account</b>		
Brought forward	4,301	4,404
Premium on shares issued	103	318
Carried forward	<u>4,404</u>	<u>4,722</u>
<b>Other reserves</b>		
<b>Revaluation reserve</b>		
At 2nd October 1994 and 30th September 1995	1,871	1,871
<b>Merger reserve</b>		
Merger reserve arising on acquisition of subsidiary undertakings	4,946	4,946
Elimination of goodwill	(4,946)	(4,946)
At 2nd October 1994 and 30th September 1995	<u>1,871</u>	<u>1,871</u>
<b>Profit and loss account</b>		
Brought forward	17,323	17,690
Goodwill realised on sale of subsidiary undertaking	612	—
Goodwill written off (Note 23)	(2,502)	(3,555)
Foreign exchange translation differences	(449)	60
Balance from profit and loss account	<u>2,706</u>	<u>3,721</u>
Carried forward	<u>17,690</u>	<u>17,916</u>
<b>Total reserves</b>	<u><u>23,965</u></u>	<u><u>24,509</u></u>

The foreign exchange translation differences are stated after a gain of £5,000 (1994: £128,000) in respect of current year exchange differences from foreign currency borrowings financing foreign equity investments. Although the cumulative amount of goodwill written off against reserves cannot be easily ascertained, the amount written off since 1986 inclusive is £11,459,000 (of which £6,513,000 has been written off against the profit and loss account).

## 19. Leasing commitments

Leasing commitments under non-cancellable operating leases were as follows:

	<i>Group land and building leases</i>		<i>Group other operating leases</i>	
	1994 £'000	1995 £'000	1994 £'000	1995 £'000
<b>Payable in the following year and relating to leases terminating:</b>				
Within one year	21	—	46	105
Two to five years	21	17	314	285
After five years	19	346	26	106
	<u>61</u>	<u>363</u>	<u>386</u>	<u>496</u>

## 20. Capital commitments

	1994 £'000	1995 £'000
<b>Amounts not provided for in these accounts are:</b>		
Contracted	439	1,312
Authorised but not contracted	6,001	1,570

## 21. Acquisition of businesses

### 1994/95

In 1994 agreement was reached to purchase all rights relating to the Gold Impressions customer base for a fixed consideration. Of the deferred consideration, a further payment of £126,000 was made in the current year. The balance of £1,043,000 has been carried forward in creditors, of which £917,000 (1994: £1,046,000) is payable after more than one year.

#### Acquisition of J & J Makin Converting and Robert Williams Embossers

With effect from 3rd April 1995 the Group acquired the assets, excluding debtors, of J & J Makin Converting and Robert Williams Embossers.

Details of assets acquired and consideration are set out below:

	<i>Fair value to the Group £'000</i>
Tangible fixed assets	2,803
Working capital:	
Stocks	1,588
Creditors	(3,273)
Net assets	<u>1,118</u>
Satisfied by cash	<u>1,118</u>

Fair value to the Group is not materially different from the book value of the assets on acquisition.

As a result of the acquisition the turnover of the Group increased by £8,048,000 and operating profit by £364,000 (after charging post acquisition redundancy costs of £222,000).

The acquisition reduced the Group's net operating cash flow by £1,677,000 after taking account of £3,300,000 required to fund the build up of debtors.

J & J Makin Converting and Robert Williams Embossers made a profit on ordinary activities before taxation of £426,000 (operating profit £383,000) from 25th September 1994, the beginning of the entity's financial year, to the date of acquisition, on turnover of £7,391,000. In the previous financial year a profit before tax of £89,000 (operating profit £6,000) was recorded on turnover of £13,349,000.

#### Acquisition of NMC Coatings Limited (subsequently renamed API Coatings Limited)

With effect from 6th June 1995 the Group acquired the entire shareholding of NMC Coatings Limited, a company engaged in the manufacture of coated film. This has been accounted for by the acquisition method. Details of assets acquired and consideration are set out below:

	<i>Book value £'000</i>	<i>Accounting policy adjustment £'000</i>	<i>Fair value to the Group £'000</i>
Tangible fixed assets	207	—	207
Working capital:			
Stocks	280	(80)	200
Debtors	304	(30)	274
Creditors	(391)	—	(391)
Net assets	<u>400</u>	<u>(110)</u>	<u>290</u>
Goodwill			1,021
Satisfied by cash			<u>1,311</u>

As a result of the acquisition the turnover of the Group increased by £530,000 and operating profit by £49,000. API Coatings Limited contributed £28,000 to the Group's net operating cash flows and utilised the same value in the acquisition of fixed assets.

API Coatings Limited made a profit on ordinary activities before taxation of £13,000 (operating profit £25,000) from 1st January 1995, the beginning of the subsidiary's financial year, to the date of acquisition, on turnover of £641,000. In the previous financial year a loss before tax of £301,000 (operating loss £82,000) was recorded on turnover of £1,139,000.

## Acquisition of Data-Label Limited

With effect from 7th July 1995 the Group acquired the entire shareholding of Data-Label Limited, a company engaged in the supply of labelling systems. This has been accounted for by the acquisition method. Details of assets acquired and consideration are set out below.

	<i>Fair value to the Group £'000</i>
Tangible fixed assets	261
Working capital:	
Stocks	154
Debtors	571
Cash at bank and in hand	214
Creditors	(763)
Provisions for liabilities and charges	(23)
Net assets	414
Goodwill	2,534
	<u>2,948</u>
Satisfied by:	
Cash	1,023
Deferred consideration	1,925
	<u>2,948</u>

Fair value to the Group is not materially different from the book value of the assets on acquisition.

The deferred consideration is payable in installments of £1,000,000 on 31st December 1995 and £925,000 on 30th June 1996.

As a result of the acquisition the turnover of the Group increased by £727,000 and operating profit by £105,000. Data-Label Limited contributed £57,000 to the Group's net operating cash flows.

Data-Label Limited made a profit on ordinary activities before taxation of £362,000 from 1st July 1994, the beginning of the subsidiary's financial year, to the date of acquisition, on turnover of £3,012,000. In the previous financial period (18 months ended 30th June 1994) a profit before tax of £336,000 was recorded on turnover of £4,016,000.

## 1993/94

In 1993 a provision of £442,000 was made for deferred consideration payable in respect of the acquisition of T-APF. Of this provision a further payment of £346,000 was made during the year. The balance of £96,000 has been carried forward in creditors.

## Acquisition of Arnold Belford Limited

With effect from 30th June 1994 the Group acquired the entire shareholding of Arnold Belford Limited, a company primarily engaged in paper conversion for the food industry. This has been accounted for by the acquisition method. Details of assets acquired and consideration are set out below:

	<i>Book value £'000</i>	<i>Re- organisation £'000</i>	<i>Fair value to the Group £'000</i>
Tangible fixed assets	9	—	9
Current assets:			
Stocks	311	—	311
Debtors	571	—	571
Cash at bank and in hand	363	—	363
Creditors	(649)	(124)	(773)
Net assets	<u>605</u>	<u>(124)</u>	<u>481</u>
Goodwill			1,234
Satisfied by cash			<u>1,715</u>

The contribution of the acquired business to the Group result is shown in the Group profit and loss account. The subsidiary undertaking contributed £33,000 to the Group's net operating cash flows.

Arnold Belford Limited made a profit on ordinary activities before tax of £54,000 from 1st May 1994, the beginning of the subsidiary undertaking's financial year, to the date of acquisition, and made a profit before tax of £363,000 in the previous financial period (16 months ended 30th April 1994).

## 22. Disposal of businesses

### Disposal of Diffusion Environmental Systems Limited

With effect from 14th February 1994 the Group disposed of Diffusion Environmental Systems Limited, a company involved in the heating and ventilating systems industry.

	£'000
Net assets disposed of:	
Fixed assets	145
Net current assets	505
	<hr/>
	650
Cost of disposal	35
Goodwill realised (previously written off to reserves)	612
Profit on disposal	203
	<hr/>
Satisfied by cash	1,500
	<hr/>

The impact of the disposal on the Group result is shown in the Group profit and loss account. The impact on operating cash flows is shown in the Group cash flow statement.

## 23. Reconciliation of goodwill movement in the year

	1994 £'000	1995 £'000
Acquisition of Data-Label Limited	—	(2,534)
Acquisition of API Coatings Limited	—	(1,021)
Acquisition of Arnold Belford Limited	(1,234)	—
Conversion of Gold Impressions agreement	(1,268)	—
	<hr/>	<hr/>
	(2,502)	(3,555)
Disposal of Diffusion Environmental Systems Limited	612	—
	<hr/>	<hr/>
Goodwill write-off against reserves	(1,890)	(3,555)
	<hr/>	<hr/>

## PART IV

### INTERIM RESULTS OF API GROUP FOR THE PERIOD ENDED 30TH MARCH 1996

Set out below is the text of the interim announcement of the unaudited results of the Group for the period ended 30th March 1996 which was released today.

"The Group has produced a good performance in the first half achieving an interim pre-tax profit increase of 28 per cent. to £4.2 million (£3.3 million) on sales growth of 32 per cent. to £58.2 million (£44.1 million).

Earnings per share rose by 26 per cent. to 13.59p (10.78p) against sometimes difficult market conditions, particularly in our sector. Earnings per share have almost quadrupled since the first half of 1992 when new management began the reorganisation of the Group and initiated its current growth programme.

Tight cost controls have resulted in an operating profit margin of 7.5 per cent. being sustained during a period of volatility in our market segments. Raw material price increases did not begin to abate until the second quarter and, as widely reported, a certain amount of de-stocking occurred during this time. We anticipate margin improvement during the second half as base material prices are less volatile, de-stocking reduces and the product mix balance is addressed by a stronger sales performance of higher added value products.

Gearing at the half year rose to 25 per cent. with net borrowings of £8.2 million. Borrowings increased by £5.6 million, of which £3.6 million was invested in capital expenditure, principally in the new paper metallisation facility, and a further £1 million for the Data-Label deferred consideration.

Shareholders' funds advanced £2.8 million to £33.2 million as at 30th March 1996. The interim dividend is increased by 10 per cent. to 4.48p (4.07p). The dividend will be paid on 5th July 1996 to shareholders on the register on 11th June 1996.

#### Foils and Laminates

The division increased operating profits by 30 per cent. to £3.2 million (£2.5 million) on a 42 per cent. sales increase to £39.8 million (£28.1 million). These activities suffered most from product mix swings and inability to recover material price increases immediately and therefore operating margin declined 0.7 per cent. to 8.1 per cent. The new paper metallisation plant has begun invoicing sales after an intensive period of extremely encouraging plant and customer trials. The thermal transfer ribbon programme for variable information systems is being launched in May, after extensive worldwide customer trials and fully tested modifications to our coating equipment. New security product trials for bank notes and identification documents requiring authentication are nearing completion. These new products will benefit gross margin levels along with predictions of more stable raw material prices.

#### Converted Film, Paper Products and Office Consumables

Despite raw material increases and somewhat depressed European sales, this division kept up operating margins at 10.6 per cent., with a sales gain of 14 per cent. to £18.3 million (£16.1 million) and profits improving 14 per cent. to £1.9 million (£1.7 million). The new film release liners for various applications are coming on-stream and the extension of our anti-corrosion products is on schedule. These new projects will provide added momentum for this division, in conjunction with more secure material costs.

#### Prospects

The good start to the year, notwithstanding demanding conditions, coupled with a healthy order book, less volatile raw material prices, major new product introductions and strategic alliances generate a strong foundation for optimism. The commitment of management to continuous improvement remains absolute and with our robust management techniques and skilled, motivated team, the Group expects sound overall progress this year.

J Moger Woolley  
*Non-Executive Chairman*

Michael J Smith  
*Group Chief Executive*

# Group profit and loss account

		12 months to 30th September 1995 Audited £'000	6 months to 1st April 1995 Unaudited £'000	6 months to 30th March 1996 Unaudited £'000
	Note			
Turnover (continuing operations)	1	104,014	44,130	58,154
Cost of sales		<u>(77,628)</u>	<u>(32,454)</u>	<u>(43,906)</u>
Gross profit		26,386	11,676	14,248
Distribution costs		(3,739)	(1,657)	(2,184)
Selling and administrative expenses		<u>(14,203)</u>	<u>(6,701)</u>	<u>(7,722)</u>
Trading profit	1	8,444	3,318	4,342
Net finance costs	1	<u>(90)</u>	<u>(12)</u>	<u>(120)</u>
Profit before taxation		8,354	3,306	4,222
Taxation	2	<u>(2,464)</u>	<u>(992)</u>	<u>(1,267)</u>
Profit for the financial year		5,890	2,314	2,955
Preference dividend		<u>(21)</u>	<u>(11)</u>	<u>(11)</u>
Profit attributable to ordinary shareholders		5,869	2,303	2,944
Ordinary dividends		<u>(2,148)</u>	<u>(870)</u>	<u>(975)</u>
Balance transferred to reserves		<u>3,721</u>	<u>1,433</u>	<u>1,969</u>
Earnings per ordinary 25p share		27.39p	10.78p	13.59p
Dividends per ordinary 25p share	3	10.00p	4.07p	4.48p

## Group balance sheet

	30th September 1995		30th March 1996	
	Audited		Unaudited	
	£'000	£'000	£'000	£'000
Tangible fixed assets		28,393		30,911
Current assets				
Stocks	9,281		9,286	
Debtors	28,815		28,755	
Cash at bank and in hand	5,888		3,760	
	<u>43,984</u>		<u>41,801</u>	
Creditors - amounts falling due within one year				
Creditors	(28,345)		(22,702)	
Short term borrowings	—		—	
Current taxation	(2,227)		(2,314)	
Dividends	(1,278)		(975)	
	<u>(31,850)</u>		<u>(25,991)</u>	
Net current assets		<u>12,134</u>		<u>15,810</u>
Total assets less current liabilities		40,527		46,721
Creditors - amounts falling due after more than one year				
Loans	(8,474)		(11,989)	
Other creditors	(917)		(884)	
	<u>(9,391)</u>		<u>(12,873)</u>	
Provisions for liabilities and charges		(470)		(416)
Deferred credit - government grants		(221)		(199)
Total net assets		<u>30,445</u>		<u>33,233</u>
Share capital and reserves				
Called up share capital		5,936		5,991
Share premium account	4,722		5,114	
Other reserves	1,871		1,871	
Profit and loss account	<u>17,916</u>		<u>20,257</u>	
		24,509		27,242
Non-equity shareholders' funds	549		549	
Equity shareholders' funds	<u>29,896</u>		<u>32,684</u>	
Shareholders' funds		<u>30,445</u>		<u>33,233</u>



## Cash flow statement

	12 months to 30th September 1995 <i>Audited</i> £'000	6 months to 1st April 1995 <i>Unaudited</i> £'000	6 months to 30th March 1996 <i>Unaudited</i> £'000
<b>Operating activities</b>			
Profit and depreciation	10,786	4,346	5,716
Working capital	(4,831)	(4,162)	(4,854)
<b>Net cash inflow from operating activities</b>	<u>5,955</u>	<u>184</u>	<u>862</u>
<b>Returns on investments and servicing of finance</b>			
Net interest received/(paid)	27	(12)	(121)
Dividends paid	(2,040)	(1,160)	(1,289)
<b>Net cash outflow from returns on investments and servicing of finance</b>	<u>(2,013)</u>	<u>(1,172)</u>	<u>(1,410)</u>
<b>Taxation</b>			
Corporation tax paid (including advance corporation tax)	(2,666)	(904)	(860)
<b>Investment activities</b>			
Acquisition of businesses	(3,364)	—	(1,074)
Net payments to acquire tangible fixed assets	(7,224)	(2,993)	(3,639)
<b>Net outflow from investment activities</b>	<u>(10,588)</u>	<u>(2,993)</u>	<u>(4,713)</u>
<b>Net outflow before financing</b>	<u>(9,312)</u>	<u>(4,885)</u>	<u>(6,121)</u>
<b>Financing</b>			
Issue of shares	364	8	447
Increase in/(repayment of) medium term loans	6,487	(767)	3,486
<b>Net inflow/(outflow) from financing</b>	<u>6,851</u>	<u>(759)</u>	<u>3,933</u>
<b>Decrease in cash and cash equivalents</b>	<u>(2,461)</u>	<u>(5,644)</u>	<u>(2,188)</u>
Exchange movement	6	(79)	60
<b>Balance sheet movement in cash and cash equivalents</b>	<u>(2,455)</u>	<u>(5,723)</u>	<u>(2,128)</u>

## Other statements

	12 months to 30th September 1995 Audited £'000	6 months to 1st April 1995 Unaudited £'000	6 months to 30th March 1996 Unaudited £'000
<b>Statement of total recognised gains and losses</b>			
Profit for the financial year	5,890	2,314	2,955
Currency translation differences on foreign currency net investments	60	(186)	372
Total gains and losses recognised since last annual report and accounts	<u>5,950</u>	<u>2,128</u>	<u>3,327</u>
<b>Reconciliation of movements in shareholders' funds</b>			
Profit for the period	5,890	2,314	2,955
New shares issued	46	3	55
Premium on shares issued	318	5	392
Dividends	(2,169)	(881)	(986)
Currency translation differences on foreign currency net investments	60	(186)	372
Goodwill written off	(3,555)	—	—
Addition to shareholders' funds	590	1,255	2,788
Opening shareholders' funds	29,855	29,855	30,445
Closing shareholders' funds	<u>30,445</u>	<u>31,110</u>	<u>33,233</u>

## Notes

	12 months to 30th September 1995 Audited £'000	6 months to 1st April 1995 Unaudited £'000	6 months to 30th March 1996 Unaudited £'000
<b>1. The results by main activity are:</b>			
<b>Turnover</b>			
Foils and laminates	70,293	28,062	39,829
Converted film, paper products and office consumables	33,721	16,068	18,325
Total turnover	<u>104,014</u>	<u>44,130</u>	<u>58,154</u>
<b>Trading profit</b>			
Foils and laminates	6,522	2,476	3,209
Converted film, paper products and office consumables	3,671	1,696	1,934
	10,193	4,172	5,143
Group costs	(1,749)	(854)	(801)
Trading profit	<u>8,444</u>	<u>3,318</u>	<u>4,342</u>

- The taxation charge is based on the estimated effective rate of taxation for the full year (30 per cent.).
- The interim dividend will be paid on 5th July to shareholders on the register on 11th June.
- The financial information set out above does not comprise financial statements within the meaning of Section 240 of the Companies Act 1985. Full accounts of API Group plc for the year ended 30th September 1995, on which the auditors gave an unqualified report, have been delivered to the Registrar.
- Copies of the interim report will be available from the Company's registered office: Silk House, Park Green, Macclesfield, Cheshire SK11 7NU from today."

## PART V

### ACCOUNTANTS' REPORT ON LEAROYD GROUP

The following is the text of a report from Ernst & Young, Chartered Accountants and Registered Auditor, the reporting accountants:



Ernst & Young  
Chartered Accountants  
Commercial Union House  
Albert Square  
Manchester  
M2 6LP

23rd May 1996

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 by API Group plc of the entire issued share capitals of Learoyd Group Limited and its subsidiaries ("the UK Group") and of Learoyd Packaging (USA) Inc. (referred to collectively as "Learoyd Group") referred to in the circular comprising a prospectus ("the Prospectus") to be dated 23rd May 1996.

The financial information contained in this report has been prepared to show the consolidated profits and cash flows of Learoyd Group for the three years ended 30th April 1996 and the net assets as at each 30th April from 1994 to 1996 inclusive, and is based on the audited financial statements of the UK Group and the unaudited financial statements of Learoyd Packaging (USA) Inc., after making such adjustments as we consider necessary.

We have examined the audited financial statements of the UK Group for the three years ended 30th April 1996. These financial statements were audited by Binder Hamlyn, Chartered Accountants and Registered Auditor. All audit reports for the period under review were unqualified. The financial statements of Learoyd Packaging (USA) Inc. have not been audited as, under US legislation, there is no requirement to do so. We have consequently performed sufficient audit work in connection with Learoyd Packaging (USA) Inc. to enable us to express an opinion for the purpose of the Prospectus.

Audited financial statements have not been prepared in respect of the UK Group for any period subsequent to 30th April 1996. Our work has been carried out in accordance with the Auditing Guideline: "Prospectuses and the reporting accountant".

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 Learoyd Group for the three years ended 30th April 1996 and of the state of affairs of the Learoyd Group at each 30th April from 1994 to 1996 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 accounting standards.

(ii) *Basis of consolidation*

The consolidated financial information incorporates the accounts of each company for Learoyd Group.

*(iii) 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 written off against reserves in the year of acquisition.

*(iv) Depreciation*

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

Freehold buildings	—	2%
Long leasehold buildings	—	2%
Short leasehold improvements	—	lease term
Plant and machinery	—	5%—20%
Office equipment	—	10%—20%
Motor vehicles	—	20%—33.3%

*(v) 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.

*(vi) Stocks*

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost comprises amounts incurred in bringing each item to its present location and condition as follows:

Raw materials, consumables and goods for resale	—	purchase cost on a first-in, first out basis
Work in progress and finished goods	—	cost of direct materials and labour plus attributable 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.

*(vii) Deferred taxation*

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which the timing difference will reverse.

*(viii) Pensions*

The costs of the UK Group's defined benefit pension scheme are charged to the profit and loss account over the remaining service lives of the scheme members, as calculated by a qualified actuary. The costs of the UK Group's defined contribution pension schemes are charged to the profit and loss account on the basis of contributions payable in accordance with the rules of the scheme.

*(ix) Foreign currencies*

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Assets and liabilities in foreign currencies are translated into sterling at the rate ruling at the balance sheet date. All exchange differences are taken to the profit and loss account.

*(x) Government grants*

Grants are credited to deferred income. Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the assets.

### 3. Profit and loss accounts

The consolidated profit and loss accounts of Learoyd Group for the three years ended 30th April 1996 are set out below:

	<i>Notes</i>	<i>Year ended 30th April</i>		
		<i>1994</i> <i>£'000</i>	<i>1995</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
Turnover	(i)	7,706	9,092	12,556
Cost of sales		(5,086)	(5,869)	(8,107)
Gross profit		2,620	3,223	4,449
Distribution costs		(208)	(277)	(446)
Administrative expenses	(ii)	(1,302)	(1,250)	(1,652)
Operating profit	(ii)	1,110	1,696	2,351
Interest receivable		6	10	32
Interest payable and similar charges	(v)	(46)	(52)	(47)
Profit on ordinary activities before taxation		1,070	1,654	2,336
Taxation	(vi)	(179)	(461)	(641)
Profit on ordinary activities after taxation		891	1,193	1,695
Dividends	(vii)	(64)	(64)	(33)
Retained profit		827	1,129	1,662

The notes referred to above are set out in section 7 below.

### 4. Statements of total recognised gains and losses

	<i>Year ended 30th April</i>		
	<i>1994</i> <i>£'000</i>	<i>1995</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
Profit for the financial year	891	1,193	1,695
Exchange differences on translation of the net assets of Learoyd Packaging (USA) Inc.	(2)	2	3
Total recognised gains and losses relating to the year	889	1,195	1,698

## 5. Cash flow statements

The consolidated cash flow statements of Learoyd Group for the three years ended 30th April 1996 are set out below:

	<i>Notes</i>	<i>Year ended 30th April</i>		
		<i>1994</i> <i>£'000</i>	<i>1995</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
Net cash inflow from operating activities	(ii)	1,956	616	3,020
Returns on investments and servicing of finance				
Interest paid and similar charges		(41)	(54)	(51)
Interest received		7	11	24
Dividends paid		(63)	(102)	(33)
Net cash outflow from returns on investments and servicing of finance		(97)	(145)	(60)
Taxation				
Corporation tax paid		(242)	(187)	(418)
Investing activities				
Paid for purchase of tangible fixed assets		(1,433)	(653)	(1,415)
Received on sale of tangible fixed assets		2	21	7
Cash outflow from investing activities		(1,431)	(632)	(1,408)
Net cash inflow/(outflow) before financing		186	(348)	1,134
Financing activities				
Proceeds from share issue		—	—	60
Capital element of hire purchase and finance lease payments	(xx)	(60)	(160)	(11)
Repayment of unsecured loans	(xx)	(82)	(99)	(75)
New short term unsecured loans	(xx)	68	—	—
New short term other loans	(xx)	249	202	(451)
Net cash inflow/(outflow) from financing		175	(57)	(477)
Net increase/(decrease) in cash and cash equivalents	(ix)	361	(405)	657

The notes referred to above are set out in section 7 below.

## 6. Balance Sheets

The consolidated balance sheets of Learoyd Group at each 30th April from 1994 to 1996 inclusive are set out below:

		<i>At 30th April</i>		
	<i>Notes</i>	<i>1994</i> <i>£'000</i>	<i>1995</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
<b>Fixed assets</b>				
Tangible fixed assets	(x)	5,226	5,494	6,932
<b>Current assets</b>				
Stocks	(xi)	1,036	1,675	1,757
Debtors	(xii)	1,320	2,071	2,586
Cash at bank and in hand	(ix)	365	22	641
		2,721	3,768	4,984
<b>Creditors: amounts falling due within one year</b>	(xiii)	(2,413)	(2,698)	(3,104)
<b>Net current assets</b>		308	1,070	1,880
<b>Total assets less current liabilities</b>		5,534	6,564	8,812
<b>Creditors: amounts falling due after more than one year</b>	(xiv)	(170)	(69)	(592)
		5,364	6,495	8,220
<b>Capital and reserves</b>				
Called up share capital	(xvii)	1,600	1,600	1,630
Share premium		—	—	30
Profit and loss account	(xviii)	3,764	4,895	6,560
<b>Equity shareholders' funds</b>		5,364	6,495	8,220

The notes referred to above are set out in section 7 below.

## 7. Notes to the financial information

### (i) Turnover and segmental information

Turnover comprises the invoiced value of goods and services supplied by Learoyd Group, stated net of value added tax. Turnover arises entirely from continuing activities. All turnover, profits and net assets relate to the production and distribution of specialised film and security packaging products and are analysed as follows:

#### (a) Turnover

	<i>Year ended 30th April</i>		
	<i>1994</i> <i>£'000</i>	<i>1995</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
<b>Geographical:</b>			
Destination:			
United Kingdom	6,543	7,106	8,988
Europe	528	604	661
USA	635	1,382	2,907
	7,706	9,092	12,556

	<i>Year ended 30th April</i>		
	<i>1994</i> <i>£'000</i>	<i>1995</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
<b>Origin:</b>			
United Kingdom	7,071	7,710	9,649
USA	635	1,382	2,907
	7,706	9,092	12,556

#### (b) Profit

	<i>Year ended 30th April</i>		
	<i>1994</i> <i>£'000</i>	<i>1995</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
<b>Geographical:</b>			
United Kingdom	1,100	1,616	2,293
USA	(30)	38	43
<b>Profit on ordinary activities before taxation</b>	1,070	1,654	2,336

(c) Net assets

	<i>At 30th April</i>		
	1994	1995	1996
	£'000	£'000	£'000
Geographical:			
United Kingdom	4,861	5,949	7,283
USA	503	546	937
	<u>5,364</u>	<u>6,495</u>	<u>8,220</u>

(ii) Operating profit

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

	<i>Year ended 30th April</i>		
	1994	1995	1996
	£'000	£'000	£'000
Directors' emoluments (see note iii)	350	324	263
Auditors' remuneration			
—audit services	14	18	21
—non-audit services	9	8	13
Depreciation of owned fixed assets	381	499	600
Operating lease rentals	30	53	55
(Profit)/loss on disposal of fixed assets	1	(11)	(2)

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

	<i>Year ended 30th April</i>		
	1994	1995	1996
	£'000	£'000	£'000
Operating profit	1,110	1,696	2,351
Depreciation of tangible assets	381	499	600
Loss/(profit) on disposal of tangible fixed assets	1	(11)	(2)
	<u>1,492</u>	<u>2,184</u>	<u>2,949</u>
(Increase)/decrease in stock	(161)	(650)	(59)
(Increase)/decrease in debtors	(195)	(765)	(490)
Increase/(decrease) in creditors	820	(153)	620
Net cash inflow from operating activities	<u>1,956</u>	<u>616</u>	<u>3,020</u>

(iii) Directors' remuneration

	<i>Year ended 30th April</i>		
	1994	1995	1996
	£'000	£'000	£'000
Fees	—	3	3
Other emoluments	350	321	260
	<u>350</u>	<u>324</u>	<u>263</u>

	<i>Year ended 30th April</i>		
	1994	1995	1996
	£'000	£'000	£'000
Emoluments of the chairman	50	50	50
Emoluments of the highest paid director	79	70	77



The emoluments (excluding pension contributions) of the directors fell within the following ranges:

	Year ended 30th April		
	1994	1995	1996
	Number	Number	Number
£nil - £5,000	—	1	1
£10,001 - £15,000	—	1	—
£25,001 - £30,000	1	—	—
£45,001 - £50,000	1	1	—
£50,001 - £55,000	1	1	2
£60,001 - £65,000	—	—	1
£65,001 - £70,000	—	1	—
£70,001 - £75,000	1	—	—
£75,001 - £80,000	—	—	1

#### (iv) Staff costs

An analysis of staff costs is as follows:

	Year ended 30th April		
	1994	1995	1996
	£'000	£'000	£'000
Wages and salaries	2,304	2,399	2,885
Social security and health care costs	226	234	319
Other pension costs	92	76	105
	<u>2,622</u>	<u>2,709</u>	<u>3,309</u>

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

	Year ended 30th April		
	1994	1995	1996
	Number	Number	Number
Administration and sales	28	28	38
Production	138	140	176
	<u>166</u>	<u>168</u>	<u>214</u>

#### (v) Interest payable and similar charges

The composition of interest payable and similar charges was as follows:

	Year ended 30th April		
	1994	1995	1996
	£'000	£'000	£'000
Bank overdraft	7	9	1
On bank loans wholly repayable within five years	39	43	46
	<u>46</u>	<u>52</u>	<u>47</u>

#### (vi) Taxation

The taxation charge, based on the profit on ordinary activities for each year, comprises:

	Year ended 30th April		
	1994	1995	1996
	£'000	£'000	£'000
UK Corporation tax	178	458	610
Prior years UK Corporation tax	1	3	—
Overseas taxation	—	—	31
	<u>179</u>	<u>461</u>	<u>641</u>

If full provision had been made for deferred taxation, the cumulative tax charges would have been increased by:

	Year ended 30th April		
	1994	1995	1996
	£'000	£'000	£'000
	202	66	206

UK corporation tax has been provided at the following rates:

	Year ended 30th April		
	1994	1995	1996
	%	%	%
	33%	33%	33%

**(vii) Dividends**

	<i>Year ended 30th April</i>		
	1994 £'000	1995 £'000	1996 £'000
Ordinary shares	<u>64</u>	<u>64</u>	<u>33</u>

**(viii) Analysis of changes in cash and cash equivalents during the year**

	<i>Year ended 30th April</i>		
	1994 £'000	1995 £'000	1996 £'000
At beginning of the period	(10)	351	(60)
Net cash inflow/(outflow) during the period	361	(405)	657
Effect of foreign exchange rate changes	—	(6)	—
At end of the period	<u>351</u>	<u>(60)</u>	<u>597</u>

**(ix) Analysis of the balances and movement of cash and cash equivalents**

	<i>Year ended 30th April</i>		
	1994 £'000	1995 £'000	1996 £'000
<b>Cash at bank and in hand</b>			
Balance at beginning of period	128	365	22
Change in the period	237	(337)	619
Effect of foreign exchange rate changes	—	(6)	—
Balance at end of period	<u>365</u>	<u>22</u>	<u>641</u>
<b>Bank overdrafts</b>			
Balance at beginning of period	(138)	(14)	(82)
Change in the period	124	(68)	38
Balance at end of period	<u>(14)</u>	<u>(82)</u>	<u>(44)</u>
Net increase/(decrease) in cash and cash equivalents during the period	<u>361</u>	<u>(405)</u>	<u>657</u>

(x) **Tangible fixed assets**

At 30th April 1995 and 1996 tangible fixed assets comprised:

	<i>Land and buildings</i>			<i>Plant, machinery and equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	<i>Freehold</i>	<i>Short leasehold improvements</i>	<i>Long leasehold</i>			
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cost						
At 1st May 1994	82	43	1,442	5,649	256	7,472
Additions	—	5	131	519	123	778
Disposals	—	—	—	(37)	(97)	(134)
At 30th April 1995	82	48	1,573	6,131	282	8,116
Additions	63	27	27	1,860	64	2,041
Disposals	—	—	—	(23)	(3)	(26)
At 30th April 1996	145	75	1,600	7,968	343	10,131
Depreciation						
At 1st May 1994	14	—	92	1,928	212	2,246
Provided during the year	2	9	31	417	40	499
Disposals	—	—	—	(28)	(95)	(123)
At 30th April 1995	16	9	123	2,317	157	2,622
Provided during the year	2	12	33	502	51	600
Disposals	—	—	—	(22)	(1)	(23)
At 30th April 1996	18	21	156	2,797	207	3,199
Net book amount at 30th April 1994	68	43	1,350	3,721	44	5,226
Net book amount at 30th April 1995	66	39	1,450	3,814	125	5,494
Net book amount at 30th April 1996	127	54	1,444	5,171	136	6,932

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

	<i>Net book amount at 30th April</i>	
	<i>1995</i>	<i>1996</i>
	<i>£'000</i>	<i>£'000</i>
Plant, machinery and equipment	—	682

(xi) **Stocks**

Stocks comprised:

	<i>At 30th April</i>	
	<i>1995</i>	<i>1996</i>
	<i>£'000</i>	<i>£'000</i>
Raw materials	892	536
Work in progress	96	215
Finished goods and goods for resale	687	1,006
	1,675	1,757

**(xii) Debtors**

These comprised:

	<i>At 30th April</i>	
	1995	1996
	£'000	£'000
Trade debtors	1,987	2,504
Other debtors	14	18
Prepayments and accrued income	70	64
	<u>2,071</u>	<u>2,586</u>

**(xiii) Creditors amounts falling due within one year**

Creditors falling due within one year comprised:

	<i>At 30th April</i>	
	1995	1996
	£'000	£'000
Unsecured loans	75	—
Other loans	451	—
Bank overdraft (see note (ix) above)	82	44
Obligations under finance leases and hire purchase contracts (see note (xv) below)	—	134
Trade creditors	1,106	1,742
Corporation tax	452	665
Accruals	532	519
	<u>2,698</u>	<u>3,104</u>

Unsecured loans relate to loans from employees which were all repaid during the year ended 30th April 1996. The other loan of £451,000 at 30th April 1995 was subsequently converted into an obligation under a hire purchase agreement. The UK Group facility is secured by fixed and floating charges over Learoyd Group Limited's undertakings and assets.

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

These comprised:

	<i>At 30th April</i>	
	1995	1996
	£'000	£'000
Obligations under finance leases and hire purchase contracts (see note (xv) below)	—	525
Deferred income	69	67
	<u>69</u>	<u>592</u>

**(xv) Obligations under finance leases and hire purchase contracts**

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

	<i>At 30th April</i>	
	1995	1996
	£'000	£'000
Amounts payable:		
Within one year	—	134
Between one and two years	—	134
Between two and five years	—	391
	<u>—</u>	<u>659</u>
Finance leases and hire purchase contracts are shown as:		
Current obligations (see note (xiii) above)	—	134
Non-current obligations (see note (xiv) above)	—	525
	<u>—</u>	<u>659</u>

**(xvi) Provisions for liabilities and charges**

The analysis of deferred taxation at 30th April 1995 and 1996 was as follows:

	<i>Provided</i>		<i>Not provided</i>	
	1995	1996	1995	1996
	£'000	£'000	£'000	£'000
Capital allowances in advance of depreciation	—	—	695	891
ACT recoverable	—	—	(10)	—
	<u>—</u>	<u>—</u>	<u>685</u>	<u>891</u>

**(xvii) Share capital**

At 30th April 1995 and 1996 share capital comprised:

	<i>At 30th April</i>	
	1995	1996
	£'000	£'000
Authorised	2,000	10,000
Allotted, called up and fully paid	<u>1,600</u>	<u>1,630</u>

On 1st May 1995 Learoyd Group Limited increased its authorised share capital from £2,000,000 to £10,000,000 by the creation of 8,000,000 ordinary shares of £1 each. On that date, 1,599,998 ordinary shares of £1 each were issued and allotted together with the existing issued share capital in consideration for the acquisition of 1,600,000 ordinary shares in Learoyd Packaging Limited. A further 30,000 ordinary shares of £1 each were allotted on 1st May 1995 for cash at a premium of £1 per share.

**(xviii) Profit and loss account**

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

	<i>Year ended 30th April</i>		
	1994	1995	1996
	£'000	£'000	£'000
Brought forward	2,939	3,764	4,895
Retained profit	827	1,129	1,662
Exchange differences	(2)	2	3
Closing balance	<u>3,764</u>	<u>4,895</u>	<u>6,560</u>

**(xix) Reconciliation of movements in shareholders' funds**

The movements in shareholders' funds during the three years ended 30th April 1994 to 1996 inclusive are as follows:

	<i>Year ended 30th April</i>		
	1994	1995	1996
	£'000	£'000	£'000
Profit for the year	891	1,193	1,695
Dividends	(64)	(64)	(33)
	<u>827</u>	<u>1,129</u>	<u>1,662</u>
Recognised gains and losses relating to the year	(2)	2	3
New shares issued	—	—	60
Net additions to shareholders' funds	<u>825</u>	<u>1,131</u>	<u>1,725</u>
Opening shareholders' funds	4,539	5,364	6,495
Closing shareholders' funds	<u>5,364</u>	<u>6,495</u>	<u>8,220</u>

**(xx) Analysis of changes in financing**

	<i>Year ended 30th April</i>		
	1994	1995	1996
	£'000	£'000	£'000
<b>Unsecured loans</b>			
Balance at beginning of period	188	174	75
Net cash outflow from financing	(14)	(99)	(75)
Balance at end of period	<u>174</u>	<u>75</u>	<u>—</u>
<b>Other loans</b>			
Balance at beginning of period	—	249	451
Net cash (outflow)/inflow from financing	249	202	(451)
Balance at end of period	<u>249</u>	<u>451</u>	<u>—</u>
<b>Obligations under hire purchase agreements</b>			
Balance at beginning of period	220	160	—
Net cash outflow from financing	(60)	(160)	(11)
Inception of hire purchase contract	—	—	670
Balance at end of period	<u>160</u>	<u>—</u>	<u>659</u>
<b>Share capital (including premium)</b>			
Balance at beginning of period	1,600	1,600	1,600
Net cash inflow from financing	—	—	60
Balance at end of period	<u>1,600</u>	<u>1,600</u>	<u>1,660</u>

**(xxi) Commitments****(a) Capital**

Contracts for capital expenditure at 30th April 1996, not provided in the financial statements, amounted to £Nil (1995: £577,000).

**(b) Operating leases**

At 30th April 1995 and 1996 the annual commitments under operating leases were as follows:

	<i>At 30th April</i>	
	1995	1996
Within one year	11	52
Within two to five years	40	—
	<u>51</u>	<u>52</u>

**(c) Other**

Commitments at 30th April 1996 under documentary credits amounted to £Nil (1995: £16,000).

**(xxii) Pension commitments**

The UK Group operates a defined benefit and two defined contribution pension schemes. The assets of the schemes are held in separate trustee-administered funds. The pension costs amounted to £105,000 for the year ended 30th April 1996 (1995: £76,000). The contributions in respect of the defined benefit scheme are determined in accordance with the advice of a professionally qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1 May 1995. At that valuation the market value of the scheme's assets was £555,000 and the actuarial value of the assets was sufficient to cover 112% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The assumptions which have the most significant effect on the results of the valuation are those relating to the projected period of salaries and benefits (20 years), average salary progression of 7.5% per annum and the underlying fund yield being equivalent to an average level rate of interest of 9.0% per annum.

**(xxiii) Contingent liabilities**

The UK Group has provided guarantees to two suppliers of its subsidiary undertaking, Filmcast Extrusions Limited, which at 30th April 1996 amounted to £287,000 (1995: £110,000).

Yours faithfully

Ernst & Young  
Chartered Accountants

## PART VI

### PRO FORMA UNAUDITED STATEMENT OF COMBINED NET ASSETS OF THE ENLARGED GROUP

The following is an illustrative pro forma unaudited statement of the combined net assets of the Enlarged Group following the Acquisition, Placing and Open Offer, prepared on the bases set out in the notes below. This statement has been prepared for illustrative purposes only and, because of its nature, cannot give a complete picture of the financial position of the Enlarged Group:-

	API Group net assets at 30th March 1996 (Note 1) £'000	Learoyd Group net assets at 30th April 1996 (Note 2) £'000	Adjustments (Note 3) £'000	Pro forma net assets of the Enlarged Group £'000
<b>Fixed Assets</b>				
Tangible assets	30,911	6,932	—	37,843
<b>Current assets</b>				
Stocks	9,286	1,757	—	11,043
Debtors	28,755	2,586	—	31,341
Cash at bank and in hand	3,760	641	16,750	21,151
	41,801	4,984	16,750	63,535
Creditors - amounts falling due within one year	(25,991)	(3,104)	—	(29,095)
Net current assets	15,810	1,880	16,750	34,440
Total assets less current liabilities	46,721	8,812	16,750	72,283
Creditors - amounts falling due after more than one year	(12,873)	(592)	—	(13,465)
Provision for liabilities and charges	(615)	—	—	(615)
	33,233	8,220	16,750	58,203

#### Notes:

- (1) Figures for API are based on the unaudited consolidated balance sheet of API as at 30th March 1996.  
Provisions for liabilities and charges includes £199,000 deferred credit (government grants).  
The balance sheet of API Group has been prepared in accordance with the Group's accounting policies and practices and the results have been reviewed by the Group's auditors whose findings have been discussed with the Group's audit committee.
- (2) Figures for Learoyd Group are based on the audited consolidated balance sheet of Learoyd Group as at 30th April 1996 consolidated with the unaudited balance sheet of Learoyd USA as at 30th April 1996.
- (3) No account has been taken in the above statement of any fair value adjustments which may be necessary.  
Adjustment has been made for the proceeds of the share issue net of the consideration paid for (and associated costs of) the Acquisition. No account has been taken of the contingent deferred consideration of £2 million payable in July 1997.
- (4) No account has been taken of trading since the end of the six month period ended 30th March 1996 for API and since the year ended 30th April 1996 for Learoyd Group.

## PART VII

### ADDITIONAL INFORMATION

#### 1. The Company and its Directors

The names and functions of the Directors are as follows:

John Moger Woolley (Non-Executive Chairman)

Michael John Smith (Chief Executive)

Dennis James Holt (Finance Director)

John Fuller Adey (Non-Executive)

John Nicholas Sheldrick (Non-Executive)

all of Silk House, Park Green, Macclesfield, Cheshire SK11 7NU.

#### 2. Responsibility statement

The Directors, whose names are set out in paragraph 1 above, 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.

#### 3. Incorporation

3.1 The Company was incorporated on 23rd July 1920 in England under the Companies Acts 1908 to 1917 as a private company limited by shares with the name Amalgamated Paper Mills Limited, under registered number 169249. The Company was re-registered as a public limited company on 4th March 1982 and on 17th July 1990 changed its name to API Group plc. The Company is the holding company of the Group and following completion of the Acquisition it will be the holding company of the Enlarged Group.

3.2 The principal legislation under which the Company operates is the Companies Act 1985 (as amended by the Companies Act 1989) and the regulations made thereunder.

The Company's registered office is Silk House, Park Green, Macclesfield, Cheshire SK11 7NU.

#### 4. Share capital

4.1 As at 23rd May 1993, the date that is three years preceding the date of this document, the authorised share capital of the Company was £7,549,000 divided into 549,000 Preference Shares and 28,000,000 Ordinary Shares. As at that date the issued share capital of the Company comprised 549,000 Preference Shares and 21,153,270 Ordinary Shares.

4.2 Since 23rd May 1993, there have been the following changes in the issued share capital of the Company by virtue of the exercise of options in the following terms:

<i>Options exercised by</i>	<i>Date of exercise</i>	<i>No. of Ordinary Shares</i>	<i>Exercise price (p)</i>
R W G Macleod	1st June 1993	15,200	143
J B McCleery	1st June 1993	20,000	143
A Wilson	1st June 1993	15,200	143
R J Mansour	1st June 1993	10,000	143
Q S Beddall	1st June 1993	5,200	143
R G Vaughan	1st June 1993	20,000	218
B W Hughes	3rd June 1993	5,200	143
P A Taylor	8th June 1993	5,200	143
M A Privett	21st June 1993	10,000	218
M A Privett	21st June 1993	5,200	143
B S Gandhi	17th August 1993	10,000	218
C Hermelin	27th September 1993	5,200	143
A Sentance	8th December 1993	12,400	190
C Hermelin	31st January 1994	7,600	218
R F Angrave	21st February 1994	800	190
E N Lang	23rd February 1994	10,000	77
G Telfer	16th March 1994	7,600	211
R F Angrave	8th April 1994	2,800	183
D J Holt	16th May 1994	30,000	106
M F Wallace	1st August 1994	15,200	143
A Ferguson	10th February 1995	10,000	77
M J Smith	15th June 1995	150,000	200
M Davenport	26th July 1995	2,400	183



<i>Options exercised by</i>	<i>Date of exercise</i>	<i>No. of Ordinary Shares</i>	<i>Exercise price (p)</i>
C Hermelin	29th August 1995	11,200	308
C Hermelin	29th August 1995	7,200	183
R F Angrave	12th September 1995	2,400	183
I R Alexander	11th December 1995	5,200	183
P S Wilden	10th January 1996	20,000	211
T Corner	10th January 1996	20,000	211
L Stimpson	10th January 1996	5,200	211
A Sentence	18th January 1996	2,400	308
A Sentence	18th January 1996	5,200	143
A Sentence	18th January 1996	5,200	183
A Sentence	18th January 1996	16,000	211
H S Wolley	24th January 1996	15,200	183
M J Smith	8th February 1996	56,000	211
D J Holt	8th February 1996	24,000	211
D J Holt	8th February 1996	24,800	183
R H Merrick	19th February 1996	20,000	211

- 4.3 The authorised and issued share capital of the Company, as it is at present and as it will be immediately following completion of the Proposals, and assuming no exercise of options granted under the Share Option Schemes before such completion, is set out in the tables below:

<i>Present</i>	<i>Authorised</i>	<i>No</i>	<i>Issued and fully paid</i>	<i>No</i>
	<i>£</i>		<i>£</i>	
Preference Shares	549,000	549,000	549,000	549,000
Ordinary Shares	7,000,000	28,000,000	5,442,117.50	21,768,470
<i>Proposed</i>	<i>Authorised</i>	<i>No</i>	<i>Issued and fully paid</i>	<i>No</i>
	<i>£</i>		<i>£</i>	
Preference Shares	549,000	549,000	549,000	549,000
Ordinary Shares	9,329,344	37,317,376	6,997,008	27,988,032

The Existing Ordinary Shares and the Preference Shares are listed on the London Stock Exchange and are traded in registered form.

- 4.4 At the Company's Annual General Meeting held on 8th February 1996, resolutions were passed to:
- authorise the Directors to allot relevant securities up to a maximum nominal amount of £1,611,383, representing 6,445,532 Ordinary Shares, being approximately 29.9 per cent. of the Existing Ordinary Shares (such authority to expire at the conclusion of the next Annual General Meeting of the Company);
  - empower the Directors, for a period of 15 months or, if earlier, until the conclusion of the next Annual General meeting of the Company, to allot equity securities for cash other than pro-rata to existing holders in connection with a rights issue and otherwise up to an aggregate nominal amount of £269,430, representing 1,077,723 Ordinary shares being approximately 5 per cent. of the Existing Ordinary Shares; and
  - authorise the Directors to establish the Long Term Incentive Scheme, details of which are given in paragraph 12.2 of this Part VII, and to make awards thereunder, and to approve the giving of any financial assistance in connection therewith and the participation of Mr Smith and Mr Holt, as Directors, in such scheme.
- 4.5 A resolution (number 1 in the notice of Extraordinary General Meeting) is to be proposed at the Extraordinary General Meeting which, if passed, will allow the Proposals to be completed and effected, and pursuant thereto and subject to Admission becoming effective ("Effective Admission") on or before 21st June 1996, or such later date as API may determine, but in any event not later than 5th July 1996:
- the authorised share capital of the Company will be increased from £7,549,000 to £9,878,344, a percentage increase of 33.3 per cent. in the authorised Ordinary Share capital of the Company as at the date of this document, by the creation of 9,317,376 new Ordinary Shares;
  - the Directors will be authorised (such authority to expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on the date that is 15 months following the date of the relevant resolution) to allot relevant securities up to a maximum nominal amount of £3,887,227, representing 15,548,908 Ordinary Shares (71.4 per cent. of the existing issued Ordinary Share capital at the date of this document and 55.6 per cent. of the issued Ordinary Share capital following the issue of the New Ordinary Shares). The Directors intend to exercise such authority in connection with the Proposals; and

- (c) the Directors will be empowered (such power to expire as described in the previous paragraph (b)) to allot equity securities for cash as if section 89(1) of the Act did not apply: in connection with the Placing and Open Offer; in connection with a rights issue; and otherwise up to a maximum nominal amount of £349,850, representing 1,399,400 Ordinary Shares (6.4 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). The Directors intend to utilise this power in connection with the Proposals.
- 4.6 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 the Company to the extent that such rights are not disapplied by the resolutions referred to in paragraph 4.5(c) above or otherwise pursuant to the provisions of section 95 of the Act.
- 4.7 Following the issue of the New Ordinary shares, 9,329,344 Ordinary Shares will be authorised but unissued, of which up to 768,900 may be issued under existing options granted under the Share Option Schemes. Other than in connection with the Proposals, 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 the Company.
- 4.8 In the last three years:
- save as disclosed in paragraph 4.2 of this Part VII, there has been no change in the authorised or issued share capital of API or any other member of the Group and/or the number and/or classes of which any such share capital is comprised nor has there been any such change which is material in relation to the share capital of any other member of the Group; and
  - no commissions, discounts, brokerages or other special terms have been granted by API or any other member of the Group in connection with the issue or sale of any share or loan capital of API or any other such member.
- 4.9 Save as disclosed in paragraphs 9.1 and 9.10 of this Part VII and save in connection with the Proposals, no share or loan capital of API or any other member of the Group either has been agreed conditionally or unconditionally to be or is proposed to be issued or is under option or 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.
- 4.10 None of the New Ordinary Shares has been sold or is available in whole or in part to the public in conjunction with the application for the New Ordinary Shares to be admitted to the Official List, save under the Placing and Open Offer.
- 4.11 The Directors, who have been so advised by Credit Lyonnais Laing, believe the Issue Price to be the best reasonably obtainable price per New Ordinary Share at which it is appropriate the Placing and Open Offer should, in the prevailing circumstances, be made.

## 5. Subsidiary companies

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

<i>Name</i>	<i>Principal activity</i>	<i>Registered office</i>	<i>Percentage of share capital held (%)</i>
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
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

<i>Name</i>	<i>Principal activity</i>	<i>Registered office</i>	<i>Percentage of share capital held (%)</i>
Learoyd Packaging (USA) Inc.	Supply of security bags and other tamper-evident products	1409 Peachtree Street, Atlanta, Georgia 30309, Fulton County, 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

## 6. Principal establishments

The location and tenure of the Enlarged Group's principal establishments are:

<i>Location</i>	<i>Tenure</i>	<i>Unexpired term</i>
Second Avenue, Poynton Industrial Estate, Poynton, Cheshire, SK12 1ND	Freehold	—
Gloucester Road, Cheltenham GL51 8NH	Freehold	—
Carlton Road, Industrial Estate, Saxmundham, Suffolk IP17 1NL	Freehold	—
Hillcroft Road, Newham, Beckton, London E6 4LW	Freehold	—
Firth Road, Houston Industrial Estate Livingston, West Lothian EH54 5DJ	Leasehold	77 years (Annual rent £37,500)
Heasandford Mill, Netherwood Road, Burnley, Lancashire BB10 2EJ	Leasehold	906 years (Annual rent 24p)
Lyme Green, Business Park, Macclesfield, Cheshire	Leasehold	24 years (Annual rent £175,500)
Norwich Street, Rochdale	Freehold	—
1-5 New Street, Earl Shilton, Leicester LE5 7FS	Freehold	—
329 New Brunswick Avenue, Rahway, New Jersey 07065 USA	Freehold	—

## 7. Memorandum and Articles of Association

7.1 The principal objects of the Company are to carry on the business of a holding and investment company and to carry on the business of co-ordinating the group of companies comprising the Company and its subsidiary or associated companies for the time being and any other entity in which the Company is for the time being interested. The objects of the Company are set out in full in clause 4 of its Memorandum of Association, which is available for inspection as described below.

7.2 The Articles of Association of the Company ("Articles") include provisions to the following effect:

### (a) Voting Rights

#### (i) Ordinary Shares

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

(ii) Preference Shares

Subject to the restrictions described in paragraph (d) below, every holder of Preference Shares present in person shall upon a show of hands have one vote and every holder of Preference Shares present in person or by proxy shall upon a poll have one vote for every Preference 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 the Company 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 the Company. Such dividend is paid half-yearly, on 31st March and 30th September in any relevant year.

(ii) Subject to any rights or privileges for the time being attached to any shares having preferential, deferred or other special rights in regard to dividends, the Company in general meeting may sanction or declare dividends, but no larger dividend shall be sanctioned or declared than is recommended by the Directors. Unless the rights and terms attached to any shares otherwise provide all dividends shall be declared and paid according to the amounts paid up on the shares 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 if paid up (in whole or in part) as from a particular date, such share shall rank for dividend accordingly.

(iii) The Directors may from time to time, if they think fit, and if in their opinion the position of the Company justifies such payment, pay interim dividends.

(iv) No dividend shall be paid :

(aa) otherwise than out of profits available for the purpose (as defined in section 263 of the Act); and

(bb) if at that time the amount of the Company's net assets (as specified in section 264 of the Act) is less than the aggregate of the Company's called up share capital and its undistributable reserves (as defined in the said section 264) as shown by the latest audited accounts of the Company or such other accounts as may be the relevant accounts for the purposes of section 270 of the Act; and

(cc) to the extent that such dividend would reduce the amount of those assets to less than that aggregate as so shown.

(v) Subject to the provisions of the Articles, the Directors may, if authorised by an ordinary resolution of the Company, offer the holders of Ordinary Shares the right to elect to receive additional Ordinary Shares, credited as fully paid, instead of cash in respect of such dividend or dividends, or any part thereof as are specified by such resolution. The entitlement of each holder of Ordinary Shares to receive such new Ordinary Shares shall be such that the maximum aggregate value of such new shares for which election may be made (as calculated by reference to the average of the middle market quotations for the Company's Ordinary Shares on the Official List on the day on which the shares are first quoted "ex" the relevant dividend and the four subsequent dealing days, or in such other manner as may be determined by or in accordance with such resolution) shall be as near as practicable equal to (but not in excess of) the aggregate cash amount such holder of Ordinary Shares would have received by way of dividend in respect of the holding to which such election relates. No holder of Ordinary Shares shall be entitled to receive any fraction of a share or the entire dividend in respect of the holding to which such election relates in the form of shares but subject thereto shall be entitled to receive the maximum number of additional shares which the election shall validly seek.

The new Ordinary Shares so allotted shall rank *pari passu* in all respects with the fully paid Ordinary Shares of the Company then in issue except they will not be entitled to participate in the relevant dividend.

(vi) 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 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 the auditors for the time being of the Company); 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.
- (vii) 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 in paragraph (vi) above proportionate to the amount of capital to be repaid on each of such Preference Shares shall become payable.
- (viii) The Directors may, before recommending any dividend, set aside out of the profits of the Company such sums as they think proper to a reserve or reserves which shall at the discretion of the Directors be applicable for meeting contingencies, or for repairing or maintaining any works connected with the business of the Company, or for equalising dividends or distribution by way of special dividend, or for any other purposes for which the profits of the Company may lawfully be applied, and the Directors may divide the reserve or reserves into separate funds from time to time carried to the credit thereof in the business of the Company or invest the same in such investments as they may select (but in the case of shares of the Company or of its holding company, only as permitted by the Articles and the Act).
- (ix) 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 the Company until claimed. Any dividend unclaimed for a period of 12 years after having been declared shall be forfeited and shall revert to the Company. No such unclaimed dividend shall bear interest as against the Company.

*(c) On a winding up*

On a winding up, the liquidator may, with the sanction of an extraordinary resolution, and any other sanction required by the Act, divide among the members in kind the whole or any part of the assets of the Company (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 the Company 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 the Company, 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) Restrictions on voting and dividends*

- (i) A member shall not 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 (or to which he is entitled by transmission) whether alone or jointly with any other person, together with interest and expenses (if any).
- (ii) Save as expressly provided by the Articles, no member other than a member duly registered who shall have paid everything for the time being due from him and payable to the Company in respect of his shares shall be entitled to vote on any question either personally or by proxy at any general meeting of the Company.
- (iii) Where (aa) notice (an "information notice") is served by the Company pursuant to any provision of the Act on any person whom the Company knows or has reasonable cause to believe to be interested in any shares and that person fails to give the information required by the information notice within the period specified in the information notice (being not less than the period (if any) then required by the London Stock Exchange to be the minimum period for the purpose), and (bb) within such period before the expiration of the period specified in the information notice as shall then be stipulated by the London Stock Exchange (if any) and in the absence of any such stipulation, then as soon as reasonably practicable before the expiration of the period specified in the information notice, a notice (a "disenfranchisement notice") is served by the Company on the member (whether or not he was the person to whom the information notice was addressed) registered as the holder of those shares at the date of service of the information notice then unless either:
  - (A) the person to whom the information notice is addressed is for the time being exempted from the obligation to comply with such notice in accordance with any provision of the Act; or
  - (B) the Directors otherwise determine,
 such holder shall not be entitled to exercise either personally or by proxy the votes attaching to such shares unless and until the information required by the information notice has been given by the Company.

(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 otherwise expressly provided by the terms of 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 the Company 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 such shares.
- (iii) The Company may from time to time by ordinary resolution increase its capital, consolidate and divide all or any of its share 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, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way.
- (v) Subject to the provisions of the Act and any resolution relating thereto or to any authority to allot relevant securities, all unissued shares of the Company are under the control of the Directors.
- (vi) Subject to the provisions of the Act any share may be issued on terms that it is, or at the option of the Company is to be liable, to be redeemed on the terms and in such manner as the Company by special resolution may prescribe.
- (vii) The Company 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 the Company 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.
- (viii) The Company may from time to time by ordinary resolution convert all or any of its paid-up shares into stock and may, in like manner, reconvert such stock into paid-up shares of any denomination. The holders of such stock shall have the same advantages and privileges for all purposes as if they held the shares from which the stock arose.

(f) *Transfer of shares*

(Note: As referred to in Part I of this document, on 29th 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")). These resolutions will become effective immediately prior to CRESTCo Limited granting permission for such shares to be transferred by means of the CREST system. At that time, the effect of the resolutions will be to disapply, in relation to the Ordinary Shares and Preference Shares, those provisions of the Articles which are inconsistent with the holding and transfer of those shares in CREST and any provisions of the Regulations. A summary of the provisions of the Articles relating to transfer of shares is set out in paragraphs (i) to (iv) inclusive below.)

- (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; and
  - (bb) the transfer of any share on which the Company 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.
- (iv) The registration of transfers may be suspended and the Register may be closed at such times (if any) and for such periods (not exceeding 30 days in any year) as the Directors may determine.

*(g) Untraced Shareholders*

The Company shall be entitled to sell as the agent of a member or the person entitled by transmission from such member at the best price reasonably obtainable any share registered in the name of that member provided that the following conditions are satisfied:-

- (i) for a period of twelve years during which the Company has made a distribution by way of dividend to the holders of Ordinary Shares on at least three separate occasions no cheque or warrant sent by the Company through the post in a prepaid envelope addressed to the member or to the person entitled by transmission to the share at his address on the register of members or other last known address given by the member or the person entitled by transmission to which cheques and warrants are to be sent has been cashed and no communication has been received by the Company from the member or the person entitled by transmission;
- (ii) the Company has at the expiration of the said period of twelve years by advertisement in two national daily newspapers and in a newspaper circulating in the area in which the relevant address is located given notice of its intention to sell such share;
- (iii) the Company has not during the further period of three months after the date of the advertisement and prior to the exercise of the power of sale received any communication from the member or person entitled by transmission; and
- (iv) the Company has given notice in writing to the London Stock Exchange of its intention to sell such share.

*(h) 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 the Company at which such notices may be served.

## **8. United Kingdom taxation and stamp duty**

The Company has received the following advice, which is intended as a general summary of the position for United Kingdom resident shareholders under current United Kingdom law and Inland Revenue practice, with regard to taxation of dividends and capital gains and to stamp duty in relation to the Placing and Open Offer:-

*(a) Dividends*

Under current United Kingdom taxation legislation, no taxation will be withheld at source from any dividend paid by the Company. Following the payment of a dividend, however, the Company normally has to account for and remit to the Inland Revenue an amount of advance corporation tax ("ACT"), currently at the rate of one quarter of the amount of the dividend which will be equal to 20 per cent. of the sum of the cash dividend plus the ACT.

Subject to the paragraph below on FIDs, individual shareholders in the Company resident in the United Kingdom will generally be liable to income tax on the aggregate of the dividend and an associated tax credit. The associated tax credit on the dividend will be equivalent to 25 per cent. of the cash dividend and will be set against the individual's overall tax liability. Individual shareholders who are liable to higher rate tax, currently 40 per cent., will have an additional liability equal to 25 per cent. of the cash dividend. Individuals liable to lower or basic rate tax will have no further tax liability. Individuals not liable to tax in respect of the dividend may reclaim payment of the tax credit from the Inland Revenue. UK resident trustees of discretionary trusts liable to account for income tax at 34 per cent. on trust income may be required to account for additional tax.

Subject to the paragraph below on FIDs, United Kingdom resident corporate shareholders (other than certain insurance companies) will not be liable to United Kingdom corporation tax on the dividend received and will generally be able to treat the total of any cash dividend received and related tax credit as franked investment income.

Subject to the paragraph below on FIDs, certain shareholders exempt from taxation in respect of investment income (for example pension funds) are entitled to reclaim the tax credit in respect of dividends.

The Company may, subject to specified limitations, elect to pay a "Foreign Income Dividend" ("FID") out of foreign source profits, enabling it, if certain conditions are met, to recover all or a portion of the ACT for which it has accounted to the United Kingdom Inland Revenue. For the purposes of calculating any further United Kingdom income tax payable by United Kingdom resident individual shareholders, FIDs will be treated as already having borne income tax at the lower rate, but no tax credit will attach to a FID. Accordingly, there would be no associated tax credit capable of being refunded in whole or in part. In the case of United Kingdom resident corporate shareholders, no credit would be available in respect of a FID to frank dividends (other than a FID) paid by such shareholders and, in the case of non-United Kingdom resident shareholders, no credit would be available in respect of which such shareholders would be entitled to receive a payment under any applicable double taxation convention.

Whether shareholders in the Company who are resident in countries other than the United Kingdom are entitled to a payment from the Inland Revenue of a proportion of the tax credit in respect of dividends on such shares depends in general on the provisions of any double taxation convention or agreement which exists between such countries and the United Kingdom although special provisions apply for Commonwealth citizens, residents of the Isle of Man and the Channel Islands and nationals of states of the European Economic Area. Persons who are not resident in the United Kingdom should consult their own tax advisers as to the possible applicability of such provisions, the procedures for claiming payment and what relief or credit may be claimed for such tax credit in the jurisdiction in which they are residents, and also whether the dividend may be subject to tax in that jurisdiction.

*(b) Taxation of capital gains*

The subscription by a holder of Existing Ordinary Shares of his *pro rata* entitlement of New Ordinary Shares under the Open Offer will, in practice, be regarded as a reorganisation of the Company's share capital for the purposes of United Kingdom taxation of capital gains. Accordingly, New Ordinary Shares issued by the Company to a holder of Existing Ordinary Shares pursuant to the Open Offer will be treated for those purposes as the same asset as his Existing Ordinary Shares and the price paid for such New Ordinary Shares will be added to the base cost of his Existing Ordinary Shares. However, for the purpose of calculating indexation allowance, the expenditure incurred in subscribing for New Ordinary Shares under the Open Offer will be treated as incurred when the subscription money for the New Ordinary Shares is paid or is liable to be paid. No United Kingdom tax on capital gains should arise when a shareholder takes up his entitlement to New Ordinary Shares, but if a shareholder sells any of the New Ordinary Shares he acquires he may, depending on his circumstances, incur a liability to United Kingdom taxation on capital gains at that stage.

*(c) Stamp duty*

No stamp duty or stamp duty reserve tax will be payable on the issue of the New Ordinary Shares.

The information contained in this paragraph is intended as a general guide. Any Shareholders who are in any doubt as to their, or the Company's taxation position should consult their own professional advisers.

## 9. Directors' and other interests

9.1 The interests (all of which are beneficial) of the Directors (and persons connected with them within the meaning of section 346 of the Act) in the share capital of the Company which have been notified under section 324 or 328 of the Act or are required to be entered in the register of Directors' interests pursuant to section 325 of the Act (or which would be so required if the relevant connected person were a Director) as at 22nd May 1996, the latest practicable date prior to the publication of this document are as follows:

Name	No of Ordinary Shares	% of existing Ordinary Shares	Under option <sup>1</sup>		
			No of Ordinary Shares	Normal earliest exercise date	Exercise price (p)
J M Woolley	40,000	0.184	—	—	—
M J Smith	25,000	0.115	40,000	23rd June 1998	454 <sup>2</sup>
			60,000	3rd January 1999	553 <sup>2</sup>
D J Holt	18,000	0.083	20,000	23rd June 1998	454 <sup>2</sup>
			25,000	3rd January 1999	553 <sup>2</sup>
J F Adey	60,000	0.276	—	—	—
J N Sheldrick	10,000	0.046	—	—	—



*Notes:*

- 1 The options over Ordinary Shares referred to above are exercisable in accordance with the provisions of the Share Option Schemes, details of which are set out in paragraph 12.1 of this Part VII. 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.
  - 2 These share options were granted to M J Smith and to D J Holt in two tranches on 23rd June 1995 and 3rd January 1996 respectively, under the Executive Scheme.
- 9.2 Save as disclosed in paragraph 9.1 above, none of the Directors nor any person connected with any of them (within the meaning of section 346 of the Act) has any beneficial or non-beneficial interest in any securities of the Company which are required to be notified to the Company pursuant to section 324 or 328 of the Act or entered in the register maintained by the Company under section 325 of the Act (or would be required to be disclosed or entered if such connected persons were Directors).
- 9.3 The Company has been notified that, as at 22nd May, 1996, (the latest practicable date prior to the publication of this document), the following persons other than the Directors are interested in 3 per cent. or more of the Existing Ordinary Shares and the existing Preference Shares respectively:

<i>Name</i>	<i>Existing Ordinary Shares</i>	<i>% of Existing Ordinary Shares</i>
TSB	2,612,104	12.05
M & G Investment	2,146,990	10.64
Edinburgh Fund Managers	1,457,498	6.99
Standard Life Assurance Company	1,422,400	6.53
Mercury Asset Management	1,336,020	6.39
Throgmorton Trust	940,000	4.32
ESN Investment Management Limited	936,000	4.30
Scottish Amicable	895,400	4.11
Moorgate Investment Management	888,000	4.08
Sunlife (Vidacos Nominees)	872,100	4.00
Norwich Union	729,950	3.35
	<i>Existing Preference Shares</i>	<i>% of Existing Preference Shares</i>
Jove Investment Trust PLC	190,000	34.61
The Investment Company PLC	123,950	22.58
Dunae Investment Trust PLC	100,000	18.21
Aboyne - Clyde Rubber Estates of Ceylon PLC	42,711	7.78
Birchin Lane Nom Ltd A/C SDI	25,000	4.55
Stephen John Cockburn Esq	18,500	3.37

The above figures do not take into account any Ordinary Shares which may be taken up pursuant to the Placing and Open Offer because the level of take-up is not yet known.

- 9.4 Neither the Company nor any of its subsidiaries nor the Company's pension fund has any interest in the share capital of the Company.
- 9.5 Save as disclosed in paragraphs 9.1 and 9.3 above, the Directors have not been notified and the Company is not aware that any person is interested (within the meaning of the Act) directly or indirectly, in three per cent. or more of the issued share capital of the Company or could directly or indirectly, jointly or severally, exercise control over the Company.
- 9.6 The aggregate remuneration paid and benefits in kind granted to the directors of API by any member of the Group during the year ended 30th September 1995 was approximately £415,000.
- 9.7 No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or which is or was significant to the business of the Group and which was effected by the Company or any of its subsidiaries during the current or immediately preceding financial year or during any earlier financial year and which remains in any respect outstanding or unperformed.
- 9.8 There are no existing or proposed service contracts with any of the Directors save for those made available for inspection at the last Annual General Meeting of the Company, and such contracts have not subsequently been varied.
- 9.9 There will be no variations to the emoluments receivable by the Directors of the Company as a result of the Proposals.

- 9.10 Options over 768,900 Ordinary Shares are outstanding under the terms of the Share Option Schemes as at 22nd May 1996 (the latest practicable date prior to the publication of this document).

These options are held by Directors as set out in paragraph 9.1(a) above and additionally by other Group employees as summarised follows:

(a) Executive Scheme

Date of grant	Subscription price(p)	Exercisable (in normal circumstances)		Ordinary shares under option
		from	to	
28.09.1988	264	28.09.1991	28.09.1998	12,000
30.05.1989	218	30.05.1992	30.05.1999	15,200
28.05.1990	143	28.05.1993	28.05.2000	5,200
13.07.1993	183	13.07.1995	13.07.2002	50,000
25.12.1992	211	25.12.1995	25.12.2002	48,000
28.05.1993	321	28.05.1996	28.05.2003	16,000
27.05.1994	394	27.05.1997	27.05.2004	20,000
23.06.1995	454	23.06.1998	23.06.2005	122,500
02.01.1996	553	02.01.1999	02.01.2006	33,600
03.01.1996	553	03.01.1999	03.01.2006	206,400

(b) Unapproved Scheme

Date of grant	Subscription price(p)	Exercisable (in normal circumstances)		Ordinary shares under option
		from	to	
28.05.1993	328	28.05.1996	28.05.2003	40,000
27.05.1994	394	27.05.1997	27.05.2004	15,000
23.06.1995	455	23.06.1998	23.06.2005	10,000
03.01.1996	553	03.01.1999	03.01.2006	30,000

## 10. Working capital

The Company is of the opinion that, taking into account available 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.

## 11. Indebtedness

- 11.1 As at the close of business on 30th April 1996, the Enlarged Group had indebtedness as follows:

	API Group £'000	Learoyd Group £'000	Enlarged Group £'000
Overdraft (unsecured)	45	—	45
Overdraft (secured)	—	54	54
Term loans (unsecured)	12,023	—	12,023
Hire purchase and finance leases	—	659	659
Indebtedness	12,068	713	12,781
Guarantees and other contingent liabilities	—	287	287

- 11.2 Save as disclosed in paragraph 11.1 and apart from intra-group indebtedness and guarantees, the Enlarged Group, as at 30th April 1996 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 and unsecured and including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments and obligations under finance leases), or any guarantees or other material contingent liabilities.

- 11.3 As at the close of business on 30th April 1996, the Enlarged Group had cash deposits and short term deposit balances of approximately £2,758,000, of which £2,033,000 was attributable to the Group and £725,000 of which was attributable to the Learoyd Group.

## 12. Share Option Schemes and Long Term Incentive Scheme

### 12.1 Share Option Schemes

- (a) On 11th February 1993, the Company adopted executive share option schemes to replace the previous scheme under which the Company's authority to grant options expired on 8th February 1993. The first of these new schemes ("the Executive Scheme") was approved by the Board of Inland Revenue on 26th February 1993. As the Company has significant operations overseas and the Board desired to extend share option arrangements to executives in those operations which is, so far as possible, tax effective for them in the countries in which they live, the Company adopted a second scheme ("the

Unapproved Scheme") on 11th February 1993. The Unapproved Scheme was not submitted for approval by the United Kingdom Inland Revenue, but in all material respects mirrors the provisions of the Executive Scheme with such amendments as are appropriate to obtain, where possible, beneficial tax provisions whereby options granted under it to employees resident in the United States of America can qualify as incentive stock options under the United States Internal Revenue Code. As a result of the changes to Inland Revenue approved schemes enacted in the Finance Act 1996, the Unapproved Scheme will also in future be used to grant to participants who are subject to United Kingdom income tax options in excess of the new £30,000 limit referred to in paragraph (viii) below.

- (b) Particulars of the Executive Scheme and the Unapproved Scheme, the terms of each of which are set out in full in the Rules thereof ("the Executive Rules" and "the Unapproved Rules" respectively), a copy of each of which may be inspected at the address specified in paragraph 22 below, are as follows:

(i) *Regulation*

The Executive Scheme and the Unapproved Scheme are regulated by the Board or a committee of the Board ("the Board"). The Board may issue invitations to apply for options to acquire Ordinary Shares at the Option Price (see paragraph (iv) below). Options may be granted by the Company over unissued Ordinary Shares or by any shareholder who has agreed with the Company to grant an option over issued Ordinary Shares owned by that shareholder. No price is payable under the Executive Scheme for the grant of an option. Under the Unapproved Scheme, the Board has the right to require payment for the grant of the option but normally only does so if advised that this should be done for taxation purposes in the jurisdiction to which the executive receiving the option is subject.

(ii) *Eligibility*

Participants in each of the Share Option Schemes must be executive directors or other employees of the Group, the Company and/or one or more of its subsidiaries for the time being in the UK or overseas (in this paragraph 12 being, together, "the Group"), who devote at least 20 hours (or in the case of Directors, 25 hours) of their working time each week to the business of the Participating Group and who are selected by the Board.

(iii) *Grants of options*

Although the grant of options in any year is at the discretion of the Board, if invitations to apply for options are issued in any year pursuant to either of the Share Option Schemes, they may only be issued during the period commencing on the fourth dealing day following and ending twenty-five days after the announcement of the annual results or the announcement of any interim results of the Company, although they may not be issued prior to the fixing of the price in accordance with the provisions summarised in paragraph (iv) below.

Options granted under the Share Option Schemes are personal to the participants to whom they are granted and may not be transferred or assigned. However, they are exercisable by the legal personal representative of a participant who dies before exercising his option.

(iv) *Option price*

The price per share payable on the exercise of an option is determined by the Board and (except in the case of Class 2 Options as described in paragraph (v) below) will be not less than the greater of the nominal value of the Ordinary Shares and the average of the middle market quotations for the Ordinary Shares as derived from the Official List on the three dealing days immediately preceding the date of the invitation to apply for the relevant option, provided that none of such dealing days shall be a dealing day preceding the latest announcement of the results of the Company for any period.

(v) *Classes of options*

All options granted or to be granted under the Share Option Schemes fall into one of three classes.

A Class 1 Option is not normally exercisable until three years after it has been granted and then only if the growth in the Company's earnings per share over a three-year period has at least equalled inflation as measured by the increase in the retail prices index.

A Class 2 Option is an option granted at a discounted Option Price being not less than 85% of the average of the middle market quotations referred to in paragraph (iv) above. No Class 2 Options have been granted and as a result of the enactment of the Finance Act 1996, the grant of Class 2 Options under the Executive Scheme is no longer permitted. The Board resolved on 17th May 1996 that no Class 2 Options will be granted under the Unapproved Scheme.

A Class 3 Option is not normally exercisable until five years after it has been granted and then only if the growth in the Company's earnings per share over a five-year period would place it in the top quartile of FTSE 100 Companies measured by growth in earnings per share over that period.

Class 1 Options are not granted to directors and employees who are within two years of their contractual retirement date and Class 2 and Class 3 Options are not granted to directors and employees who are within four years of their contractual retirement date.

(vi) *Exercise of options*

Options are normally exercisable by the participant at any time between the third (or, in the case of Class 2 and Class 3 Options, the fifth) and tenth anniversaries of grant. Earlier exercise is permitted in the event of a takeover, reconstruction or liquidation of the Company, if the company by which the participant is employed, or the business in which he is employed, ceases to be part of the Participating Group or if the participant's employment terminates by reason of his death, ill health, injury, disability or redundancy and, following the happening of any such events, an option can be exercised notwithstanding that the relevant earnings per share condition has not been satisfied. There are time limits within which exercise of options in such circumstances must be made, failing which the options lapse. Except in these circumstances, options lapse if the participant ceases to be employed by the Group, unless the Board exercises its discretion to allow the participant to exercise his options within a period of not more than six months after his so ceasing.

A participant in the Share Option Schemes is entitled to transfer to a company which obtains control of the Company ("the Acquiring Company") his rights under the Share Option Schemes and obtain equivalent rights in the Acquiring Company or a company which has control of the Acquiring Company or a company which either is, or has control of, a company which is a member of a consortium owning either the Acquiring Company or a company having control of the Acquiring Company. The exercise of the equivalent rights will not be subject to any earnings per share condition.

An unexercised option may be exercised in the case of:

- (A) a general offer being made to all holders of Ordinary Shares and such offer becoming unconditional, within 6 months from the offeror acquiring control of the Company;
- (B) the Court sanctioning a compromise or arrangement proposed for the purposes of a scheme for the reconstruction of the Company or its amalgamation with any other company, within 6 months of such sanctioning; and
- (C) the Company convening a general meeting for the purpose of considering a resolution for its winding-up, within 60 days after the passing of such resolution.

(vii) *Issue or transfer of shares on exercise of options*

Ordinary Shares allotted and issued or transferred following exercise of an option will rank *pari passu* in all respects and form one class with the Ordinary Shares then in issue, save as regards dividends payable by reference to a record date prior to the date of issue or transfer. The Company will apply to the London Stock Exchange for the Ordinary Shares issued on the exercise of options pursuant to the Share Option Schemes to be admitted to the Official List. The Company will at all times keep available sufficient authorised and unissued share capital to satisfy outstanding options over unissued Ordinary Shares.

(viii) *Scheme limits*

The maximum number of Ordinary Shares which may be issued pursuant to options granted under the Share Option Schemes shall not exceed 1,100,000 Ordinary Shares of 25p each provided that such number shall be adjusted by the Board to take account of, *inter alia*, capitalisation or rights issues (subject, otherwise than in the case of a capitalisation issue, to the auditors confirming in writing that such adjustment is fair and reasonable). A resolution is to be proposed at the Extraordinary General Meeting to amend this limit.

The following further limitations apply to the Company:

- (A) the number of unissued Ordinary Shares over which options may be granted on any date shall not, when added to the number of Ordinary Shares issued and remaining issuable in respect of rights conferred in the previous 10 years under the Share Option Schemes and any other share option or incentive scheme or profit sharing scheme operated by the Company, exceed 10 per cent. of the number of Ordinary Shares in issue immediately before that date;
- (B) the number of unissued Ordinary Shares over which Class 1 Options may be granted on any date shall not, when added to the number of Ordinary Shares issued and remaining issuable in respect of rights conferred in the previous 10 years under the Share Option Schemes (other than any Class 3 Options), under the Company's existing executive share option and under any other share schemes operated by the Company (other than any Inland Revenue approved profit sharing schemes or savings-related share option schemes), exceed 5 per cent. of the number of Ordinary Shares in issue immediately before that date; and
- (C) the number of unissued Ordinary Shares over which options may be granted on any date shall not, when added to the number of Ordinary Shares issued and remaining issuable in respect of rights conferred in the previous three years under the Share Option Schemes and any other share option or incentive scheme or profit sharing scheme operated by the Company, exceed 3 per cent. of the number of Ordinary Shares in issue immediately before that date.

No options may be granted more than 10 years after the date on which the Share Option Schemes were approved by the Company in general meeting.

An individual employee's participation in the Share Option Schemes on any date is limited so that:

- (a) the market value at that date of the Ordinary Shares comprised in Class 1 Options granted to him on that date, when added to the market value at the respective dates of grant of rights granted to him in the previous 10 years under the Share Option Schemes (other than Class 3 Options) and any other share option or incentive schemes operated by the Company (except any Inland Revenue approved profit sharing schemes and savings-related share option schemes), does not exceed a sum equal to four times his current annual rate of remuneration; and
- (b) the market value at that date of the Ordinary Shares comprised in any Class 3 Options granted to him on that date, when added to the market value at the respective dates of grant of rights granted to him in the previous 10 years under the Share Option Schemes or any other share option or incentive schemes operated by the Company (except any Inland Revenue approved profit sharing schemes and savings-related share option schemes), does not exceed a sum equal to eight times his current annual rate of remuneration.

In addition, the aggregate market value of Ordinary Shares calculated at the respective dates of grant of unexercised options held by any individual employee under the Executive Scheme at any time must not exceed the statutory limit, currently the greater of £100,000 and a sum equal to four times his taxable emoluments (excluding benefits in kind) for the current or preceding tax year (whichever gives the greater amount), or, if he has no taxable emoluments in the preceding tax year, for the period of 12 months from the first day in the current tax year on which he became entitled to such emoluments. After the Finance Act 1996 is enacted, the statutory limit will be £30,000.

The aggregate fair market value of Ordinary Shares with respect to which Incentive Stock Options are exercisable under the Unapproved Scheme by an individual employee in the USA for the first time in any calendar year must not exceed US\$100,000.

*(ix) Amendments*

The number, nominal amount and class of Ordinary Shares subject to the Share Option Schemes and the number, nominal amount and class of Ordinary Shares subject to any option are subject to appropriate adjustment in the event of any capitalisation or rights issue by the Company or any consolidation, subdivision or reduction of the Company's share capital (subject, otherwise than in the case of a capitalisation issue, to the auditors confirming in writing that such adjustment is fair and reasonable).

The Board may make such amendments to the Executive Scheme as are necessary or desirable to maintain the approval of the Executive Scheme under Schedule 9 to the Income and Corporation Taxes Act 1988.

Subject, in the case of the Executive Scheme, to the prior approval of the Inland Revenue:

- (a) the Board may at any time amend the Share Option Schemes (other than the definitions of "Executive", "Full Time", "Market Value", "Option Period" and "Option Price" in Rule 1.1 and Rules 4 and 5.1 to 5.3 inclusive) to comply with or take account of the provisions of any existing, future or proposed legislation or in order to obtain or maintain favourable tax treatment for the Participating Group or any existing, future or prospective participant and, in the case of the Unapproved Scheme, to ensure that any Ordinary Shares issued or acquired under the Unapproved Scheme are exempt from the requirements of registration under the United States Securities Act of 1933 or to ensure that the Unapproved Scheme permits the grant of Incentive Stock Options within the meaning of the United States Internal Revenue Code; and
- (b) the Board has a general power to amend the Share Option Schemes at any time, provided that, except to the extent necessary to maintain Inland Revenue approval of the Executive Scheme or as provided in paragraph (A) above or with the prior sanction of the Company in general meeting, the definitions of "Executive", "Full-Time", "Market Value", "Option Period" and "Option Price" in Rule 1.1 and Rules 2.2, 2.4, 2.6, 2.7, 4, 5, 6, 7, 8, 9, 10, 11, 12.9 and 13.3 (the principal features of which are summarised above) shall not be altered to the advantage of current or prospective participants in the Share Option Schemes, nor may the terms of any existing options be altered or the options cancelled without the consent of the participants concerned.

**12.2 Long Term Incentive Scheme and Employee Benefit Trust**

- (a) Pursuant to the authority given by the resolution passed by the Company on 8th February 1996, the API Group plc Long Term Incentive Scheme ("the LTI Scheme") described in the circular to shareholders dated 12th January 1996, a copy of which may be inspected at the addresses specified in paragraph 22 below, and the Employee Benefit Trust ("EBT") were established by the Company on 27th March 1996. As stated in that circular, the non-executive Directors believe that the LTI Scheme will benefit the Company and its shareholders, providing potential for increased executive rewards if management delivers significant long term growth in earnings.

- (b) The EBT is a discretionary trust, the trustee of which is API Share Scheme Trustees Limited ("the Trustee"), a subsidiary of the Company especially established for the purpose and the beneficiaries of which will be employees and former employees (including executive directors) of the Participating Group and their dependents. The Trustee operates the LTI Scheme and, acting with the consent of the Company's remuneration committee, is responsible for making awards under the LTI Scheme. The Trustee has complete discretion to determine which of the permitted beneficiaries of the EBT are to benefit, which it may do by making cash payments, by transferring shares in the Company or by granting options over shares in the Company.
- (c) Particulars of the LTI Scheme, the terms of which are set out in full in the Rules of the LTI Scheme, a copy of which may be inspected at the addresses specified in paragraph 22 below, are as follows:

(i) *Structure*

The LTI Scheme is administered by the Trustee, acting with the consent of the Company's remuneration committee ("the Remuneration Committee"). At the present time, Michael Smith, a potential participant in the LTI Scheme, is a member of the Remuneration Committee. Neither he nor any other participant in the LTI Scheme who is or becomes a member of the Remuneration Committee will take part in the deliberations or decisions of the Remuneration Committee in relation to the LTI Scheme.

(ii) *Eligibility*

Executive Directors and senior executives of the Company's operating subsidiaries who were employed by the Participating Group on 31st December 1995 and continue to be so employed are eligible to be selected to participate in the LTI Scheme by the Trustee with the consent of the Remuneration Committee.

(iii) *Awards*

An award under the LTI Scheme will only be capable of being made to a participant following the preliminary announcement of the Company's results for the financial year ending 3rd October 1998 ("the 1998 Announcement") and only if:

- (a) the participant has been continuously employed in an executive capacity in the Participating Group from 31st December 1995 to 3rd October 1998; and
- (b) the performance conditions described in paragraph (iv) below have been satisfied.

All such awards will be made by the allocation to the participant by the Trustee of fully paid Ordinary Shares ("LTI Scheme Shares").

The number of LTI Scheme Shares which may be allocated to a participant will be determined by dividing the participant's Relevant Salary by the average of the middle market quotation of the Company's shares for the three dealing days immediately following the 1998 Announcement.

A participant's Relevant Salary for this purpose will be the annual average of a percentage of his annual contractual rate of basic salary as at 31st December 1995 and as at 1st October in each of the years 1996 and 1997. The percentage to be taken as at each of those dates will be 60 per cent. if he is an executive director of the Company on that date and will otherwise be 30 per cent.

Basic Salary excludes benefits in kind, employer's pension contributions and cash bonus arrangements.

(iv) *The performance conditions*

No award will be made following the 1998 Announcement unless:

- (a) no member of the Group has at any time in the period of 1st October 1995 to 3rd October 1998 ("the Performance Period") been in breach of any of the covenants from time to time contained in any agreement with its bankers for the provision of banking and other financial facilities to such member of the Participating Group; and
- (b) the adjusted consolidated earnings per share of the Company ("Adjusted EPS"):
  - (1) for the financial year ending 28th September 1996 is not less than 115 per cent. of the Adjusted EPS for the financial year ended 30th September 1995;
  - (2) for the financial year ending 27th September 1997 is not less than 132 per cent. of the Adjusted EPS for the financial year ended 30th September 1995; and
  - (3) for the financial year ending 3rd October 1998 is not less than 152 per cent. of the Adjusted EPS for the financial year ended 30th September 1995.

Adjusted EPS shall be the fully diluted earnings per share derived from the published audited consolidated accounts of the Company for the relevant financial year adjusted in the following manner:

(aa) by adding back to profit before tax and earnings any sum deducted therefrom or provided in calculating the same in respect of the provision of funds to the EBT for the purposes of or in connection with the acquisition by the EBT of Ordinary Shares to be held by it for allocation as LTI Scheme Shares and deducting therefrom any dividends received or receivable by the EBT included in profit before tax and earnings;

(bb) by excluding from the calculation of profit before tax and earnings all exceptional and extraordinary items required to be shown separately on the face of the consolidated profit and loss account in accordance with Financial Reporting Standard 3; and

(cc) by substituting a charge to corporation tax at the rate of 30 per cent. of reported profit before tax (as adjusted by paragraphs (aa) and (bb) above) for the actual taxation charge shown therein.

Subject to the above, Adjusted EPS shall be calculated on the "net" basis in accordance with Statement of Standard Accounting Practice 3. The certificate of the Company's auditors (acting as experts) shall be conclusive as to the amount of Adjusted EPS for any financial year.

(v) Takeover etc.

If any of the following events (each "a Relevant Event") occurs after 28th September 1996 but before 3rd October 1998:

- (A) the Company is taken over; or
- (B) the subsidiary which employs the participant is sold; or
- (C) the business in which the participant is employed is sold; or
- (D) the participant dies in service,

then, in the case of a takeover, all participants and, in the case of any other Relevant Event, the affected participant will cease to be eligible for any award but, instead, the Participating Group may, at the discretion of the Remuneration Committee, pay each relevant participant (or his personal representatives) a cash bonus calculated on the following basis:

- (1) the cash bonus will only be payable if the performance condition specified in paragraph (iv)(A) above has been satisfied at all times until the happening of the Relevant Event and if the performance conditions specified in paragraph (iv)(B) has been satisfied for all financial years of the Company ended on or before the happening of the Relevant Event;
- (2) the participant's Relevant Salary will be calculated taking into account only basic salary at 31st December 1995 and each 1st October thereafter prior to the happening of the Relevant Event; and
- (3) the cash amount of the bonus will be 50 per cent. of Relevant Salary, if the Relevant Event occurs after 28th September 1996 and before 27th September 1997, and 75 per cent. of Relevant Salary if the Relevant Event occurs thereafter.

If a Relevant Event occurs on or before 28th September 1996 or if a participant ceases to be employed in an executive capacity by the Participating Group in any other circumstances before 3rd October 1998, each affected participant shall cease to be eligible for any award of LTI Scheme Shares or for any cash bonus.

If a participant shall be prevented from carrying out his duties by reason of illness or injury for a continuous period of more than six months without his employment by the Participating Group having been terminated, the Trustee may, with the consent of the Remuneration Committee, determine that any award of LTI Scheme Shares to be made to him in accordance with paragraph (iii) above shall be of such reduced number of LTI Scheme Shares as the Trustee, with the consent of the Remuneration Committee, may think appropriate in the circumstances and the Remuneration Committee may determine that any cash bonus payable to him by the Participating Group in the circumstances set out in this paragraph (v) shall be of such lesser sum as the Remuneration Committee may think appropriate in the circumstances.

(vi) Allocation of LTI Scheme Shares

On the making of an award of LTI Scheme Shares, the Trustee will transfer into the name of the participant the number nearest to but not less than one-half of the number of LTI Scheme Shares awarded to him. The participant will be absolutely entitled to such LTI Scheme Shares as against the Trustee.

The participant will not become entitled to the balance of the LTI Scheme Shares awarded to him ("the 1999 Shares") unless and until the happening of one of the following events:

- (A) if the participant continues to be employed by the Participating Group in an executive capacity until 2nd October 1999, in which event he will become absolutely entitled to the 1999 Shares on that date;

- (B) if, before 2nd October 1999, he ceases to be so employed due to injury, disability or redundancy or by reason of sale of the subsidiary which employs him or of the business in which he is employed, in which event he will become absolutely entitled to the 1999 Shares upon his so ceasing;
- (C) if he dies in service before 2nd October 1999 in which event his personal representatives will thereupon become absolutely entitled to the 1999 Shares;
- (D) if he ceases to be so employed before 2nd October 1999 in any other circumstances and the Trustee has, with the consent of the Remuneration Committee, exercised its discretion to vest all or some of the 1999 Shares in the participant absolutely; or
- (E) if a takeover offer for the Company becomes unconditional in all respects, in which event the participant will (save where paragraph (D) applies) thereupon become absolutely entitled to the 1999 Shares.

In the event of a capitalisation issue or a reduction, consolidation or subdivision of share capital before 2nd October 1999, the shares or securities received in respect of the 1999 Shares will be included in the participant's award.

In the event of a rights issue before 2nd October 1999, the Trustee will (so far as possible) sell sufficient rights nil paid to enable it to purchase the balance of the shares or securities offered by way of rights in respect of the 1999 Shares and such shares or securities will be included in the participant's award.

The Trustee will exercise the votes attached to the 1999 Shares in such manner as the participant may direct and, in the absence of any such directions, will abstain from voting.

The participant will not be entitled to receive any dividends or other income paid or declared in respect of the 1999 Shares or other shares or securities included in the participant's award by reference to a record date prior to 2nd October 1999.

(vii) Amendment

The Trustee, with the consent of the Remuneration Committee, may make such amendments to the LTI Scheme as it may consider necessary in the event that for any reason the Trustee considers that the objectives of the LTI Scheme cannot be achieved without amendment provided that no such amendment shall be made unless the auditors of the Company shall have certified that in their opinion such amendment is fair and reasonable, goes no further than is necessary to preserve the objectives of the LTI Scheme and, if it affects the conditions set out in paragraph (iv) above, does not result in any of such conditions as amended being materially easier or more difficult to satisfy. In particular, all necessary amendments may be made in accordance with the above provisions, in the event of any change in the financial year end of the Company, provided that the Performance Period shall not be shortened so as to end prior to 31st March 1998.

No amendment shall be made to the LTI Scheme to the advantage of participants without the prior approval of Shareholders in general meeting (save for minor amendments to benefit the administration of the LTI Scheme, to take account of legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the LTI Scheme or any member of the Participating Group).

(d) The main features of the EBT, constituted by the Trust Deed of the EBT, are as follows:

(i) Terms of the EBT

The EBT is a discretionary trust constituted by a trust deed which provides that the Trustee shall hold all trust assets and income received from time to time (including any accumulations of income) upon trust for such of the permitted beneficiaries (with power to appoint such assets or income in favour of such permitted beneficiaries) as the Trustee may in its absolute discretion determine.

(ii) Beneficiaries

The permitted beneficiaries are:

- (A) all employees (including executive directors) and former employees of the Company and its subsidiaries;
- (B) the spouses, widows, widowers and children, step-children under eighteen years of such employees and former employees.

Upon winding up of the EBT, if there is no beneficiary capable of taking the assets of the EBT, the assets are to be held for charitable purposes.

(iii) Fundraising of the EBT

On execution of the trust deed, the EBT received an initial contribution of £1,000 from the Company.



The Participating Group will support the EBT by making such gifts as the directors of each Participating group company consider appropriate from time to time. In addition, the Company may make interest free loans to the EBT.

(iv) Investment powers of the Trustee

While, for reasons connected with the application of the Financial Services Act 1986, the Trustee, in practice, only invests in shares or debentures of the Company, the Trustee has wide powers of investment empowering it to invest in securities, deposits or other property (but not land) including the power to change investments, insure, maintain and protect trust assets and to leave trust assets uninvested. The Trustee also has wide powers to borrow money, including upon the security of trust assets.

(v) Trustee's powers to vote in respect of shares held

The Trustee is able to exercise any voting rights in respect of shares held by it in such manner as it sees fit except as provided by the LTI Scheme in relation to shares allocated to a participant in the LTI Scheme. As an employee benefit trust, the Trustee votes in such manner as the Trustee believes is in the best interests of employees.

(vi) Trustee's protection

The Trustee is not liable for any loss to trust assets arising out of any investment made in good faith and is not liable for any negligence or fraud of any agent appointed by the Trustee in good faith.

(vii) Appointment and removal of trustees

The Company is able to appoint new or additional trustees and remove any trustees. In order to comply with certain provisions of the Financial Services Act 1986, API Share Scheme Trustees Limited, a wholly-owned subsidiary of the Company, is the first and sole trustee. The initial directors of API Share Scheme Trustees Limited are Messrs Woolley, Adey and Sheldrick, all non-executive directors of the Company. No participant or potential participant in the LTI Scheme will be appointed a director of that company.

### 13. Litigation

- 13.1 Neither the Company nor any of its subsidiaries is, or has been involved in any legal or arbitration proceedings which may have, or have had, during the 12 months immediately preceding the date of this document, a significant effect on the Group's financial position, nor, so far as the Company is aware, are any such proceedings pending or threatened.
- 13.2 No member of Learoyd Group is, or has been, involved in any legal or arbitration proceedings which may have, or have had, during the 12 months immediately preceding the date of this document, a significant effect on Learoyd Group's financial position, nor, so far as the Company is aware, are any such proceedings pending or threatened.

### 14. Significant changes

- 14.1 There has been no significant change in the financial or trading position of the Group since 30th March 1996, the latest date for which interim financial statements have been published.
- 14.2 There has been no significant change in the financial or trading position of Learoyd Group since 30th April 1996, the date to which the latest audited statutory financial statements were published.

### 15. Material contracts

- 15.1 The following contracts (not being contracts entered into in the ordinary course of business) are the only contracts which have been entered into by the Company or any other member of the Group within the two years immediately prior to the date of this document and which are or may be material:
- (a) An agreement dated 3rd April 1995 between J Bibby Paper Limited (1) J Bibby & Sons PLC (2) and Henry & Leigh Slater Limited, a member of the API Group (3), pursuant to which Henry & Leigh Slater Limited agreed to acquire certain of the assets of the businesses of J & J Makin Converting and Robert Williams (Embossers) carried on by J Bibby Paper Limited excluding Debts (as therein defined). Henry & Leigh Slater paid consideration in cash on completion of £1,117,488 and assumed the liability to pay Creditors of J Bibby Paper Limited amounting to £2,974,476.
- (b) An agreement dated 6th June 1995 between NMC Group plc (1) Britton Group plc (2) and Leonard Stace Limited, a member of the API Group (3), pursuant to which Leonard Stace Limited agreed to acquire the entire issued share capital of NMC Coatings Limited for a consideration of £1 together with the £1,249,999 nominal unsecured Loan Note 2000 issued by NMC Coatings Limited to NMC Group plc for a consideration of £1,249,999, both sums paid in cash on completion and being subject to adjustment by reference to completion accounts (the final consideration being £1,311,000 in total).

- (c) An agreement dated 7th July 1995 between British Syphon Industries Limited (1) Peerless Foils Limited, a member of the API Group (2) Graystone plc (3) and API (4), pursuant to which Peerless Foils Limited agreed to acquire the entire issued share capital of Data-Label Limited from British Syphon Industries Limited for an initial cash consideration of £1,000,000 paid on completion, with deferred consideration of £1,925,000 paid in cash as to £1,000,000 on 31st December 1995 and payable as to £925,000 on 30th June 1996.
  - (d) An agreement dated 30th June 1994 between The East Lancashire Paper Group plc (1), API (2) and Graystone plc (3) pursuant to which API agreed to acquire the entire issued share capital of Arnold Belford Limited for a consideration, payable in cash on completion, of £1,715,000 (including the costs of the acquisition).
  - (e) the Acquisition Agreement described in paragraph 16 below; and
  - (f) the Placing Agreement described in paragraph 17 below.
- 15.2 There are no contracts (being contracts entered into other than in the ordinary course of business) which have been entered into by any member of Learoyd Group within the two years immediately prior to the date of this document, and which are or may be material.

## 16. The Acquisition Agreement

By an acquisition agreement dated 23rd May 1996 and made between Peter Anthony Brown and Others (1) and the Company (2), the Company has conditionally agreed to purchase the issued share capital of Learoyd UK and the issued common stock in Learoyd USA. The initial consideration for the Acquisition will be satisfied by the allotment and issue of the Vendor Placing Shares to such persons as Credit Lyonnais Laing may nominate or, failing such nomination, to Credit Lyonnais Laing as principal and, by virtue of the arrangements agreed in relation to the Placing and Open Offer, the Vendors will receive in aggregate £20 million in cash at completion of the Acquisition.

If Peter Anthony Brown and Nicholas John Beaumont remain employed by Learoyd Group (other than in certain limited circumstances) until the date that is 12 months following completion of the Acquisition, £1 million will be payable in cash to the Vendors in any event and, additionally, if the aggregated profit of Learoyd Group for the year ending 30th April 1997 is at least £3,000,000, the Vendors will also receive additional further consideration of £1,000,000.

Completion of the Acquisition is conditional upon:

- (i) the passing of resolution 1 to be proposed at the Extraordinary General Meeting (or such other appropriate resolution as may be necessary to approve and effect the Proposals);
- (ii) the Placing Agreement having become and remaining unconditional in all respects (save only insofar as fulfilment of the conditions in the Placing Agreement relates to admission becoming effective as described in paragraph (iii) below) and the Placing Agreement not having been terminated by the time of such unconditionality;
- (iii) admission of the New Ordinary Shares to the Official List of the London Stock Exchange having become effective by the announcement of the decision of the London Stock Exchange to admit the New Ordinary Shares to listing being made pursuant to paragraph 7.1 of the Listing Rules ("Effective Admission").

The Acquisition Agreement contains warranties given by the Vendors for the benefit of API relating to the businesses, assets and liabilities of Learoyd Group. Such warranties will be repeated by the Vendors on completion of the Acquisition when the Vendors will also enter into indemnities in favour of API in respect of taxation liabilities of Learoyd Group.

The Vendors have given certain undertakings in the Acquisition Agreement relating to the management and operation of the Learoyd Group until completion of the Acquisition.

For the benefit of API the individual Vendors who are not trustees have agreed that they will not, during the period of 3 years after completion of the Acquisition, carry on or be interested in any undertaking carrying on any business in competition with Learoyd Group in the United Kingdom or in relevant parts of Western Europe or the United States.

## 17. The Placing Agreement

- 17.1 By a placing and open offer agreement dated 23rd May 1996 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 for, 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 becoming unconditional in all respects (subject only to Effective Admission); and
- (c) Effective Admission.

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 Friday, 5th July 1996).

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 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 Laing will pay any 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, professional costs and 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 Effective Admission, principally in the event of a material breach of the Placing Agreement or any of the warranties contained in it.

## 18. Money laundering regulations

- 18.1 It is a term of the Open Offer that, to ensure compliance with Money Laundering Regulations 1993, Independent Registrars Group Limited may at its absolute discretion require verification of identity from any person lodging an Application Form who (i) tenders payment by way of a cheque or banker's draft on an account in the name of a person or persons other than the shareholder named on the Application Form or (ii) appears to Independent Registrars Group Limited 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 applicant appears to be acting may be required. If by 3.00 p.m. on 28th June 1996 Independent Registrars Group Limited 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 will 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 by a Qualifying Shareholder exceeds £11,000 the verification of identity requirements of the Money Laundering Regulations 1993 will apply and verification of the applicant may be required. A failure to provide the necessary evidence of identity satisfactory to Independent Registrars Group Limited may result in the rejection of the application or delays in the despatch of a share certificate. In order to avoid this, you should ideally make payment by means of a cheque drawn by the shareholder named on the Application Form. If this is not practicable and a cheque drawn by a third party, building society cheque or banker's draft is to be used you should:

- (a) write the name and address of the shareholder (or one of the joint holders) named on the Application Form on the back of the cheque, building society cheque or banker's draft and record the date of birth of the shareholder;
- (b) if a building society cheque or banker's draft is used, ensure that the building society or bank endorses on the cheque or bankers' draft the name and account number of the person whose building society or bank account is being debited; and
- (c) if you are making the application as agent for one or more persons, indicate on the Application Form whether you are a United Kingdom or European Community regulated person or institution (for example a bank or stockbroker) and specify your status. If you are not a United Kingdom or European Community regulated person or institution, you should contact Independent Registrars Group Limited and seek guidance.

If the Application Form is delivered by hand, you should ensure that you have with you evidence of identity bearing your photograph (for example your passport).

## 19. Market quotations

The closing middle market quotations for Ordinary Shares, derived from the Official List, for the first dealing day in each of the last six months prior to the date of this document and on 22nd May 1996, the latest practicable date prior to the publication of this document, were as follows:

	<i>p</i>
1st December 1995	537
2nd January 1996	549
1st February 1996	600
1st March 1996	625
1st April 1996	630
1st May 1996	635
22nd May 1996	675

## 20. Consents

20.1 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 and references thereto and to its advice in connection with the recommendation in Part I of this document in the form and context in which they appear and has authorised the contents of its letter in Part II of this document and such advice for the purposes of section 152(1)(e) Financial Services Act 1986 ("FSA").

20.2 Ernst & Young have given and not withdrawn their written consent to the inclusion herein of their name and report set out in Part V and references thereto in the form and context in which they appear and have authorised those parts of this document for the purposes of section 152(1)(e) FSA.

## 21. Other information

21.1 The registrars of API are Independent Registrars Group Limited, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

21.2 The expenses of, and incidental to the Proposals (including the London Stock Exchange listing fee, the commissions and fee referred to in paragraph 17, professional fees and the costs of the preparation and circulation of this document, related printing and other incidental expenses) are payable by the Company and are estimated to amount to approximately £1.5 million (excluding VAT). Of this sum, £478,129 (excluding VAT) is payable to financial intermediaries.

21.3 The New Ordinary Shares will be issued credited as paid up at 615p per share, a premium of 590 pence per share above the par value of 25p per share. Definitive certificates in respect of the New Ordinary Shares will be despatched by 1st July 1996.

21.4 The Company's statutory accounts for the three financial years to 30th September 1995, upon which unqualified reports have been given, were audited by the Group's auditors Ernst & Young, Chartered Accountants and Registered Auditor, Commercial Union House, Albert Square, Manchester M2 6LP, and have been delivered to the Registrar of Companies in England and Wales.

21.5 The issue of the New Ordinary Shares has been underwritten by Credit Lyonnais Laing. Credit Lyonnais Laing is registered in England and Wales with no. 1008262 and has its registered office at Broadwalk House, 5 Appold Street, London EC2A 2DA.

## 22. Documents available for inspection

22.1 Copies of the following documents may be inspected at the registered office of the Company, Silk House, Park Green, Macclesfield, Cheshire SK11 7NU and at the offices of Credit Lyonnais Laing, Broadwalk House, 5 Appold Street, London EC2A 2DA during normal business hours on any weekday (Saturdays and public holidays excepted) up to and including 17th June 1996:

- (a) the memorandum and articles of association of the Company;
- (b) the published audited accounts for the Group for the two financial years to 30th September 1995;
- (c) the material contracts referred to in paragraph 15 of this Part VII;
- (d) the letters of consent referred to in paragraph 20 of this Part VII;
- (e) the Rules of the Share Option Schemes and the Long Term Incentive Scheme summarised in paragraph 12 of this Part VII;
- (f) the circular to shareholders dated 12th January 1996 in connection with the adoption of the Long Term Incentive Scheme the rules of which are summarised in paragraph 12.2 of this Part VII;
- (g) the Accountants' Report on the Learoyd Group set out in Part V of this document together with the related statement of adjustments; and
- (h) the interim results set out in Part IV of this document.

23rd May 1996

# 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 the Company will be held at the offices of Credit Lyonnais Laing, Broadwalk House, 5 Appold Street, London EC2A 2DA at 11.00 a.m. on 17th June 1996 for the purpose of considering and, if thought fit, passing the following resolutions, of which resolution 1 will be proposed as a special resolution and resolution 2 will be proposed as an ordinary resolution:—

### SPECIAL RESOLUTION

#### 1 THAT:

- (a) the acquisition by the Company of the entire issued share capital in Learoyd Group Limited and the entire issued common stock in Learoyd Packaging (USA) Inc. ("the Acquisition") on the terms and subject to the conditions of the acquisition agreement dated 23rd May 1996 ("the Acquisition Agreement") between Peter Anthony Brown and others (1) and the Company (2) (a copy of such agreement being produced to the Meeting and signed by the Chairman of the Meeting for the purposes of identification) and as referred to in the circular to shareholders of the Company comprising a prospectus relating to the Company dated 23rd May 1996 ("the Prospectus") 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 of 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;
- (b) subject to and conditionally upon the New Ordinary Shares as defined in the Prospectus (as defined in paragraph (a) of this resolution) 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") on or before 21st June 1996 or such other later date as the Company may determine, but in any event not later than 5th July 1996:
  - (i) the authorised share capital of the Company be increased from £7,549,000 to £9,878,344 by the creation of 9,317,376 new ordinary shares of 25p in the Company;
  - (ii) 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 £3,887,227 (this authority to be in substitution for all existing authorities pursuant to section 80 of the Act), 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
  - (iii) 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 (ii) 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 existing powers pursuant to section 95 of the Act, provided that this power shall be limited to:
    - (A) the allotment of 6,219,562 ordinary shares of 25p each in connection with the Placing and Open Offer referred to in the Prospectus;
    - (B) the allotment of equity securities in connection with issues to holders of ordinary shares on a *pro rata* basis (notwithstanding that by reason of such exclusions or other arrangements as the Directors may deem necessary or appropriate in connection with fractional entitlements or legal or practical problems arising under the laws or requirements of any recognised regulatory body or any stock exchange or otherwise in any overseas territory, the equity securities to be issued are not offered to all such holders in proportion to the number of ordinary shares held by each of them); and

(C) the allotment (otherwise than pursuant to sub-paragraphs (A) or (B) of this paragraph (iii)) of equity securities up to an aggregate nominal amount of £349,850, 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.

## ORDINARY RESOLUTION

- 2 THAT, subject to and conditionally upon Effective Admission (as defined in the resolution numbered 1 contained in the notice of meeting of which this resolution forms part):
- (a) the Directors be authorised:
- (i) to amend the rules of the API Group plc executive share option scheme 1993 ("the Executive Scheme") by deleting therefrom rule 4.2; and
  - (ii) to amend the rules of the API Group plc unapproved share option scheme 1993 ("the Unapproved Scheme") by deleting therefrom paragraph (a) of rule 4.2; and
- (b) the Directors be authorised to issue invitations to apply for the grant of options under the Executive Scheme and the Unapproved Scheme in the period commencing on the fourth dealing day on the London Stock Exchange following the date upon which Effective Admission takes place and ending twenty one days after such fourth dealing day notwithstanding that such period is not an Invitation Period as defined in the rules of the Executive Scheme and the Unapproved Scheme.

*Registered Office:*

Silk House  
Park Green  
Macclesfield  
Cheshire  
SK11 7NU

*By Order of the Board*

T K Johnston  
Secretary

Dated 23rd May 1996

### Notes:

- 1 A member entitled to attend and vote at the above meeting may appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not also be a member of the Company. Completion and return of a form of proxy does not preclude a member from attending and voting at a meeting or any adjournment thereof in person.
- 2 A form of proxy, to be valid, must be signed, and lodged with the registrars of the Company, Independent Registrars Group Limited, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not later than 48 hours before the time appointed for the Meeting or for any adjournment thereof, together with, if appropriate, the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of such power of authority.
- 3 In the case of joint holders the signature of only one of the joint holders is required on the form of proxy but the vote of the first named on the Register of Members of the Company will be accepted to the exclusion of the other joint holders.