



**INTERNATIONAL
GREETINGS
PLC**

*Introduction to AIM
and Placing by
Granville & Co.
Limited*

THIS DOCUMENT IS IMPORTANT. If you are in any doubt about it, you should consult your stockbroker, bank manager, accountant, solicitor or other independent professional adviser authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities.

This document has been drawn up in accordance with the POS Regulations. Copies of this document have been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the POS Regulations.

The Directors and the Placing Shareholder, whose names are set out on pages 6 and 42 respectively of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the directors of the Placing Shareholder (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.

Application has been made for the Ordinary Shares to be admitted to trading on AIM. It is emphasised that no application is being made for admission of these securities to the Official List. It is expected that admission to AIM will become effective and trading on AIM in the Ordinary Shares will commence by 31 October 1995.

AIM is a market designed primarily for companies of smaller size.



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Definitions

"the Act"	the Companies Acts 1985 and 1989
"the Additional Warrants"	warrants to subscribe for 50,000 Ordinary Shares conditionally agreed to be issued to TPIT pursuant to the Subscription Agreement
"AIM"	the Alternative Investment Market of the Exchange
"Belgrave Graphics"	Belgrave Graphics Limited
"Brite Sparks"	Brite Sparks Limited
"the Directors" or "the Board"	the directors of the Company
"the Exchange"	The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited
"Gift Decorations"	Gift Decorations Limited
"Gift Design"	Gift Design Limited
"Granville" or "the Nominated Adviser"	Granville & Co. Limited
"Hy-Sil"	Hy-Sil Manufacturing Company Inc., incorporated in the United States of America
"Indebtedness Date"	29 September 1995
"International Greetings", "the Company", or "the Group"	International Greetings PLC and/or any of its subsidiaries, as the context may require
"the Introduction"	the introduction of the Ordinary Shares to AIM
"the Official List"	The Official List of the Exchange
"the Ordinary Shares"	ordinary shares of 5p each in the capital of the Company
"the Placing"	the Placing of the Placing Shares in accordance with this document and the Placing Agreement
"the Placing Agreement"	the agreement dated 25 October 1995 between (i) the Company, (ii) the Directors, (iii) the Placing Shareholder, (iv) Granville and (v) Neilson Cobbold Limited, details of which are contained in paragraph 8(c) on page 37
"the Placing Price"	£4.50 per Ordinary Share
"the Placing Shareholder"	the shareholder whose name and address are set out on page 42 of this document who has agreed to sell the Placing Shares pursuant to the Placing
"the Placing Shares"	up to 100,000 Ordinary Shares to be sold by the Placing Shareholder
"the POS Regulations"	the Public Offers of Securities Regulations 1995
"the Preference Shares"	cumulative redeemable preference shares of £1.00 each in the Company to be issued pursuant to the Proposals
"the Preference Share Issue"	the issue to TPIT of the Preference Shares to raise £3 million gross for the Company
"the Proposals"	the Introduction, the Placing, the Preference Share Issue and the issue of the Warrants
"the Prospectus"	this document which describes the Proposals
"Scandinavian Design"	Scandinavian Design Limited
"Scoop Designs"	Scoop Designs Limited
"the Subscription Agreement"	the conditional agreement dated 24 October 1995 between (i) TPIT (ii) the Company and (iii) N Fisher, A Hedlund and M Collini details of which are contained in paragraph 8(b) on page 37
"TPIT"	Throgmorton Preferred Income Trust PLC
"the Warrants"	warrants to subscribe for 250,000 Ordinary Shares conditionally agreed to be issued to TPIT pursuant to the Subscription Agreement

Key Information

The following is derived from and should be read in conjunction with the full text of this document.

Business

International Greetings is a leading supplier of private label greetings products which are sold primarily to major United Kingdom multiple retailers. The Group designs, manufactures and sells a wide range of consumable greetings products including gift wrapping paper (giftwrap) and accessories such as gift tags, bows, ribbons, Christmas crackers and cards. Particular importance is attached to product design and development, with the Group's in-house design team working closely with major customers to create exclusive ranges of products. The Group primarily manufactures Christmas private label products against orders for fixed quantities from its major multiple retail customers.

Key Strengths

The Directors believe that the key strengths of the Group are as follows:

- Experienced management team
- Strong and long-standing relationships with major United Kingdom multiple retail groups
- Flexible and creative design resource
- Broad portfolio of products
- Primary focus on manufacturing for fixed quantity orders
- Expanding United States subsidiary and developing European export business.

Financial Record

The following financial information has been extracted from the Accountants' Report set out in Part II of this document.

	1993	1994	1995
	£'000	£'000	£'000
Turnover	28,569	34,101	40,440
Operating profit	2,495	2,304	3,046
Profit on ordinary activities before tax	1,794	1,401	2,120

A commentary on the trading performance of the Group is set out under "Summary Financial Record" on page 11 of this document.

Current Trading and Prospects

In accordance with the usual seasonal pattern of trading, orders from most major customers have now been received for the Christmas 1995 season. Group turnover for the six months to 30 September 1995 is ahead of that for the equivalent period last year and trading is in line with expectations. Accordingly, the Directors believe that prospects for the current year are encouraging.

Strategy for Growth

The key elements of the Directors' strategy for growth are:

- To develop market share in each key product area by both continuing to invest in design and increasing manufacturing and distribution efficiency,
- Further expansion of the Group's United States subsidiary and of the Group's European export activities, and

● To continue to broaden the range of products offered to customers.

Directors and Advisers

Directors

A Hedlund (*Joint Chief Executive*)
N Fisher (*Joint Chief Executive*)
M Collini, BA, ACA (*Finance Director*)

all of:
Belgrave House
The Merlin Centre
Acrewood Way
St Albans
Hertfordshire
AL4 0JY

Registered Office

Belgrave House
The Merlin Centre
Acrewood Way
St Albans
Hertfordshire
AL4 0JY

Financial and Nominated Adviser

Granville & Co. Limited
Mint House
77 Mansell Street
London
E1 8AF

Nominated Broker

Neilson Cobbold Limited
Martins Building
4 Water Street
Liverpool
L2 3UF

*Solicitors to the Company
and the Placing*

Titmuss Sainer Dechert
2 Serjeants' Inn
London
EC4Y 1LT

Reporting Accountants

KPMG
Marlborough House
Fitzalan Court
Fitzalan Road
Cardiff
CF2 1TE

Part I

Background

Introduction

International Greetings is a leading supplier of private label greetings products which are sold primarily to major United Kingdom multiple retailers. The Group designs, manufactures and sells a wide range of consumable greetings products including giftwrap and accessories such as gift tags, bows, ribbons, Christmas crackers and cards. Particular importance is attached to product design and development, with the Group's in-house design team working closely with major customers to create exclusive ranges of products. The Group primarily manufactures Christmas private label products against orders for fixed quantities from its major multiple retail customers.

An overview of the current activities of the operating subsidiaries of the Group is as follows:

Subsidiary	Activity	Year ended 31 March 1995 Turnover £ million	Percentage of Group's 1995 Turnover
Scandinavian Design	Giftwrap, bows, ribbons	17.2	42.6
Belgrave Graphics	Multiple pack Christmas cards	5.4	13.4
Brite Sparks	Christmas crackers	5.0	12.3
Gift Decorations	Gift tags and packaging	3.1	7.7
Scoop Designs	Packaged gifts	2.5	6.2
Gift Design	Hand-made ribbons/bows	1.8	4.4
Hy-Sil	Giftwrap, bows, ribbons	5.4	13.4

History and Development

The origins of the Group date from 1979 when Anders Hedlund established its principal business, the manufacture of giftwrap. In 1980 he began working with Nick Fisher. The business of Belgrave Graphics, a publisher of boxed Christmas cards, was founded in 1982 and Gift Decorations, a manufacturer of gift tags and gift packaging, was acquired in 1986. At the time of the formation of the Group in 1989, these three businesses, under the common ownership of Anders Hedlund and Nick Fisher (and their family interests), had a combined annualised turnover of approximately £12 million. The decision to further expand the Group reflected the opportunity to apply the Group's skills in design and product development to a broader product range which

The Business

Markets and Competition

International Greetings is a leading supplier in the private label sector of each of its three key product segments.

- Giftwrap and accessories

The Group's subsidiaries, Scandinavian Design and Gift Decorations, supply giftwrap and accessories, including gift tags and bows. The Directors estimate, based on internal assessments of customer ranges of greetings products and their market knowledge, that the UK market has an annual value of approximately £160 to £180 million at retail selling prices. The private label sector, the principal market addressed by the Group, accounts, in the Directors' opinion, for over a third of retail sales, with Scandinavian Design and Gift Decorations accounting for over 50 per cent. of this segment.

- Crackers

Since its acquisition in 1992, the Group's subsidiary, Brite Sparks, has significantly increased its share of the United Kingdom private label market for crackers. The Directors estimate, based on internal assessments of customer ranges of greetings products and their market knowledge, that the UK market has an annual value of approximately £95 million at retail selling prices. Following a period of sustained growth, the Directors estimate that Brite Sparks now accounts for approximately 15 per cent. of the total cracker market.

- Christmas cards

The Group's subsidiary, Belgrave Graphics, supplies multiple packs of Christmas cards. The Directors estimate, based on internal assessments of customer ranges of greetings products and their market knowledge, that the UK market has an annual value of about £230 million at retail selling prices with the private label segment accounting for approximately 25 per cent. of the market. The Directors estimate that Belgrave Graphics accounts for around 20 per cent. of this market.

Within the above market sectors, competitors of the Group are subsidiaries of Fine Art Developments PLC and a subsidiary of Pentland Group PLC.

Design

International Greetings places particular emphasis on the capability and flexibility of its design resource, and the Directors regard this as an area of key competitive importance. In the last financial year, the Group spent approximately £1.2 million on design work and in the origination of new designs. The Group has an in-house team of 12 which creates designs and also commissions design briefs from freelance artists. The designers work directly with customers and the Company's sales and marketing team to develop exclusive co-ordinated ranges of products.

International Greetings also has licence agreements with The Walt Disney Company Limited which grant the Company rights to design and manufacture its key products featuring Disney characters. These products accounted for approximately six per cent. of Group turnover for the year ended 31 March 1995.

Directors, Management and Staff

The Directors believe that the quality of International Greetings' management team and the commitment of employees are key to the success of the Group.

Directors

The Company currently has a board of three Executive Directors.

Anders Hedlund, aged 38, is Joint Chief Executive. He founded the business in 1979 and began working with Nick Fisher in 1980. He has more than 16 years' experience in the greetings products industry and maintains a close involvement in all aspects of the business. In particular, he takes prime responsibility for the operations in South Wales and for the Group's manufacturing and production. He is also responsible for developing International Greetings' European export activities.

Nick Fisher, aged 37, is Joint Chief Executive. He began working with Anders Hedlund in 1980. He has more than 15 years' experience in the greetings products industry and takes an active interest in all aspects of the business. He has prime responsibility for the design, sales and marketing functions of the Group. He is also responsible for the operations in St. Albans and the United States.

Mark Collini, BA, ACA, aged 39, is Finance Director. He joined the Group in 1988 as Financial Controller and was appointed Finance Director in 1991. He qualified as a chartered accountant in 1980 with Ernst & Whinney and subsequently held various senior financial positions including that of chief accountant of a small listed group and financial controller of a media buying company, before joining the Haymarket group of companies in 1987 as financial controller.

It is the Directors' intention to appoint an independent non-executive chairman.

Management

The management structure, which has evolved as the Group has expanded, benefits from direct lines of reporting by senior management to the Board. The senior management team is:

Name	Responsibility	Age	Years of Service
Eva Chrysanthou	Managing Director (Gift Decorations)	36	8
Warren Dagul	Divisional Sales Director	32	8
Clive Davies	Operations Director (Scandinavian Design)	53	4
Alan Forde	Vice President-Operations (Hy-Sil)	46	4
Trevor Hill	Managing Director (Gift Design)	47	4
Martin Hornung	Managing Director (Brite Sparks)	39	4
Laurence Louis	Vice President-Sales (Hy-Sil)	39	7
Steve Morton	Managing Director (Belgrave Graphics)	39	5

The Directors recognise that the Group's senior management make a major contribution to the Company's development. In order to reward this contribution and encourage future commitment, a number of incentive arrangements are in place.

Staff

The Group employed 521 permanent employees as at 16 October 1995, of whom 332 were in manufacturing and distribution and 189 were in sales, marketing and administration. The Group also currently employs a further 156 temporary employees to meet the seasonal demands of the business.

Summary Financial Record

The following is a summary of the Group's financial performance for the three years ended 31 March 1995 and is derived from the Accountants' Report in Part II of this document.

Year ended 31 March	1993 £'000	1994 £'000	1995 £'000
Turnover	28,569	34,101	40,440
Cost of Sales	(21,248)	(25,494)	(30,442)
Gross Profit	<u>7,321</u>	<u>8,607</u>	<u>9,998</u>
Operating Profit	2,495	2,304	3,046
Income from Interests in Associated Undertakings	244	—	—
Interest Payable, Net	(945)	(903)	(926)
Profit before Tax	<u>1,794</u>	<u>1,401</u>	<u>2,120</u>
Taxation	(577)	(392)	(568)
Profit after Tax	<u><u>1,217</u></u>	<u><u>1,009</u></u>	<u><u>1,552</u></u>

Group turnover has increased by over 41 per cent. over the period from 1993 to 1995. This increase reflects continuing expansion in the Group's giftwrap and accessories businesses and rapid growth in the Group's cracker business and at its United States subsidiary.

Operating profits in the year to 31 March 1994 were adversely impacted by poor margin controls following rapid growth in volume in the Group's cracker business. These issues were addressed following management changes, and the cracker business traded profitably in the year to 31 March 1995. In addition, operating profit for the year ended 31 March 1993 included £160,000 of foreign currency exchange gains which were not repeated in the year ended 31 March 1994.

Current Trading, Prospects and Dividend Policy

In accordance with the usual seasonal pattern of trading, orders from most major customers have now been received for the Christmas 1995 season. Group turnover for the six months to 30

Strategy for Growth

The key elements of the Directors' strategy for growth are:

- To develop market share in each key product area by both continuing to invest in design and increasing manufacturing and distribution efficiency,
- Further expansion of the Group's United States subsidiary and of the Group's European export activities, and
- To continue to broaden the portfolio of related products both by organic development and by seeking to acquire businesses operating in related areas.

Key Strengths

To summarise, the Directors believe that the key strengths of the Group are as follows:

- Experienced management team
- Strong and long-standing relationships with major United Kingdom multiple retail groups
- Flexible and creative design resource
- Broad portfolio of products
- Primary focus on manufacturing for fixed quantity orders
- Expanding United States subsidiary and developing European export business.

The Proposals

It is intended that the proceeds of the Preference Share Issue will facilitate the funding of the Group's working capital requirement and the financing of future development opportunities.

The Preference Share Issue

TPIT has agreed to subscribe £3 million for 3,000,000 Preference Shares. TPIT will also be issued with Warrants to subscribe for 250,000 Ordinary Shares and Additional Warrants to subscribe for 50,000 Ordinary Shares pursuant to the Subscription Agreement. Further details of the rights attaching to the Preference Shares, the Warrants and the Additional Warrants are set out in Part III of this document.

AIM and the Placing

The Preference Share Issue is conditional on admission of the Ordinary Shares to trading on AIM. Consequently, the Directors have applied for the Ordinary Shares to be admitted to AIM and have appointed Granville as Nominated Adviser and Neilson Cobbold Limited as nominated broker. In order to provide an element of liquidity, the Placing Shareholder has agreed to sell the Placing Shares. Under the Placing, up to 100,000 Ordinary Shares are being placed on a best efforts basis by Neilson Cobbold Limited.

Part II

Accountants' Report

The Directors
International Greetings PLC
Belgrave House
Acrewood Way
St Albans
AL4 0JY



Marlborough House
Fitzalan Court
Fitzalan Road
Cardiff
CF2 1TE

The Directors
Granville & Co. Limited
Mint House
77 Mansell Street
London
E1 8AF

25 October 1995

Dear Sirs

International Greetings PLC

We have examined the audited accounts of International Greetings PLC (the "Company") and of its subsidiary undertakings (collectively referred to as the "Group") for the three years ended 31 March 1995. Our examination has been carried out in accordance with the Auditing Guideline: Prospectuses and the Reporting Accountant.

No audited accounts of the Group have been made up in respect of any period subsequent to 31 March 1995.

The financial information set out in paragraphs 1 to 5 (prepared on the basis described in note 5.1) is based on the audited accounts of the Group after making such adjustments as we considered necessary.

In our opinion the financial information gives, for the purposes of the prospectus, a true and fair view of the profits and cash flows and of the state of affairs of the Group for the three years ended 31 March 1995 and as at 31 March 1993, 1994 and 1995.

We consent to the inclusion in the prospectus dated 25 October 1995 of this report and accept responsibility for that report for the purposes of paragraph 45(1)(b)(iii) of Schedule I of the Public Offers of Securities Regulations 1995.

1. Consolidated profit and loss accounts

The summarised consolidated profit and loss accounts of the Group for the three years ended 31 March 1995 are as follows:

	Notes	1993 £'000	1994 £'000	1995 £'000
Turnover	5.2			
Continuing operations		28,569	32,012	40,440
Acquisitions		—	2,089	—
		<u>28,569</u>	<u>34,101</u>	<u>40,440</u>
Cost of sales		(21,248)	(25,494)	(30,442)
Gross profit		7,321	8,607	9,998
Distribution expenses		(1,304)	(1,978)	(2,549)
Administrative expenses		(3,522)	(4,325)	(4,403)
Operating profit				
Continuing operations		2,495	2,166	3,046
Acquisitions		—	138	—
		<u>2,495</u>	<u>2,304</u>	<u>3,046</u>
Income from interests in associated undertakings		244	—	—
Interest receivable and similar income	5.6	3	35	18
Interest payable and similar charges	5.7	(948)	(938)	(944)
Profit on ordinary activities before taxation	5.4	1,794	1,401	2,120
Tax on profit on ordinary activities	5.8	(577)	(392)	(568)
Profit on ordinary activities after taxation		1,217	1,009	1,552
Minority interests		—	(4)	16
Profit for the financial year	5.19	1,217	1,005	1,568
Dividends paid	5.19	(500)	(225)	(503)
Retained profit for the financial year		<u>717</u>	<u>780</u>	<u>1,065</u>
Earnings per share (£)	5.21	6.085	4.797	7.484
Fully diluted earnings per share (£)	5.21	5.901	4.658	7.268

2. Consolidated statements of total recognised gains and losses

The summarised consolidated statements of total recognised gains and losses of the Group for the three years ended 31 March 1995 are as follows:

	1993 £'000	1994 £'000	1995 £'000
Retained profit for the financial year	717	780	1,065
Currency translation differences arising on foreign currency net investments	(21)	6	(46)
Total recognised gains and losses relating to the financial year	<u>696</u>	<u>786</u>	<u>1,019</u>

3. Consolidated balance sheets

The summarised consolidated balance sheets of the Group at the end of each of the periods covered by this report are as follows:

	Notes	1993 £'000	1994 £'000	1995 £'000
Fixed assets				
Tangible assets	5.9	5,120	5,903	6,791
Investments	5.10	140	–	–
		<u>5,260</u>	<u>5,903</u>	<u>6,791</u>
Current assets				
Stocks	5.11	7,754	9,311	11,627
Debtors	5.12	2,453	2,869	4,031
Cash at bank and in hand		25	–	–
		<u>10,232</u>	<u>12,180</u>	<u>15,658</u>
Creditors: amounts falling due within one year	5.13	<u>(9,768)</u>	<u>(12,027)</u>	<u>(15,298)</u>
Net current assets		<u>464</u>	<u>153</u>	<u>360</u>
Total assets less current liabilities		<u>5,724</u>	<u>6,056</u>	<u>7,151</u>
Creditors: amounts falling due after more than one year	5.14	(1,602)	(1,574)	(1,410)
Provisions for liabilities and charges	5.15	(236)	(256)	(371)
Accruals and deferred income	5.16	(572)	(414)	(555)
Net assets		<u>3,314</u>	<u>3,812</u>	<u>4,815</u>
Capital and reserves				
Called up share capital	5.17	200	210	210
Other reserves	5.18	–	6	(40)
Profit and loss account	5.18	3,114	3,569	4,634
Shareholders' funds	5.19	<u>3,314</u>	<u>3,785</u>	<u>4,804</u>
Minority interests	5.20	–	27	11
		<u>3,314</u>	<u>3,812</u>	<u>4,815</u>

4. Consolidated cash flow statements

The summarised consolidated cash flow statements of the International Greetings Group for the three years ended 31 March 1995 are as follows:

		1993	1994	1995
	Notes	£'000	£'000	£'000
Net cash inflow from operating activities	5.22	3,436	1,162	2,695
Return on investments and servicing of finance				
Interest received		2	35	24
Interest paid		(943)	(814)	(984)
Interest element of finance lease repayments		(38)	(12)	(26)
Dividends received from associated undertakings		113	—	—
Dividends paid		(500)	(225)	(503)
Net cash outflow from returns on investment and servicing of finance		(1,366)	(1,016)	(1,489)
Taxation				
UK corporation tax paid		(386)	(787)	(354)
Overseas tax paid		(12)	—	—
		398	(787)	(354)
Investing activities				
Purchase of tangible fixed assets		(1,070)	(1,383)	(1,956)
Purchases of subsidiary undertakings (net of cash and cash equivalents acquired)	5.24	(844)	(234)	—
Sale of tangible fixed assets		114	96	100
Grants received		170	25	337
Net cash outflow from investing activities		(1,630)	(1,496)	(1,519)
Net cash inflow/(outflow) before financing		42	(2,137)	(667)
Financing				
Repayment of amounts borrowed		65	125	146
Capital element of finance lease repayments		98	80	89
Net cash outflow from financing		163	205	235
Decrease in cash and cash equivalents	5.25	(121)	(2,342)	(902)
		42	(2,137)	(667)

5. Notes

(forming part of the financial statements)

5.1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Basis of consolidation

The Group financial statements consolidate the financial statements of International Greetings PLC and all its subsidiary undertakings. For associated undertakings, the Group includes its share of profits and losses in the consolidated profit and loss account and its share of post acquisition retained profits or accumulated deficits in the

consolidated balance sheet. The consolidated financial statements are based on financial statements which are coterminous with those of the parent company.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is written off against reserves on acquisition. Any excess of the aggregate of the fair value of the separable net assets acquired over the fair value of the consideration given (negative goodwill) is credited directly to reserves.

For consolidation purposes, the assets and liabilities and profit and loss accounts of overseas subsidiary undertakings are translated at the closing exchange rates. Exchange differences arising on these translations are taken to reserves.

Fixed assets and depreciation

Depreciation is provided by the Group to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	–	10 and 25 years
Leasehold land and buildings	–	life of lease
Plant and machinery	–	4 to 10 years
Office equipment	–	5 years
Motor vehicles	–	4 years

No depreciation is provided on freehold land.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account, except in the case of loans to finance equity investment in overseas subsidiaries where such differences are taken direct to reserves.

Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to operating profit in the case of freehold land and buildings over a ten year period, and in the case of all other assets over the estimated useful economic lives of the assets to which they relate.

Leases

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rentals payable are charged to the profit and loss account on a straight line basis over the life of the lease.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods manufactured by the Group, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

5.2 Analysis of turnover by geographical market

	UK and Europe			USA			Total		
	1993 £'000	1994 £'000	1995 £'000	1993 £'000	1994 £'000	1995 £'000	1993 £'000	1994 £'000	1995 £'000
Turnover	25,014	29,473	35,029	3,555	4,628	5,411	28,569	34,101	40,440
Profit on ordinary activities before taxation									
Segment operating profit	2,262	2,245	2,656	234	59	390	2,495	2,304	3,046
Net interest							(945)	(903)	(926)
Income from interests in associated undertakings							244	-	-
Profit on ordinary activities before taxation							1,794	1,401	2,120
Net assets	2,061	2,308	3,225	1,253	1,504	1,590	3,314	3,812	4,815

Turnover represents the amounts (excluding VAT) derived from the provision of goods and services to customers during the year. There is no material difference between turnover by destination, as shown above, and turnover by origin.

5.3 Analysis of continuing operations

The total figures for continuing operations in the year ended 31 March 1994 include the following amounts relating to acquisitions during the year; cost of sales of £1,583,000, distribution expenses of £204,000 and administrative expenses of £164,000.

5.4 Profit on ordinary activities before taxation

	1993 £'000	1994 £'000	1995 £'000
<i>Profit on ordinary activities before taxation is stated after charging/ (crediting)</i>			
Auditors' remuneration - audit	69	57	49
- other services	10	19	35
Directors' emoluments	416	445	510
Depreciation and other amounts written off tangible fixed assets:			
Owned	619	744	950
Leased	54	61	82
Hire of plant and machinery - rentals payable under operating leases	51	85	123
Hire of other assets - operating leases	251	332	389
Grant income	(147)	(196)	(196)

5.5 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees		
	1993	1994	1995
Administration	129	129	180
Production	248	359	413
	377	488	593

5.5 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	1993 £'000	1994 £'000	1995 £'000
Wages and salaries	5,112	6,730	7,248
Social security costs	444	640	649
	<u>5,556</u>	<u>7,370</u>	<u>7,897</u>

5.6 Interest receivable and similar income

	1993 £'000	1994 £'000	1995 £'000
Bank interest	3	35	18
	<u>3</u>	<u>35</u>	<u>18</u>

5.7 Interest payable and similar charges

	1993 £'000	1994 £'000	1995 £'000
On bank loans, overdrafts and other loans wholly repayable within five years	908	906	915
On all other loans	16	12	4
Finance charges payable in respect of finance leases	38	12	25
Exchange losses/(gains)	(14)	8	-
	<u>948</u>	<u>938</u>	<u>944</u>

Of the above amount, £3,000 (1994: £9,000, 1993: £Nil) was payable to the ultimate parent company.

5.8 Taxation

	1993 £'000	1994 £'000	1995 £'000
UK corporation tax at 33 per cent. on the profit for the year on ordinary activities	491	435	419
Deferred taxation	19	51	55
Overseas taxation - current	19	-	74
- deferred	-	(23)	60
Share of associated undertaking's taxation	81	-	-
Adjustments relating to an earlier year:			
Corporation tax	(18)	(51)	(40)
Deferred taxation	(15)	(20)	-
	<u>577</u>	<u>392</u>	<u>568</u>

5.9 Tangible fixed assets

	Land and buildings £'000	Plant and machinery £'000	Fixtures, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
<i>Cost</i>					
At 1 April 1992	3,115	2,089	624	509	6,337
Subsidiaries acquired	–	627	15	44	686
Additions	171	546	194	221	1,132
Disposals	(27)	(113)	(4)	(84)	(228)
At 31 March 1993	3,259	3,149	829	690	7,927
Additions	283	865	133	284	1,565
Subsidiary acquired	18	51	60	50	179
Disposals	–	(11)	(5)	(228)	(244)
At 31 March 1994	3,560	4,054	1,017	796	9,427
Additions	533	992	145	350	2,020
Disposals	–	–	(2)	(215)	(217)
At 31 March 1995	4,093	5,046	1,160	931	11,230
<i>Depreciation</i>					
At 1 April 1992	211	989	343	173	1,716
Subsidiaries acquired	–	497	13	12	522
Charge for year	125	294	112	141	672
On disposals	–	(49)	(3)	(51)	(103)
At 31 March 1993	336	1,731	465	275	2,807
Charge for year	146	369	131	159	805
Subsidiary acquired	5	11	23	13	52
On disposals	–	(11)	(5)	(124)	(140)
At 31 March 1994	487	2,100	614	323	3,524
Charge for year	172	510	159	191	1,032
On disposals	–	–	–	(117)	(117)
At 31 March 1995	659	2,610	773	397	4,439
<i>Net book value</i>					
At 31 March 1993	2,923	1,418	364	415	5,120
At 31 March 1994	3,073	1,954	403	473	5,903
At 31 March 1995	3,434	2,436	387	534	6,791

The net book value of land and buildings comprises:

	1993 £'000	1994 £'000	1995 £'000
Freehold	2,560	2,689	3,069
Long leasehold	193	218	206
Short leasehold	170	166	159
	2,923	3,073	3,434

5.9 Tangible fixed assets (continued)

The net book value of fixed assets includes an amount of £340,000 (1994: £304,000, 1993: £255,100) in respect of assets held under finance leases and similar hire purchase contracts.

The gross value of land and buildings includes £3,150,000 (1994: £3,050,000, 1993: £2,822,000) of depreciable assets.

5.10 Fixed asset investments

	Associated undertaking £'000	Loans to associated undertaking £'000	Total £'000
<i>Cost</i>			
At 1 April 1992	52	37	89
Share of profit in associated undertaking	164	—	164
Dividend paid	(113)	—	(113)
At 31 March 1993	103	37	140
Subsidiary acquired	(103)	(37)	(140)
At 31 March 1994 and 1995	—	—	—

On 1 April 1992, the Group acquired 100 per cent. of the issued share capital of Giftwrap Limited. The consideration was £125,000 cash. The net assets acquired amounted to £93,000 and the goodwill arising on the acquisition of £32,000 has been written off immediately to reserves.

On 1 April 1993, the Group acquired 45 per cent. of the issued share capital of Gift Design Limited, thereby increasing its overall shareholding in Gift Design Limited to 90 per cent. The consideration for the purchase of these shares totalled £422,000 comprising cash of £412,500 together with 9,500 ordinary shares of £1 each issued at par. The net assets acquired amounted to £97,000 and the goodwill arising on the acquisition of £325,000 has been written off immediately to reserves.

5.11 Stocks

	1993 £'000	1994 £'000	1995 £'000
Raw materials and consumables	2,469	3,222	4,097
Work in progress	1,724	2,578	2,475
Finished goods and goods for resale	3,561	3,511	5,055
	<u>7,754</u>	<u>9,311</u>	<u>11,627</u>

5.12 Debtors

	1993 £'000	1994 £'000	1995 £'000
Trade debtors	1,160	1,629	2,585
Other debtors	893	734	905
Prepayments	311	441	415
Corporation tax recoverable	89	65	126
	<u>2,453</u>	<u>2,869</u>	<u>4,031</u>

At 31 March 1994, Mr N Fisher owed the Group £2,117. This amount represented the maximum balance during the three years and was wholly repaid by 31 March 1995.

5.13 Creditors: amounts falling due within one year

	1993 £'000	1994 £'000	1995 £'000
Secured loans (see note 5.14)	125	125	166
Bank loans and overdrafts	3,655	5,972	6,874
Trade creditors	3,533	3,447	5,724
Bills of exchange payable	139	—	—
Amounts owed to ultimate parent company	—	36	83
Corporation tax	521	413	393
Advance corporation tax	129	28	126
Overseas corporation tax	—	—	82
Other taxes and social security	147	267	336
Other creditors	424	261	85
Accruals and deferred income	1,064	1,411	1,366
Obligations under finance leases and hire purchase contracts	31	67	63
	<u>9,768</u>	<u>12,027</u>	<u>15,298</u>

The bank loans and overdrafts are secured by a fixed charge on certain of the Group's land and buildings, a fixed charge over certain of the Group's book debts and a floating charge on certain of the Group's other assets.

5.14 Creditors: amounts falling due after more than one year

	1993 £'000	1994 £'000	1995 £'000
Secured loans	1,540	1,415	1,228
Loan from ultimate parent company	—	37	38
Obligations under finance leases	62	122	144
	<u>1,602</u>	<u>1,574</u>	<u>1,410</u>

Secured loans

These comprise ECSC loans as follows:

	1993 £'000	1994 £'000	1995 £'000
Loan 1	500	375	250
Loan 2	500	500	500
Loan 3	500	500	500
Loan 4	165	165	144
	<u>1,665</u>	<u>1,540</u>	<u>1,394</u>
Less: due within one year	(125)	(125)	(166)
	<u>1,540</u>	<u>1,415</u>	<u>1,228</u>

Loan 1

The principal is repayable in four annual instalments commencing from 30 April 1993 and is all repayable within five years of the balance sheet dates. Interest is payable half yearly at 5.75 per cent. (net of 3 per cent. ECSC rebate). The loan is secured by a bank guarantee.

Loan 2

The principal is repayable in four annual instalments commencing on 31 October 1996 and is wholly repayable within five years (1994: £125,000, 1993: £250,000 repayable after more than five years). Interest is payable half yearly at 7.75 per cent. per annum (net of 3 per cent. ECSC rebate). The loan is secured by a fixed charge on certain of the Group's freehold land and buildings.

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

Loan 3

The principal is repayable in one instalment due on 28 February 1997. Interest is payable half yearly at 8.125 per cent. per annum (net of 3 per cent. rebate). The loan is secured by a fixed charge on certain of the Group's freehold land and buildings.

Loan 4

The principal is repayable between January 1995 and 1999 and is wholly repayable within five years (1994: £83,000, 1993: £125,000 repayable after more than five years). Interest is payable at 8 per cent. per annum (net of 3 per cent. ECSC rebate). The loan is secured by a fixed charge over the long leasehold land and buildings of a subsidiary, and a fixed and floating charge on that subsidiary's other assets.

Obligation under finance leases

Obligations under finance leases of £144,000 (1994: £122,000, 1993: £62,200) are all payable in the second to fifth years inclusive from the balance sheet date.

5.15 Provisions for liabilities and charges

Deferred taxation

	1993 £'000	1994 £'000	1995 £'000
At beginning of year	232	236	256
Subsidiary acquired	—	9	—
Charge for the year in the profit and loss account	4	31	55
Charge/(credit) for the year in respect of overseas subsidiary	—	(20)	60
At end of year	<u>236</u>	<u>256</u>	<u>371</u>

The amounts provided for deferred taxation at 33 per cent. (1994: 33 per cent., 1993: 33 per cent.) are as follows:

	1993 £'000	Provided 1994 £'000	1995 £'000
Difference between accumulated depreciation and capital allowances	299	394	389
Other timing differences	(63)	(138)	(18)
	<u>236</u>	<u>256</u>	<u>371</u>

The amounts provided in the Group balance sheet represent the full potential provision.

5.16 Accruals and deferred income

Government grants

	1993 £'000	1994 £'000	1995 £'000
At beginning of year	549	572	414
Subsidiary acquired	—	13	—
Receivable during the year	169	25	337
	<u>718</u>	<u>610</u>	<u>751</u>
Credited to operating profit	(146)	(196)	(196)
At end of year	<u>572</u>	<u>414</u>	<u>555</u>

5.17 Called up share capital

	1993 £'000	1994 £'000	1995 £'000
<i>Authorised</i>			
Ordinary shares of £1 each	210	210	210
<i>Allotted, called up and fully paid</i>			
Ordinary shares of £1 each	200	210	210

The movements during the three years were as follows:

	£'000
At 1 April 1992 and at 31 March 1993	200
Shares issued for non cash consideration	10
At 31 March 1994 and 1995	210

The shares were issued at par as part consideration for the acquisition of 45 per cent. of the ordinary share capital of Gift Design Limited on 1 April 1993.

5.18 Reserves

	Foreign exchange reserves £'000	Profit and loss account £'000	Total £'000
At 1 April 1992	21	2,429	2,450
Retained profit for the year	–	717	717
Goodwill written off (5.10)	–	(32)	(32)
Exchange movements	(21)	–	(21)
At 31 March 1993	–	3,114	3,114
Retained profit for the financial year	–	780	780
Goodwill arising on acquisition (5.10)	–	(325)	(325)
Exchange adjustments	6	–	6
At 31 March 1994	6	3,569	3,575
Retained profit for the financial year	–	1,065	1,065
Exchange adjustments	(46)	–	(46)
At 31 March 1995	(40)	4,634	4,594

The cumulative amount of goodwill resulting from acquisitions in the current and earlier financial years which has been written off is £1,022,000 (1994: £1,022,000, 1993: £697,000).

5.19 Reconciliations of movements in shareholders' funds

	1993 £'000	1994 £'000	1995 £'000
Profit for the financial year	1,217	1,005	1,568
Dividends	(500)	(225)	(503)
Other recognised gains and losses relating to the year (net)	717	780	1,065
New share capital subscribed	(21)	6	(46)
Goodwill arising on acquisition	—	10	—
	(32)	(325)	—
Net addition to shareholders' funds	664	471	1,019
Opening shareholders' funds	2,650	3,314	3,785
Closing shareholders' funds	3,314	3,785	4,804

5.20 Minority interests

	£'000
At 1 April 1992 and 31 March 1993	—
Acquisition of subsidiary undertaking	23
Minority share of retained profit for the year	4
At 31 March 1994	27
Minority share of retained loss for the year	(16)
At 31 March 1995	11

The minority interest arose on the acquisition of 45 per cent. of the ordinary share capital of Gift Design Limited on 1 April 1993, taking the Group's holding to 90 per cent.

5.21 Earnings per share

The earnings per share has been based on the profit after taxation and minority interests and the weighted average number of ordinary shares in each of the respective years. Fully diluted earnings per share has been calculated on the basis of the 6,250 ordinary share options granted, but outstanding throughout the period.

5.22 Reconciliation of operating profit to net cash inflow from operating activities

	1993 £'000	1994 £'000	1995 £'000
Operating Profit	2,495	2,304	3,046
Depreciation charge	672	805	1,032
Loss on sale of tangible fixed assets	11	—	—
Increase in stocks	(588)	(1,222)	(2,316)
Decrease/(increase) in debtors	832	(275)	(1,115)
Increase/(decrease) in creditors	161	(254)	2,244
Grant income	(147)	(196)	(196)
Net cash inflow from operating activities	3,436	1,162	2,695

5.23 Purchase of subsidiary undertakings

	1993 £'000	1994 £'000	1995 £'000
Tangible fixed assets	169	127	-
Stocks	602	335	-
Debtors	726	157	-
Cash at bank and in hand	-	141	-
Creditors	(783)	(259)	-
Bank overdrafts	(719)	-	-
Loans and finance leases	(24)	(37)	-
Corporation tax recoverable/(payable)	122	(219)	-
Provisions for liabilities and charges	-	(9)	-
Accruals and deferred income	-	(13)	-
Minority shareholder's interests	-	(23)	-

Share of net assets acquired	93	97	-
Goodwill	32	325	-
Consideration given	<u>125</u>	<u>422</u>	-
Satisfied by:			
Shares allotted	-	10	-
Cash	125	412	-
	<u>125</u>	<u>422</u>	-

5.24 Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings

	1993 £'000	1994 £'000	1995 £'000
Cash consideration	(125)	(412)	-
Cash at bank and in hand acquired	-	141	-
Bank overdrafts acquired	(719)	-	-
Loan made to the acquired company before acquisition	-	37	-
Net outflow of cash and cash equivalents	<u>(844)</u>	<u>(234)</u>	-

The subsidiary undertaking acquired during 1994 contributed £4,000 to the Group's net operating cash inflows, paid £58,000 in respect of net returns on investments and servicing of finance, paid £189,000 in respect of taxation, utilised £307,000 for financing activities and was responsible for a decrease in cash and cash equivalents of £550,000.

5.25 Analysis of changes in cash and cash equivalents

	Cash £'000	Overdraft £'000	Net £'000
Balance at 1 April 1992	10	(3,519)	(3,509)
Net cash inflow/(outflow) before adjustments for foreign exchange rate changes	7	(81)	(74)
Effect of foreign exchange rate changes	8	(55)	(47)
Balance at 31 March 1993	25	(3,655)	(3,630)
Net cash outflow before adjustments for foreign exchange rate changes	(26)	(2,314)	(2,340)
Effect of foreign exchange rate changes	1	(3)	(2)
Balance at 31 March 1994	-	(5,972)	(5,972)
Net cash outflow before adjustments for foreign exchange rate changes	-	(925)	(925)
Effect of foreign exchange rate changes	-	23	23
Balance at 31 March 1995	-	(6,874)	(6,874)

5.26 Analysis of the balances of cash and cash equivalents as shown in the balance sheet

	1993 £'000	Change in year £'000	1994 £'000	Change in year £'000	1995 £'000
Cash at bank and in hand	25	(25)	-	-	-
Bank overdrafts	(3,655)	(2,317)	(5,972)	(902)	(6,874)
	<u>(3,630)</u>	<u>(2,342)</u>	<u>(5,972)</u>	<u>(902)</u>	<u>(6,874)</u>

5.27 Analysis of changes in financing

	Share capital £'000	Loans and finance lease obligations £'000
Balance at 1 April 1992		
Cash outflow from financing	200	1,897
Loans and finance lease obligations of subsidiary undertaking acquired during the year	-	(163)
	-	24
Balance at 31 March 1993	200	1,758
Cash outflow from financing	-	(205)
Shares issued for non-cash consideration	10	-
Loans and finance lease obligations of subsidiary undertaking acquired during the year	-	37
Inception of finance lease contracts	-	176
Balance at 31 March 1994	210	1,766
Cash outflow from financing	-	(235)
Inception of finance lease contracts	-	108
Balance at 31 March 1995	210	1,639

5.28 Contingencies

The Group is required to pay additional consideration equal to 50 per cent. of the market value of Hy-Sil's land and buildings in Boston, Massachusetts in excess of \$250,000 on the sale of the land and buildings or the transfer of its share capital. The acquisition of Hy-Sil by the Group represented such a transfer but the vendors have agreed to waive their rights in relation to that transfer but retain their rights in relation to any future transfers. An amount of £77,000 (1994: £84,000; 1993: £83,000) is included in "other creditors", in note 5.13, representing the additional consideration which would be payable if the land and buildings were disposed of at their balance sheet amounts.

In addition, the Group is required to pay additional consideration in the event of the sale of the land and buildings in Boston, Massachusetts, or the disposal of its interest in Hy-Sil on or before 31 December 2026. This consideration equals 25 per cent. of the sale proceeds or the market value of the land and buildings in excess of \$800,000. No additional consideration would arise under this head if the land and buildings were disposed of at their balance sheet amounts.

5.29 Commitments

At 31 March 1995, the Group had entered into contracts for capital expenditure totalling £292,000, and had annual commitments under non-cancellable operating leases on land and buildings expiring within one year of £133,000 and expiring after five years of £145,000.

5.30 Ultimate parent company

The Company is a subsidiary undertaking of Artistic AG, a company incorporated in Switzerland.

Yours faithfully

KPMG

Part III

Statutory and General Information

1. General Information Relating to International Greetings

International Greetings was incorporated and registered in England and Wales on 22 November 1978 as a private company with limited liability under the Companies Acts 1948 to 1976 with registered number 1401155 under the name Surakara Limited. The name of the Company was changed on 24 September 1979 to Scandinavian Design Limited and on 3 April 1989 to International Greetings Limited. The Company was re-registered as a public limited company on 21 November 1994 under the Companies Act 1985 (as amended). The Company's registered office is at Belgrave House, The Merlin Centre, Acrewood Way, St Albans, Hertfordshire, AL4 0JY.

International Greetings is the holding company of a group of companies, the principal undertakings and activities of which are set out on pages 7 to 8 of Part I. All of the subsidiaries of the Company are wholly owned by the Company except for Gift Design which is owned as to 90 per cent. of its issued share capital by the Company.

The Memorandum of Association of the Company provides that its objects include, *inter alia*, carrying on the businesses of importers, exporters, designers, manufacturers, buyers, sellers, distributors, factors, wholesalers, retailers and shippers of and dealers in produce, products, goods, wares and merchandise of every description and carrying on any other trade or business whatever which can in the opinion of the Board be advantageously carried on in connection with or ancillary to any of the business of the Company.

The following is a summary of the principal rights attaching to the Ordinary Shares under the Company's Articles of Association to be adopted upon implementation of the Proposals:

(a) Voting rights

At any general meeting, on a show of hands, every member who is present in person shall have one vote only and, in the case of a poll, every member who is present in person or by proxy shall have one vote for every Ordinary Share held by him. No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of any Ordinary Shares have been paid.

(b) Dividends

Subject to the provisions of any relevant legislation, the Company may by ordinary resolution, from time to time, declare dividends to be paid in accordance with the respective rights of the members but no dividend shall be declared in excess of the amount recommended by the Board.

Dividends shall be apportioned and paid proportionately to the amounts paid up on the Ordinary Shares during any portion or portions of the period in respect of which the dividend is paid.

Any dividend which has remained unclaimed for a period of 12 years from the date when it became due for payment shall, if the Directors so resolve, be forfeited and cease to remain owing by the Company.

(c) Distribution of assets on a winding up

If the Company shall be wound up, the liquidator may, with the sanction of an extraordinary resolution and, subject to any other sanction required by any relevant legislation:

- (i) divide among the members *in specie* the whole or any part of the assets of the Company and may, for such purpose, value any assets and determine how such division shall be carried out as between the members or different classes of members; and
- (ii) vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as the liquidator, with the like sanction, may determine,

but no member shall be compelled to accept any assets upon which there is any liability.

(d) Redemption

There are no provisions relating to the redemption of Ordinary Shares.

(e) Variation of rights

Subject to the provisions of any relevant legislation, all or any of the special rights attached to any class of share may

with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or with the sanction of any extraordinary resolution passed at a separate meeting of the holders of the shares of that class.

(f) *Transfer of shares*

Ordinary Shares are transferable in the usual form or such other form as the Directors may approve. There are no restrictions on the free transferability of fully paid shares where the transfer is accompanied by the relative share certificate and is in respect of one class of share only.

2. Share Capital

(a) The authorised and issued share capital of International Greetings at the date of this document is as follows:

	Authorised		Allotted, Called Up and Fully Paid	
	Number	£	Number	£
Ordinary Shares	4,500,000	225,000	4,190,000	209,500

(b) The authorised and issued share capital of International Greetings following implementation of the Proposals will be:

	Authorised		Allotted, Called Up and Fully Paid	
	Number	£	Number	£
Preference Shares	3,000,000	3,000,000	3,000,000	3,000,000
Ordinary Shares	5,789,260	289,463	4,190,000	209,500

(c) *Employee Share Option Scheme*

As at 25 October 1995, share options had been granted pursuant to the International Greetings Employee Share Option Scheme, and were still outstanding in respect of a maximum of 125,000 Ordinary Shares:

Exercise Period	No. of Ordinary Shares	Exercise Price
20 August 1992 to 20 August 1998	90,000	£1.25
12 November 1994 to 12 November 2000	10,000	£2.50
9 October 1996 to 9 October 2002	10,000	£3.50
9 October 1996 to 9 October 2002	10,000	£1.25
9 October 1996 to 9 October 2002	5,000	£3.50

A summary of the rules of the Company Share Option Scheme (the "Scheme") is set out below:

(i) Grant of Options

Any director or employee of the Group may be granted options to subscribe for Ordinary Shares ("Options") at the discretion of the Board at any time as the Board may resolve, but in any case not later than the tenth anniversary (11 August 2001) after the adoption of the Scheme by the Company, being 12 August 1991. The subscription price at which the Options may be exercised is determined by the Board. The consideration payable for the grant of an Option is £1 and the Options are not transferable.

(ii) Limitations on grants

Options may not be granted if immediately following such grant the total number of Ordinary Shares which have been issued on the exercise of any Options and the number of Ordinary Shares which are the subject of subsisting Options and the number of Ordinary Shares which are the subject of subsisting Options granted pursuant to any other share option scheme during the previous ten years and the number of Ordinary Shares issued pursuant to any other employee share scheme during the previous ten years exceeds 10 per cent. of the issued share capital of the Company.

(iii) Exercise of Options

Options may be exercised in whole or in part during the period of 30 days from the date of publication of the Company's annual accounts or when the Ordinary Shares are quoted on a recognized stock exchange, at any time after the first anniversary of the date of the grant or the death of the Option holder, whichever is earlier and before the expiry of seven years from the date of the grant or one year after the death of the Option holder whichever is earlier. Early exercise is permitted in certain circumstances including on the termination of employment of the Option holder and changes in control of the Company.

(iv) In the event of any capitalisation or rights issue or any consolidation, sub-division, reduction of capital by the Company, the number of Ordinary Shares subject to any Option or the subscription price per share at which the Option holder may exercise an Option may be adjusted provided the aggregate amount payable on the exercise of the Option in full is not increased or the subscription price for an Ordinary Share is not reduced below its nominal value.

(d) *Other share options*

Options have been granted, conditional upon the Introduction becoming effective on or before 3 November 1995, to A Forde and L Louis to subscribe Ordinary Shares in the Company. Under the terms of such options, they will be notionally allocated entitlements of up to 5 per cent. of the issued common stock of Hy-Sil upon Hy-Sil achieving pre-tax profits as follows:

	1 per cent. when pre-tax profits reach \$300,000
a further	1 per cent. when pre-tax profits reach \$500,000
a further	1 per cent. when pre-tax profits reach \$750,000
a further	2 per cent. when pre-tax profits reach \$1,000,000

Such notional allocations will be valued on the basis of a price earnings multiple of five, using the average of the pre-tax profits of Hy-Sil divided by the number of shares in issue for the two financial years preceding the termination of the

A summary of the rights and restrictions attaching to the Warrants and the Additional Warrants is set out below:

(i) Subscription rights

A registered holder for the time being of a Warrant ("Warrantholder") has rights ("Subscription Rights") to subscribe in cash for one Ordinary Share at £4.00 per Ordinary Share, or in the event that the Ordinary Shares are not admitted to the Official List by 24 October 1998, at £3.33 per share ("the Subscription Price"), payable in full on subscription, on any business day (a "Subscription Date") in the period beginning on the first anniversary of completion of the Subscription Agreement and ending on 30 June 2001 (both dates inclusive). The number and/or nominal amount of shares to be subscribed and the Subscription Price are subject to adjustment as provided in paragraph (ii) below.

In order to exercise the Subscription Rights, in whole or in part, a Warrantholder must lodge the Warrant certificate at the registered office of the Company not less than one calendar month prior to the relevant Subscription Date having completed the subscription notice on the reverse thereof and specifying the number of Warrants in respect of which the Subscription Rights are exercised accompanied by a remittance for the aggregate Subscription Price. Once lodged, a subscription notice shall be irrevocable save with the consent of the Directors. Compliance must also be made with any statutory requirements for the time being applicable.

Ordinary Shares issued pursuant to the exercise of Subscription Rights will be allotted not later than seven days after and with effect from the relevant Subscription Date and a certificate in respect of such Ordinary Shares will be issued free of charge and dispatched (at the risk of the persons entitled thereto) not later than 14 days after the relevant Subscription Date to the Warrantholder.

Ordinary Shares allotted pursuant to the exercise of Subscription Rights will not rank for any dividends or other distributions declared, made or paid on the Ordinary Shares in respect of any accounting period of the Company ending prior to the relevant Subscription Date or by reference to a record date prior to the relevant Subscription Date but subject thereto will rank in full for all dividends and other distributions declared, made or paid on the Ordinary Shares and otherwise rank *pari passu* in all respects with the Ordinary Shares in issue at that date provided that on any allotment falling to be made pursuant to paragraph (iv) below the Ordinary Shares so to be allotted shall not rank for any dividend or other distribution declared, made or paid by reference to a record date prior to the date of allotment.

Application will be made for the Ordinary Shares allotted pursuant to any exercise of Subscription Rights to be admitted to trading on AIM or to the Official List as appropriate (so as to be in conformity with the other Ordinary Shares in issue) and the Company will use all reasonable endeavours to obtain such admission not later than 14 days after the relevant Subscription Date. All Subscription Rights will lapse the day after the final Subscription Date.

(ii) Adjustment of Subscription Rights

After any allotment of fully paid Ordinary Shares pursuant to scrip dividend arrangements, or by way of capitalisation of profits or reserves to holders of the Ordinary Shares on the register on a date (or by reference to a record date) on or before the final Subscription Date or upon any sub-division or consolidation of the Ordinary Shares on or before such date, the number and/or nominal amount of Ordinary Shares to be subscribed on any subsequent exercise of the Subscription Rights will be increased or, as the case may be, reduced in due proportion and the Subscription Price will be adjusted accordingly with effect from the record date for such scrip dividend arrangement, capitalisation, sub-division or consolidation.

If, on a date (or by reference to a record date) on or before the final Subscription Date, the Company makes any offer or invitation (whether by rights issue, scrip dividend arrangement or otherwise but not being an offer or invitation to which paragraph (iv) applies) to the holders of the Ordinary Shares, or any offer or invitation (not being an offer to which paragraph (iv) applies) is made to such holders otherwise than by the Company, then the Company shall, so far as it is able, procure that at the same time the same offer or invitation is made to the then holders of the Warrants as if its Subscription Rights had been exercisable and had been exercised on the day immediately preceding the record date of such offer or invitation (subject to any adjustment pursuant to this paragraph) provided that, if the Directors and the then holders of the Warrants (by way of any extraordinary resolution of such holders) so agree in the case of any such offer or invitation made by the Company, the Company shall not be required to procure that the same offer or invitation is made to the then holders of the Warrants but the Subscription Price and/or the Subscription Rights shall be adjusted in such manner as the auditors for the time being of the Company certify to be fair and reasonable. Any such adjustment shall become effective as at the record date for the offer or invitation.

(iii) Repurchase of Warrants

In the event that the Ordinary Shares are not listed on the Official List on 30 June 2001 the Company shall repurchase each Warrant at a price per Warrant equal to £{(9.38 multiplied by the average earnings per share for the two years ending 31 March 2001) less 3.33}.

(iv) Other provisions

So long as any Subscription Rights remain exercisable the Company may not undertake certain activities except with the sanction of an extraordinary resolution of the holders of the Warrants including the following:

- (1) make any distribution of capital profits or capital reserves except by means of a capitalisation issue in the form of fully paid Ordinary Shares or issue securities by way of capitalisation of profits or reserves except fully paid Ordinary Shares issued to the holders of its Ordinary Shares;
- (2) in any way modify the rights attached to its existing Ordinary Shares as a class (but nothing herein shall restrict the right of the Company to increase or to consolidate or sub-divide its share capital), or create or issue any new class of equity share capital (as defined in Section 744 of the Companies Act 1985) which carries rights as regards voting, dividend or return of capital more favourable than those attaching to the Ordinary Shares;
- (3) reduce its share capital or any uncalled or unpaid liability in respect of any of its share capital or (except as authorised by Sections 130 to 134 (inclusive) or 170 of the Companies Act 1985) any share premium account or capital redemption reserve;
- (4) make any allotment of fully paid Ordinary Shares by way of capitalisation of profits or reserves unless at the date of such allotment the Directors have authority for the purposes of Section 80 of the Companies Act 1985 to grant the additional rights to subscribe to which the holders of the Warrants will by virtue of paragraph 2(ii) hereof be entitled in consequence of such capitalisation.

The Company shall keep available for issue sufficient authorised but unissued Ordinary Share capital to satisfy in full all Subscription Rights remaining exercisable.

The Warrantholders are also entitled to exercise their Subscription Rights (subject to any adjustment pursuant to paragraph (ii)) at any time within a specified period following an offer or invitation by the Company to the holders of the Ordinary Shares for the purchase by the Company of any of its Ordinary Shares or an offer to all the holders of the Ordinary Shares (or all holders of Ordinary Shares other than the offeror and/or any company controlled by the offeror and/or persons acting in concert with the offeror) to acquire the whole or any part of the issued Ordinary Share capital of the Company which may result in a change of voting control of the Company.

If any order is made or an effective resolution is passed for winding up the Company (except for the purpose of reconstruction or amalgamation on terms sanctioned by an extraordinary resolution of the holders of the Warrants) each holder of a Warrant shall in certain circumstances be treated as if immediately before the date of such order or resolution his Subscription Rights had been exercisable and had been exercised in full (subject to any adjustment pursuant to paragraph (ii) above), and shall accordingly be entitled to receive out of the assets available in the liquidation *pari passu* with the holders of the Ordinary Shares such a sum as he would have received had he exercised his Subscription Rights in full and become the holder of the Ordinary Shares to which he would have become entitled by virtue of such subscription after deducting a sum per Ordinary Share equal to the Subscription Price (subject to any adjustment as aforesaid). Subject to the foregoing, all Subscription Rights shall lapse on liquidation of the Company.

(v) Modification of Rights

All or any of the rights for the time being attached to the Warrants may from time to time (whether or not the Company is being wound up) be altered or abrogated with the sanction of an extraordinary resolution of the holders of the Warrants.

(vi) Purchase and Surrender

The Company has the right to purchase Warrants by private treaty and may accept the surrender of a Warrant at any time. All Warrants so purchased or surrendered shall forthwith be cancelled and shall not be available for re-issue or re-sale.

(vii) The Additional Warrants

The same rights and restrictions as detailed above are attached to the Additional Warrants, save that the Additional Warrantholder shall have rights to subscribe in cash for one Ordinary Share at 333p, payable in full on subscription, on any business day in the period beginning on 24 October 1998 and ending on 30 June 2001 (both dates inclusive) provided that an Additional Warrant will only be exercisable in the event that the Ordinary Shares are not listed on the Official List by 24 October 1998.

(f) Save as disclosed in paragraphs 2(c), (d) and (e) above, there are no outstanding convertible securities issued by the Company.

(g) By a special resolution passed on 24 October 1995 the Directors were unconditionally authorised, subject to and conditional upon the admission of the Ordinary Shares to trading on AIM:

- (i) in accordance with section 80 of the Act to allot relevant securities (as defined in that section) up to an aggregate nominal value of £3,079,963 prior to 24 October 2000; and
- (ii) in accordance with section 95 of the Act to allot equity securities (within the meaning of section 94 of the Act) pursuant to the authority to allot conferred on the Directors by this special resolution as if section 89(1) of the Act did not apply to such allotment.

(h) Save as disclosed in this document, there are no listed or unlisted securities issued by the Company not representing share capital.

(i) No application is being made for the Preference Shares or Warrants or Additional Warrants to be admitted to trading on AIM.

3. The Directors

(a) The Directors have held within the past five years and continue to hold the following other directorships:

Director	Company
N Fisher	Belgrave Graphics Limited
	Brite Sparks Limited
	Design Image Limited
	Gift Design Limited
	Scandinavian Design Limited
	Giftwrap Limited
	Scoop Designs Limited
	Hy-Sil Manufacturing Co. Inc.
	Alfred Franks & Bartlett Co. Limited
	AB Alrik Hedlund
	AB Hakanson
S A Hedlund	Belgrave Graphics Limited
	Brite Sparks Limited
	Giftwrap Limited
	Hakansons Papper AB
	Hedlunds Pappers Industri AB
	Scandinavian Design Limited
	Hy-Sil Manufacturing Co. Inc.
	Brite Sparks Limited
	Collini Estates Limited
	Collini Finance Limited

Save as disclosed above, the Directors have not held within the past five years and do not hold any other directorships.

None of the Directors has at the date of this document any unspent convictions or has been the subject of public criticism by any statutory or regulatory authorities. None of the Directors has been declared bankrupt and none has been a director of a company in receivership or liquidation, either at the time of the onset of receivership or liquidation or in the twelve months preceding any such event.

- (b) The interests of the Directors and their immediate families in the issued share capital of the Company (all of which are beneficial) which have been notified to the Company pursuant to sections 324 and 329 of the Act or which are required to be entered in the register of Directors' interests maintained by the Company pursuant to section 325 of the Act as at the date of this document and as they will be following implementation of the Proposals are as follows:

Directors' interests at the date of this document and following implementation of the Proposals

Director	No. of Ordinary Shares	Options
S A Hedlund*	251,200	nil
N Fisher*	250,000	nil
M Collini	20,000	30,000

*Also see notes 5(a)(i), (ii) and (iii) below.

- (c) The aggregate remuneration paid and benefits in kind paid to the Directors during the last completed financial year amounted to £510,000. It is estimated that the aggregate amount payable and the benefits in kind to be paid to the Directors for the year ending 31 March 1996, under the arrangements in force as at the date of this document, will be approximately £609,000.

(d) Service Agreements

- (i) On 24 October 1995, S A Hedlund entered into a service agreement with the Company under which he agreed to serve as Joint Chief Executive of the Company at an annual salary of £130,000 to be reviewed annually together with a performance related bonus. The agreement is terminable by either party giving not less than 12 months written notice.
- (ii) On 24 October 1995, N Fisher entered into a service agreement with the Company under which he

Shareholder	No. of Ordinary Shares	No. of Preference Shares	Percentage of issued Ordinary Share voting capital
Artistic AG (i)	2,478,800	nil	59.2
Benalex Holdings Limited (ii)	520,000	nil	12.4
Malios AG (iii)	500,000	nil	11.9

(i) Artistic AG, a company incorporated in Switzerland, is under the ultimate control of the Hedlund family.

(ii) 520,000 Ordinary Shares are registered in the name of Benalex Holdings Limited, a company incorporated under the laws of Jersey and owned by a settlement by N Fisher for the benefit of himself and members of his family. Following implementation of the Proposals, it is anticipated that Benalex Holdings Limited will be interested in 420,000 Ordinary Shares (10 per cent. of the issued Ordinary Share voting capital).

(iii) Malios AG, a company incorporated in Switzerland, is under the ultimate control of the Hedlund family.

(b) Save as disclosed under 5(a) above, so far as the Directors are aware, there are no persons, who, directly or indirectly, jointly or generally, exercise or could exercise control over the Company.

6. Working Capital

The Directors consider that, having made due and careful enquiry, and taking into account available bank facilities, the working capital available to the Company and the Group, following implementation of the Proposals, will be sufficient for the Group's requirements.

7. Nominated Adviser and Nominated Broker

In accordance with the AIM Rules of the Exchange relating to AIM, the Company has appointed the following as its nominated adviser and nominated broker:

Nominated Adviser

Granville & Co. Limited
Mint House
77 Mansell Street
London E1 8AF

Nominated Broker

Neilson Cobbold Limited
Martins Building
4 Water Street
Liverpool L2 3UF

8. Material Contracts

Save as disclosed below, the Company is not dependent on any patents or other intellectual property rights, licences or particular contracts, which are or may be of fundamental importance to the Company's business.

(a) The following licences have all been renewed over the last three years and the process of renewal of them has been commenced:

- (i) A licence agreement dated 22 March 1995 between The Walt Disney Company Limited ("Walt Disney") and the Company whereby Walt Disney granted the Company the non-exclusive right for a period of one year from 1 January 1995 to reproduce representations of characters from certain specified films and to use their names, the names and logos of the films and the trademarks 'Walt Disney' and 'Disney' on or in connection with the following articles: giftwrap, cards, calendars, crackers, bags, tags, boxes and other related accessories (the "Articles") and to manufacture, distribute for sale and sell the Articles in the United Kingdom of Great Britain and Northern Ireland, Eire, the Channel Islands, the Isle of Man, Malta, Gibraltar and, provided the Company gives prior written notice to Walt Disney, in any other country within the European Economic Area (the "Territory"). Royalties are payable by the Company on the Articles sold every calendar quarter period during the term of the agreement. The Company may only sell the Articles to retailers or wholesalers for resale in the Territory and may not sell the Articles directly to the public.

- (ii) A licence agreement dated 12 April 1995 between The Walt Disney Company Limited ("Walt Disney") and the Company whereby Walt Disney granted the Company the non-exclusive right for a period of one year from 1 January 1995 to reproduce representations of the characters from the film 'Winnie The Pooh' and to use their names, the name and logo of the film and the trademarks 'Walt Disney' and 'Disney' on or in connection with the following articles: giftwrap, cards, calendars, crackers, bags, tags, boxes and other related accessories (the "Articles") and to manufacture, distribute for sale and sell the Articles in the United Kingdom of Great Britain and Northern Ireland, Eire, the Channel Islands, the Isle of Man, Malta, Gibraltar and, provided the Company gives prior written notice to Walt Disney, in any other country within the European Economic Area (the "Territory"). Royalties are payable by the Company on the Articles sold every calendar quarter period during the term of the agreement. The Company may only sell the Articles to retailers or wholesalers for resale in the Territory and may not sell the Articles directly to the public.
- (iii) A licence agreement dated 12 April 1995 between The Walt Disney Company Limited ("Walt Disney") and the Company whereby Walt Disney granted the Company the non-exclusive right for the period of one year from 1 January 1995 to reproduce representations of certain specified characters and to use their names and the trademarks 'Walt Disney' and 'Disney' on or in connection with giftwrap, cards, calendars, crackers, bags, tags, boxes and other related accessories (the "Articles") and to manufacture, distribute for sale and sell the Articles in the United Kingdom of Great Britain and Northern Ireland, the Channel Islands, the Isle of Man, Malta, Gibraltar, Eire and, provided the Company gives prior written notice to Walt Disney, in any other country within the European Economic Area (the "Territory"). Royalties are payable by the Company on the Articles sold every calendar quarter period during the term of the agreement, subject to a minimum payment. The Company may only sell the Articles to retailers or wholesalers for resale in the Territory and may not sell the Articles directly to the public.
- (b) A subscription agreement dated 24 October 1995 between (1) TPIT (2) the Company and (3) N Fisher, A Hedlund and M Collini whereby, conditional upon the Introduction, TPIT has agreed to subscribe for 3,000,000 Preference Shares in cash at nominal value and the Company has agreed to issue and allot to TPIT the Warrants and Additional Warrants.
- (c) A Placing Agreement dated 25 October 1995 between (1) the Company (2) the Directors (3) the Placing Shareholder (4) the Nominated Adviser and (5) Neilson Cobbold Limited ("the Nominated Broker") pursuant to which the Nominated Adviser and the Nominated Broker have agreed, as agent for the Placing Shareholder, to use all reasonable endeavours to procure places to purchase the Placing Shares at the Placing Price. The Placing Agreement includes certain warranties, indemnities and retentions given by the Company and/or the Placing Shareholder in favour of the Nominated Adviser and the Nominated Broker. The Placing Agreement is conditional upon the admission of the Ordinary Shares to AIM not later than 3 November 1995. Each of the Directors and the Placing Shareholder has undertaken to the Nominated Adviser and the Nominated Broker that neither they nor any nominee of them will dispose of any Ordinary Shares or any interest in their Ordinary Shares (other than the Placing Shares pursuant to the Placing) at any time prior to the first anniversary of the date of commencement of trading in the Ordinary Shares on AIM save in certain limited circumstances. In consideration of the services being rendered by the Nominated Broker to the Placing Shareholder under the Placing Agreement, the Placing Shareholder has agreed to pay to the Nominated Broker commission of 1 per cent. of the value at the Placing Price of the Placing Shares (together with any value added tax thereon). In addition, the Placing Shareholder has agreed to discharge any amount of stamp duty or stamp duty reserve tax payable in respect of the transfer of the Placing Shares pursuant to the Placing Agreement not exceeding in aggregate an amount calculated at the rate of 50p per £100 or part thereof. The Company has agreed to pay the costs and expenses incurred by the Company and the Nominated Adviser in connection with the Placing and Introduction.
- (d) An agreement dated 6 March 1995 between (1) Artistic AG ("Artistic"), (2) Benalex Holdings Limited ("Benalex"), (3) E Chrysanthou ("Ms Chrysanthou"), (4) M Collini ("Mr Collini"), (5) W Dagul ("Mr Dagul"), (6) N Fisher ("Mr Fisher"), (7) A Hedlund ("Mr Hedlund"), (8) M Hornung ("Mr Hornung"), (9) Malios AG ("Malios") and (10) the Company, as amended, subject to and conditional upon admission of the Ordinary Shares to trading on AIM on or before 3 November 1995 by an agreement dated 25 October 1995, made between the same parties thereto whereby:
- (i) Artistic, Benalex, Mr Hedlund, Mr Fisher, Malios and the Company ("grantors") severally granted Mr Collini, Ms Chrysanthou, Mr Dagul and Mr Hornung ("grantees") the right to sell to them Ordinary Shares if the Company or a grantee terminates a grantee's service agreement or if the shares of the Company have not been admitted to the Official List by 5 March 1998. The price to be paid for each Ordinary Share

will be the higher of £2.50 or six times the annual pre-tax profit of the Company and any holding company of the Company and any wholly owned subsidiary of the Company for the financial year last ending before the exercise of any such option divided by the number of Ordinary Shares in issue. The number of Ordinary Shares which may be sold by a grantee pursuant to such option will be the number of Ordinary Shares which, at the price referred to above, will, after all applicable taxes payable in relation to such sale, give rise to proceeds for the grantees of the following amounts:

Ms Chrysanthou	£25,000
Mr Collini	£50,000
Mr Dagul	£75,000
Mr Hornung	£125,000

- (ii) the grantors have severally granted the grantees or their personal representatives the right to sell their Ordinary Shares at the price referred to in paragraph 8(d)(i) above (a) on their death, or (b) if such person becomes incapable of doing their job for six months or more through reasons of ill health or (c) if a grantor (other than the Company) sells more than 25 per cent. of his or its Ordinary Shares to a person other than Artistic, Benalex, Ms Chrysanthou, Mr Collini, Mr Dagul, Mr Fisher, Mr Hedlund, Mr Hornung or Malios or a body corporate with common control with the said grantor, in which case the grantees may sell the same percentage of their Ordinary Shares to the selling grantor as the selling grantor is selling at the higher price referred to in paragraph 8(d)(i) above or the price per Ordinary Share at which the selling grantor is selling his or its Ordinary Shares.
- (iii) Ordinary Shares to be sold pursuant to the options referred to above will (except in relation to a transfer referred to in paragraph 8(d)(ii)(c) above) be offered by the Company to Artistic, Mr Hedlund, Mr Fisher, Malios and Benalex in that order. Benalex will (unless it has insufficient funds or cannot readily obtain finance to purchase the Ordinary Shares offered to it, in which case it shall only be obliged to purchase any such Ordinary Shares for which it has sufficient funds or for which it can readily obtain finance) purchase any remaining Ordinary Shares and thereafter any remaining Ordinary Shares will (subject to the provisions of the Companies Acts) be purchased by the Company.
- (iv) each of the parties to the agreement has undertaken that without the prior consent in writing of the other parties, it shall not sell or transfer any Ordinary Shares held by it on 31 October 1995 to any person before 31 October 1996 and it shall not from 31 October 1996 to 30 October 1998 sell or transfer more than 50 per cent. of the Ordinary Shares held by it on 31 October 1995 to any person;
- (v) each of the parties to the agreement has undertaken that it shall not from 31 October 1996 to 30 October 1998 sell or transfer any Ordinary Shares held by it on 31 October 1995 without offering to sell or transfer such Ordinary Shares to Mr Hedlund at a price per Ordinary Share equal to its middle market price on the dealing day immediately preceding the date of the offer or, if higher, the price per Ordinary Share at which a third party is prepared to purchase the Ordinary Shares;
- (vi) in the event of any of the grantees or Mr Fisher ceasing to be an employee of the Group; each such person is entitled to sell or transfer any Ordinary Shares held by him or her (as the case may be) provided that such Ordinary Shares are offered to Mr Hedlund at the price referred to in paragraph 8(d)(v) above.

9. Taxation

(a) Ordinary Shareholders

No tax will be withheld by the Company when it pays dividends.

A United Kingdom resident Ordinary Shareholder who receives a dividend from the Company will be entitled to a tax credit equal to one-quarter of the amount of the net dividend which is also equivalent to a tax credit of 20 per cent. on the gross dividend.

(b) Individual and Trustee Shareholders

Individual shareholders resident in the United Kingdom will be liable to income tax on the amount of the gross dividend. Dividend income will be treated as the top slice of an individual's income and will be liable to income tax. The tax credit referred to above will discharge the liability to income tax of an individual shareholder who is subject to United Kingdom income tax at the lower rate (20 per cent.) or basic rate (currently 25 per cent.)

only. The higher rate (currently 40 per cent.) taxpayers will be able to offset the tax credit against their liability to tax on the gross dividend. Since, as mentioned above, the tax credit represents 20 per cent. of the gross dividend, higher rate taxpayers will have a tax liability of a further 20 per cent. To the extent that the United Kingdom resident shareholder's total tax credits on such dividends exceed his overall United Kingdom tax liability, the shareholder may claim to have any excess paid to him by the Inland Revenue.

For dividends paid to trustees of United Kingdom resident discretionary trusts, the gross dividend will be subject to United Kingdom income tax at a rate of 35 per cent. with a tax credit equal to 20 per cent. of the gross dividend, reducing the trustees' additional income tax liability to 15 per cent. of the gross dividend.

(c) Corporate Shareholders

A United Kingdom resident corporate holder of Ordinary Shares will not generally be liable to United Kingdom

firstly, repayment in full of the capital paid up on such Preference Shares and (if the date for redemption of that Preference Share has not passed) the amount referred to in paragraph (iv); and

secondly, payment of a sum equal to any arrears or accruals of the cumulative preferential dividends on such Preference Share and any interest thereon, whether or not declared or earned, calculated down to and including the date of such repayment of capital.

(iii) Priority

The Preference Shares shall rank both as to dividend and capital in priority to all other shares of the Company from time to time in issue.

(iv) Redemption

The Company shall on 30 June 2001 (or if such date is a Saturday, Sunday or public holiday in England, on the next subsequent business day) redeem all the Preference Shares in issue at par (the "due date for redemption") and shall pay any arrears or accruals of the cumulative preferential dividends on such Preference Shares and any interest thereon, whether or not declared or earned, calculated down to the appropriate date of redemption.

On the occurrence of certain specified events, including when all or any part of the cumulative preference dividend is in arrears for at least 12 months, each holder of the Preference Shares shall be entitled to give notice to the Company to redeem all or any of the Preference Shares held by such holder prior to the due date for redemption.

As from the relevant date for redemption, the cumulative preferential dividend shall cease to accrue on any Preference Shares required to be redeemed on that date provided that if on the presentation of the certificate (or an indemnity in respect thereof reasonably satisfactory to the Company) relating thereto the Company fails to make payment of the redemption monies such dividend shall continue to accrue at a rate (exclusive of any

- (ii) affecting altering or abrogating the rights or privileges or restrictions attached to the Preference Shares; or
- (iii) to approve any matter for which the consent of the holders of the Preference Shares is required under paragraph (vii) below.

If and for so long as any of (a), (b) or (c) above apply, the Preference Shares shall entitle the holders thereof to vote in all circumstances at general meetings and, in the case of (d) above, the Preference Shares shall entitle the holders thereof to vote on the relevant resolution only.

At every general meeting of the Company at which the holders of the Preference Shares are entitled to vote on a show of hands every holder present in person or (being a corporation) by representative shall have one vote; and on a poll every holder present in person or by proxy or (being a corporation) by representative shall have fifteen votes for every 100 Preference Shares of which he is the holder.

With effect from the date of any allotment of Ordinary Shares by way of capitalisation issue or any sub-division or consolidation of the Ordinary Share capital of the Company, the number of votes to which the holders of Preference Shares shall be entitled on a poll in respect of each Preference Share shall be increased or decreased such that the aggregate number of such voting rights attaching to the Preference Shares in issue shall be in the same proportion to the sum of the number of such voting rights attaching to the Preference Shares in issue and the voting rights attaching to the Ordinary Shares in issue before and after such allotment, sub-division or consolidation.

(vii) Restrictions

So long as any Preference Share remains in issue the Company shall be subject to certain specified restrictions unless it shall have obtained the consent in writing of the holders of three-quarters in nominal value of the Preference Shares then in issue or the sanction of an extraordinary resolution passed at a separate meeting of the holders of the Preference Shares in accordance with the provisions of the Articles of Association of the Company or TPIT (as the case may be) including *inter alia* the following:

- (a) make any material change in the nature or scope of the business of the Company nor commence any new type of business not being ancillary or incidental to the existing business of the Company;
- (b) part with control of any subsidiary of the Company nor sell or dispose of the whole or a substantial part of the undertaking or the assets of any such subsidiary save where the gross value of the assets (including goodwill) that are the subject of the disposal or loss of control is £2,000,000 or less is involved;
- (c) amalgamate or merge the Company with any other company or concern;
- (d) pay any dividend to the holders of Ordinary Shares except where the Company will, after the payment of such dividend, have consolidated retained earnings of more than £3,000,000, as shown in the audited consolidated balance sheet, preliminary accounts, or as may be derived from the management accounts or unaudited half-yearly report of the Company;
- (e) capitalise any part of the profits of the Company available for distribution (including by way of scrip dividend arrangement), save that no consent need be sought in respect of the purchase by the Company of shares of certain shareholders in accordance with the terms of the agreement described in paragraph 8(d) above;
- (f) make any issue; or announce a proposed issue, of securities which results or is likely to result in any one person (and/or companies controlled by such person and/or persons acting in concert) becoming entitled to exercise more than 50 per cent. of the votes ordinarily exercisable at a general meeting of the Company;
- (g) pay total remuneration and benefits (whether through the Company or any subsidiary of the Company) to directors or former directors of the Company (or any person(s)) connected with any of them in any single financial year of the Company above such figure as equals one-quarter of the pre-tax profits of the Company prior to deducting Directors' emoluments in the preceding financial year of the Company;

Provided that for so long as the Ordinary Shares are listed on the Official List, no consent need be sought in respect of paragraphs (b) and (g) above.

(viii) Directors

At any time and from time to time when any part of the cumulative preferential dividend is in arrears for at least three months and/or the Company has failed to pay any part of the redemption monies in respect of the Preference Shares, the holders of a majority of the issued Preference Shares may appoint one person to be a director, remove that person from office and appoint a replacement provided that any such director shall not be a director or employee of TPIT or Framlington Investment Management Limited ("FIML") or any subsidiary of FIML or TPIT's manager from time to time or any subsidiary of FIML or such manager or any company of which FIML or such manager is a subsidiary, save that if the said dividends shall no longer be in arrears and the Company shall have remedied its failure to pay any part of the said redemption monies, then the Company shall be entitled to require that the appointed Director be removed from office.

(ix) General

Subject to applicable law, the Company may by private treaty at any time purchase at par all or any of the Preference Shares together with any arrears or accruals of the cumulative preferential dividend on such shares and interest thereon, whether or not declared or earned, calculated down to and including the date of purchase.

The Preference Shares will not be listed or traded on the Exchange.

11. General

- (a) Other than the investment in the United States described on page 9 of Part I of this document, the Group has no significant investments in progress.
- (b) The name and address of the Placing Shareholder is Benalex Holdings Limited, Queen's House, Don Road, St. Helier, Jersey, Channel Islands.
- (c) The total proceeds of the Placing are expected to amount to £450,000 and, after deduction of the expenses of the Placing of approximately £6,750, the net proceeds will be approximately £443,250.

The expenses payable by the Company relating to the Introduction and the Preference Share Issue are expected to amount to approximately £160,000 (excluding VAT).
- (d) Copies of this document are available free of charge during business hours on any weekday (Saturdays and public holidays excepted) at the offices of Titmuss Sainer Dechert for a period of 21 days from the date of this document.

25 October 1995