

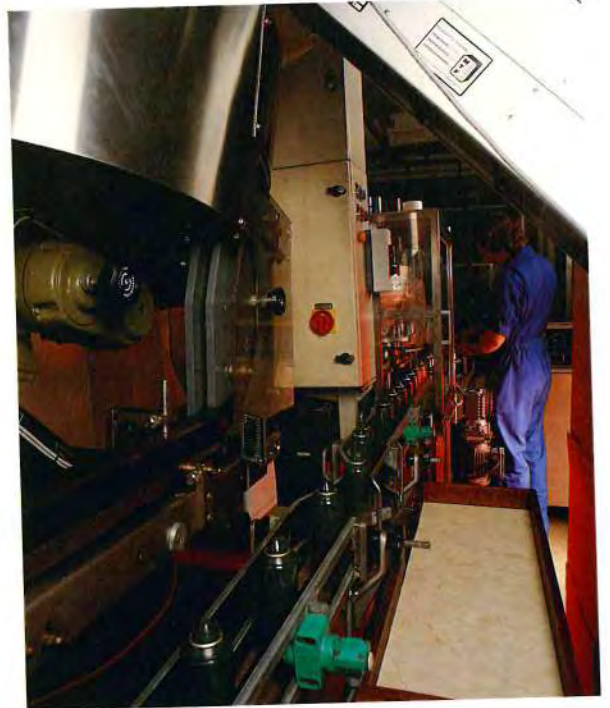
Swallowfield
listing

SWALLOWFIELD plc



INTRODUCTION TO THE
OFFICIAL LIST SPONSORED BY
COUNTY NATWEST
WOOD MACKENZIE & CO. LIMITED

AEROSOLS
INTERNATIONAL
LIMITED



Aerosols International's hydrocarbon facility also supplies other fillers in the industry.

The Company continues to invest in the latest technology.

A copy of this document, which comprises listing particulars relating to Swallowfield plc ("the Company") prepared in accordance with the listing rules made under Section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies for registration in accordance with Section 149 of that Act.

Application has been made to the Council of The Stock Exchange for the admission to the Official List of 10,437,369 Ordinary shares, being the whole of the issued share capital of the Company currently dealt in in the Unlisted Securities Market. It is expected that admission to the Official List will become effective and that dealings in the Ordinary shares will commence on 25 April 1991.

The Directors of the Company, whose names appear on page 4 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

This document does not constitute an offer to any person to subscribe for or to purchase any securities in the Company.

SWALLOWFIELD plc

(Registered in England No. 1975376)

INTRODUCTION TO THE OFFICIAL LIST

SPONSORED BY

COUNTY NATWEST

WOOD MACKENZIE & CO. LIMITED

Share Capital

The authorised and issued share capital of the Company in respect of which admission to the Official List is sought is as follows:—

Authorised			Issued and fully paid	
Number	Amount		Number	Amount
25,800,000	£1,290,000	Ordinary shares of 5p each	10,437,369	£521,868.45

Indebtedness

At the close of business on 3 April 1991, the Company and its subsidiaries ("the Group") had bank loans of £3,060,000, bank overdrafts of £1,905,536 and hire purchase and finance lease commitments of £207,000. The bank loans and overdrafts are secured by fixed and floating charges over the assets of the Group.

Save as aforesaid and apart from intra-Group liabilities, neither the Company nor any of its subsidiaries had at the close of business on 3 April 1991 any loan capital (including term loans) outstanding or created but unissued, or any mortgages, charges, debentures or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, finance leases or guarantees or other material contingent liabilities.

At the close of business on the same date the Group had cash balances of £1,773,361.

CONTENTS

	PAGE
KEY STATISTICS	3
DIRECTORS AND ADVISERS	4
PART I GENERAL INFORMATION	
History	5
Aerosols International	5
— Products	5
— Customers	6
— Suppliers	6
— Manufacturing and distribution	6
— Research and development	6
Cosmetics Plus	7
— Products	7
— Customers	7
— Suppliers	7
— Manufacturing and distribution	7
Directors, Management and Employees	7
— Directors	7
— Senior Management and Employees	8
Trading Record	9
Reasons for the Introduction	9
Current Trading and Prospects	9
PART II FINANCIAL INFORMATION	10
PART III ADDITIONAL INFORMATION	21

DEFINITIONS

“the Company”	Swallowfield plc
“Swallowfield” or “the Group”	Swallowfield plc and its subsidiaries
“Aerosols International”	Aerosols International Limited
“Cosmetics Plus”	Cosmetics Plus Limited (formerly Atlas Cosmetics Limited)
“Ordinary shares”	Ordinary shares of 5p each in the capital of the Company
“The Stock Exchange”	The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited
“the USM”	the Unlisted Securities Market of The Stock Exchange

KEY STATISTICS

The following table is extracted from the financial information set out in Part II of this document:

<i>Year ended on or about 31 December (i)</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Turnover	11,206	12,778	14,369	16,165	22,359
Profit before taxation	827	1,344	1,916	2,138	2,374
Earnings per share	5.6p	10.2p	14.6p	14.4p	16.0p
Net dividend per Ordinary share (ii)	1.4p	3.4p	4.9p	5.6p	6.1p
					<i>£'000</i>
Net assets as at 31 December 1990 (iii)					6,487
Market capitalisation of the Ordinary shares (iv)					18,265
Dividend yield on the Ordinary shares (v)					4.6 per cent.
Historic price earnings multiple (vi)					10.9 times

Notes:

- (i) The Group accounts consolidate the accounts of the Company to 31 December and of its subsidiaries made up to the Saturday nearest to 31 December each year.
- (ii) The dividends per Ordinary share for the years ended 31 December 1986 and 1987 are based on the Ordinary share capital of 8,000,000 shares of 5p each in issue immediately prior to the placing on the USM in October 1988. The dividend per ordinary share for the year ended 31 December 1988 is based on the Ordinary share capital of 9,750,000 shares of 5p each in issue after the placing on the USM in 1988.
- (iii) Extracted from the audited consolidated accounts of the Group as at that date.
- (iv) Based on a price of 175p, being the average of the prices marked in The Stock Exchange Daily Official List on 16 April 1991, the last practicable date prior to the printing of this document.
- (v) Based on a gross dividend of 8.13p per Ordinary share for the year ended 31 December 1990 at the price set out in note (iv).
- (vi) Based on the earnings per share of 16.0p for the year ended 31 December 1990 and the price as set out in note (iv).

DIRECTORS AND ADVISERS

Directors	Terence John Organ* (Chairman) John Anthony Wardell (Managing Director) Anthony Peter Dowssett (Operations Director) Colin Alan Graves, FCA (Finance Director) Nicholas William Otley, FCA* *non-executive
	all of: Swallowfield House Station Road Wellington Somerset TA21 8NL
Secretary	Colin Alan Graves, FCA
Registered Office and principal place of business	Swallowfield House Station Road Wellington Somerset TA21 8NL
Merchant Bankers	County NatWest Limited 135 Bishopsgate London EC2M 3UR
Stockbrokers	County NatWest Wood Mackenzie & Co. Limited 135 Bishopsgate London EC2M 3XT
Auditors	Ernst & Young Chartered Accountants One Bridewell Street Bristol BS1 2AA
Solicitors to the Company	Osborne Clarke 30 Queen Charlotte Street Bristol BS99 7QQ
Solicitors to the Sponsors	Fox Williams City Gate House 39-45 Finsbury Square London EC2A 1UU
Bankers	National Westminster Bank PLC 12 Fore Street Wellington Somerset TA21 8AL
Registrars	National Westminster Bank PLC Registrar's Department PO Box 82 Caxton House Redcliffe Way Bristol BS99 7NH

PART I

GENERAL INFORMATION

HISTORY

The Swallowfield business commenced operations over 100 years ago in Wellington, Somerset as Walter Gregory & Company Limited which produced formulations for, and manufactured, veterinary medicines and animal husbandry products. In the 1940s, using its experience in producing formulations, Walter Gregory moved into the aerosol filling market and subsequently set up a subsidiary for this business. The aerosol subsidiary was acquired by the Jeyes group in 1968 and was merged with Jeyes' own aerosol business in 1970 and renamed Aerosols International. The Jeyes group was acquired by Cadbury Schweppes in 1972.

In February 1986 Tony Wardell, with institutional backing, led a management buyout of Aerosols International from Cadbury Schweppes through the Company. The Company joined the USM in October 1988 by way of a placing, which raised approximately £2.25 million.

The Company made its first acquisition in October 1989 when it acquired Atlas Group Limited and its principal trading subsidiary, Atlas Cosmetics Limited (since renamed Cosmetics Plus), for a total consideration of £1.48 million. Cosmetics Plus is a major UK manufacturer of cosmetic pencils and powder products.

The business of Swallowfield is now conducted through the Company's two main operating subsidiaries, Aerosols International and Cosmetics Plus.

AEROSOLS INTERNATIONAL

The principal activities of Aerosols International are the formulation and manufacture of aerosol products for retail distributors, the contract filling of aerosols, the sale of aerosol grade hydrocarbon propellant and the manufacture of non-aerosol products including anti-perspirant sticks.

Products

Aerosols International formulates and manufactures a growing variety of products using an increasingly diverse range of packaging systems. The company has expanded its capability beyond aerosols into other systems such as pumps, anti-perspirant sticks and bag-in-can.

Aerosols International's range of products includes:

Household:	polishes cleaners air fresheners
Toiletry:	anti-perspirants shaving gels hair care
Medical:	liniments pet care products
Industrial:	motor accessories anti-damp sprays adhesives lubricants

Aerosols International continually invests in product development and has an in-house capability to research and develop its own products at its laboratory in Wellington. In addition, its commitment to quality has enabled it to obtain certification under BS5750 Part 2, the British Standard for quality assurance systems. This investment in product development, combined with constant upgrading of manufacturing facilities, has helped the company to establish an excellent reputation amongst its customers for its product innovation, design flair, high production standards and service.

Customers

Aerosols International has over 100 longstanding customers, of whom the largest are Gillette, Marks & Spencer, J Sainsbury, Superdrug, Tesco and WD40. No single customer currently accounts for more than 20 per cent. of turnover.

The company has three broad categories of customer: own label, contract filling and brand overflow.

Own label

Aerosols International is able to provide a total product concept for its own label customers. This includes market research, design, sourcing of ingredients, formulation, manufacture, product packaging, stockholding and delivery. Aerosols International's main own label customers who use all or part of this concept are Marks & Spencer, J Sainsbury, Superdrug and Tesco.

The formulations produced for customers are unique to them and they in turn may only use Aerosols International to manufacture these products. Title to the formulations remains with Aerosols International.

Contract filling

Aerosols International contracts to fill products for customers who market branded goods but have no manufacturing facility of their own. In some cases the company helps customers to research and develop the product and also sources and purchases the raw materials. Aerosols International's customers for contract filling include names such as WD40 and Johnson & Johnson.

Brand overflow

Aerosols International also manufactures products for customers who have their own manufacturing facility but are temporarily unable to meet their own production requirements. This work is often undertaken at short notice. In these cases materials, including packaging, are often supplied by the customer. Gillette and Wellcome are among the main brand overflow customers.

Suppliers

Aerosols International sources most of its containers from three main suppliers, CMB, Cebal and Nussbaum & Guhl, of which the most significant is CMB. Ingredients, solvents and propellants are supplied by several of the major chemical companies.

Aerosols International has excellent relationships with its suppliers and ensures where possible it is not reliant on any single source.

Manufacturing and distribution

The changing requirements of Aerosols International's customers are reflected in the Directors' policy of continual investment in upgrading its manufacturing and distribution systems and in staff development.

This policy has resulted in the development of a highly efficient and flexible manufacturing system, in which there are currently 10 production lines. These are capable of producing aerosols and stick, bag-in-can and other non-aerosol products.

Aerosols International has also invested in advanced chemical mixing facilities which allow the highest standard of product integrity to be maintained whilst permitting flexibility of operation. In this way Aerosols International is able to manufacture a wider variety of products to medicinal standards which satisfy the requirements of both customers and legislation.

Recent investment in warehousing for both chemical and finished goods ensures that the concept of product integrity is maintained from delivery of raw materials to despatch of finished products.

Research and development

Aerosols International has a highly regarded research and development laboratory. The facility plays an integral part in supplying the total product concept for own label customers. Aerosols International's ability to produce formulations for own label customers gives it a major marketing advantage. Several contract filling customers have recognised this expertise and have started to use the research and development facilities in preference to their own.

COSMETICS PLUS

Cosmetics Plus designs, formulates, manufactures and distributes a range of cosmetic products, both for High Street retailers in own label form and for cosmetics houses for sale under their own brand names.

Products

The main products manufactured by Cosmetics Plus are cosmetic pencils, poured and pressed powders, lipsticks, lip glosses, blushers, mascara and nail polishes.

Within these broad categories the range of products is constantly changing to suit fashion and customer requirements. Since its acquisition by the Company, Cosmetics Plus has sought to provide customers with a wider service which includes market research, design, formulation and product packaging. Many of the products are packaged for the seasonal gift market.

Customers

Cosmetics Plus has approximately 80 customers. The largest is Marks & Spencer which accounted for 40 per cent. of its turnover during the year ended 31 December 1990. The company also supplies several other well-known UK and overseas retailers and cosmetics houses. Apart from Marks & Spencer, no other customer accounted for more than seven per cent. of turnover in that year.

Cosmetics Plus exported 25 per cent. of its turnover during that year and the Directors believe that there is scope for this proportion to rise substantially in the future.

Suppliers

Cosmetics Plus uses a variety of UK and overseas suppliers for materials used in the production processes and for bought-in cosmetics compacts and packaging.

Cosmetics Plus ensures that it does not place reliance on any single source of raw materials. The company prefers to use cedarwood slats from managed forests in the manufacture of its pencils, which it sources from one of the only two suppliers in the world. Slats manufactured from alternative hardwoods are available if necessary.

Manufacturing and distribution

Since the acquisition of Cosmetics Plus, the Directors have retargetted the business, reduced its cost base and increased its efficiency following a review of its manufacturing and distribution processes and of its operating procedures. As a result there has already been a significant reduction in wastage, better material usage, improved cash flow and a return to profitability.

The Directors intend to continue their programme of selective investment in order to increase the flexibility, reliability and profitability of the manufacturing and distribution processes.

DIRECTORS, MANAGEMENT AND EMPLOYEES

Directors

Terry Organ, MA (Oxon), aged 64, was appointed non-executive Chairman of the Company at the time of the management buy-out in February 1986. He has wide business experience at Board level and was a Director of Cadbury Schweppes. He is a member of the Council of Bristol University and of the Universities Authorities Panel.

Tony Wardell, M.Inst. Pkg., aged 44, joined the business in 1963 and has held a number of senior positions, becoming a director and general manager of Aerosols International in 1984 while it was still part of Cadburys. In 1986 he led the management buy-out and was appointed Managing Director of the Company and Aerosols International. He is currently executive chairman of both operating subsidiaries. He is Chairman of the British Aerosol Manufacturers' Association and a Director of the Somerset Training and Enterprise Council.

Tony Dowsett, BSc. (Eng.), aged 48, joined the business in 1974 as Production Manager, becoming Works Manager in 1978 and Operations Director in 1985. After a post-graduate apprenticeship with Bristol Siddeley Engines he joined Rothmans, working in engineering and production management. He has also worked in finance with British Leyland and as a production manager in a Unilever Group company. He is on the board of both operating subsidiaries.

Colin Graves, FCA, aged 39, was appointed Finance Director in January 1988, having previously been with UBM Group and Norcross. Before then he was with KPMG Peat Marwick McLintock. He is on the board of both operating subsidiaries.

Bill Otley, FCA, aged 48, joined the Company as a non-executive Director in 1986. He is also Chairman of Goodlands Holdings Limited, builders' merchants, and between 1975 and 1985 was Group Finance Director of UBM Group.

Senior Management and Employees

Bob Goodby, ACMA, aged 45, joined the business in 1977. Previously he was employed by Cadbury Schweppes (Foods) Limited as a marketing accountant and by Computer Technology Limited as a management accountant. He is the finance director of Aerosols International.

Christopher Hagley, AIIM, aged 47, joined the business in 1961. As commercial director of Aerosols International he has responsibility for sales administration, production planning, stock control and purchasing.

Paul Bayley, BSc., aged 43, joined the business in 1973. As technical director of Aerosols International he has responsibility for product development and quality control.

Keith Fox, MSc., aged 42, joined Cosmetics Plus in 1989 as managing director having had several years experience in the cosmetics industry.

Colin Jenner, aged 54, joined Cosmetics Plus in 1989. He has many years experience in production management with various consumer product companies. As operations director he has responsibility for manufacturing.

Pat Lloyd, BA, aged 30, joined Cosmetics Plus in 1989. She has had several years experience marketing own label and branded toiletries and skincare products. She is sales and marketing director.

The Directors believe that the Group's continued success depends upon the commitment of a motivated workforce. To that end it operates personnel policies designed to allow employees to achieve their potential whilst contributing to the Group's progress.

The Directors encourage all employees to undertake further education in related disciplines as well as providing in house training programmes upon initial employment and at later stages in the individual's career. The Group maintains links with local schools and universities and encourages them to undertake project work on site, believing that both sides benefit from the experience.

The Group's remuneration policy is designed to reward both individual achievement and Group success encompassing profit-related and added-value bonus schemes as well as share option schemes.

The Group maintains good communications with its employees at all levels so that they are aware of its plans, can identify their contribution to the achievement of these plans and so that they are aware of progress.

The Directors believe that the pursuit of these policies has provided the Group with a first class workforce and has contributed to excellent industrial relations.

The Group currently has 445 employees, many of whom have been with the Group for a number of years. They are employed in the following categories:

Production	377
Distribution and Marketing	27
Administration	41

TRADING RECORD

The trading record of the Group for the five years ended 31 December 1990, which is summarised below, has been extracted from the financial information set out in Part II of this document:

	1986	1987	1988	1989	1990
	£'000	£'000	£'000	£'000	£'000
Turnover	11,206	12,778	14,369	16,165	22,359
Profit before taxation	827	1,344	1,916	2,138	2,374
Earnings per Ordinary share	5.6p	10.2p	14.6p	14.4p	16.0p

The Group's policy of expansion through organic growth and by acquisition is reflected in the sustained growth of profits over the last five years. Increases in volumes of units sold, a change in the product mix to higher margin items and greater manufacturing efficiency have all contributed to this increase.

Earnings per share have also shown growth over the same period, although there was a slight reduction in 1989 caused by the acquisition of Cosmetics Plus. This company was loss-making when acquired and a loss of £60,000 was included in the Group's 1989 results. The Directors have taken steps to improve the efficiency of Cosmetics Plus and it has made a pre tax profit of £258,000 in 1990. The Group balance sheet is very strong, with net assets of £6,487,000 at 31 December 1990.

REASONS FOR THE INTRODUCTION

The Directors believe that as a result of joining the USM in 1988, Swallowfield has derived considerable benefits through a higher profile with customers and suppliers and in the financial markets. The Group has also benefited from the ability to finance acquisitions by the issue of shares and has been able to provide further incentives for employees by way of the Company's share option schemes.

The Directors now consider that Swallowfield has reached a stage of development which warrants an introduction to the Official List. The Directors believe that the listing will enhance the Group's standing and broaden the base of potential investors, thereby increasing its scope for funding future growth.

CURRENT TRADING AND PROSPECTS

The results for 1990 reflect another year of solid achievement and a significant improvement in profits and earnings per share despite the difficult economic conditions experienced in the UK retail sector.

The Group has made a better start this year than in 1990. Notwithstanding the continued economic uncertainties the Directors are confident of another successful year.

PART II

FINANCIAL INFORMATION

1. NATURE OF FINANCIAL INFORMATION

The financial information set out for the five years ended 31 December 1990 is based on the audited consolidated accounts of the Group.

The financial information does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for each of the four financial years ended 31 December 1989 have been delivered to the Registrar of Companies.

The accounts of the Company and the Group for each of the three years ended 31 December 1988 were audited by Arthur Young, One Bridewell Street, Bristol BS1 2AA. On 1 September 1989, Arthur Young merged their practice with Ernst & Whinney and now practise in the name of Ernst & Young. Accordingly, the accounts for each of the two years ended 31 December 1990 were audited by Ernst & Young, One Bridewell Street, Bristol BS1 2AA. The auditors have made a report under Section 235 of the Companies Act 1985 on the accounts for each of the five years ended 31 December 1990. Each such report was unqualified and did not contain a statement under section 237(2) or (4) of the Companies Act 1985.

2. CONSOLIDATED PROFIT AND LOSS STATEMENTS

	Note	<i>Year ended on or about 31 December</i>				
		1986 £'000	1987 £'000	1988 £'000	1989 £'000	1990 £'000
TURNOVER	6(a)	11,206	12,778	14,369	16,165	22,359
Cost of sales		8,745	10,116	11,035	12,033	16,369
Gross profit		2,461	2,662	3,334	4,132	5,990
Distribution costs		597	506	534	676	1,010
Administrative expenses		716	625	732	1,136	1,956
		1,313	1,131	1,266	1,812	2,966
Operating profit		1,148	1,531	2,068	2,320	3,024
Interest receivable and similar income		45	138	175	210	57
Interest payable and similar charges	6(b)	(366)	(325)	(327)	(392)	(707)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6(c)	827	1,344	1,916	2,138	2,374
Tax on profit on ordinary activities	6(e)	308	439	628	725	735
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		519	905	1,288	1,413	1,639
Dividends, paid and proposed	6(f)	182	357	540	557	637
Retained profit, transferred to reserves		337	548	748	856	1,002
EARNINGS PER SHARE	6(g)	5.6p	10.2p	14.6p	14.4p	16.0p
Dividends per Ordinary share—net	6(f)	1.4p	3.4p	4.9p	5.6p	6.1p

3. CONSOLIDATED BALANCE SHEETS

	Note	At 31 December				
		1986 £'000	1987 £'000	1988 £'000	1989 £'000	1990 £'000
FIXED ASSETS						
Tangible assets	7(a)	1,651	2,783	3,843	8,142	7,889
CURRENT ASSETS						
Stocks	7(b)	1,818	1,719	2,230	4,161	4,204
Debtors	7(c)	1,999	1,850	2,133	3,276	3,332
Cash at bank and in hand	7(d)	1,091	1,804	2,955	780	1,756
		4,908	5,373	7,318	8,217	9,292
CREDITORS: amounts falling due within one year	7(e)	2,694	3,672	4,581	8,023	7,851
NET CURRENT ASSETS		2,214	1,701	2,737	194	1,441
TOTAL ASSETS LESS CURRENT LIABILITIES		3,865	4,484	6,580	8,336	9,330
CREDITORS: amounts falling due after more than one year	7(f)	(2,721)	(2,792)	(2,414)	(3,178)	(2,799)
Provisions for liabilities and charges	7(g)	—	—	—	(46)	(44)
		1,144	1,692	4,166	5,112	6,487
CAPITAL AND RESERVES						
Called up share capital	7(h)	1,250	1,250	488	1,504	1,522
Profit and loss account	7(i)	(106)	442	1,190	2,046	2,863
Other reserves	7(j)	—	—	2,488	1,562	2,102
		1,144	1,692	4,166	5,112	6,487

4. CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

	<i>Year ended on or about 31 December</i>				
	<i>1986</i> £'000	<i>1987</i> £'000	<i>1988</i> £'000	<i>1989</i> £'000	<i>1990</i> £'000
SOURCE OF FUNDS:					
Profit on ordinary activities before taxation	827	1,344	1,916	2,138	2,374
Adjustment for items not involving the movement of funds:					
Depreciation	257	304	409	527	877
(Profit)/loss on disposal of tangible fixed assets	5	(2)	(3)	(6)	(8)
	<u>1,089</u>	<u>1,646</u>	<u>2,322</u>	<u>2,659</u>	<u>3,243</u>
TOTAL GENERATED FROM OPERATIONS					
FUNDS FROM OTHER SOURCES:					
Proceeds of share issues	1,250	—	1,409	1,483	373
Proceeds of disposal of tangible fixed assets	10	25	33	56	71
Additions to finance lease obligations	308	63	—	—	—
Long term loans	2,500	410	—	—	—
	<u>5,157</u>	<u>2,144</u>	<u>3,764</u>	<u>4,198</u>	<u>3,687</u>
APPLICATION OF FUNDS:					
Purchase of Atlas Group Limited	—	—	—	1,723	—
Purchase of tangible fixed assets	295	1,396	1,182	2,740	687
Dividends paid	362	197	499	508	572
Current instalments paid on finance leases	87	102	78	60	79
Repayments on long term loan	—	—	300	300	300
Tax paid	522	145	267	570	636
Leased assets capitalised	308	63	—	—	—
Purchase of Aerosols International Limited	1,325	—	—	—	—
	<u>2,899</u>	<u>1,903</u>	<u>2,326</u>	<u>5,901</u>	<u>2,274</u>
WORKING CAPITAL INCREASE/(DECREASE)					
	<u>2,258</u>	<u>241</u>	<u>1,438</u>	<u>(1,703)</u>	<u>1,413</u>
COMPONENTS OF INCREASE/(DECREASE) IN WORKING CAPITAL					
Stocks	(61)	(99)	511	465	43
Debtors	(58)	26	317	(277)	56
Creditors	1,344	(399)	(541)	(151)	(54)
	<u>1,225</u>	<u>(472)</u>	<u>287</u>	<u>37</u>	<u>45</u>
MOVEMENT IN NET LIQUID FUNDS:					
Cash at bank and in hand	1,033	713	1,151	(1,740)	1,368
	<u>2,258</u>	<u>241</u>	<u>1,438</u>	<u>(1,703)</u>	<u>1,413</u>

Note 7(o) provides a summary of the effects on the funds of the Group of subsidiaries acquired.

5. ACCOUNTING POLICIES

The following are the principal accounting policies of the Group which have been consistently applied in preparing the financial information.

(a) *Accounting convention*

The accounts are prepared under the historical cost convention, modified by the revaluation of freehold properties.

(b) *Basis of consolidation*

The Group accounts consolidate the accounts of the Company to 31 December and of its subsidiaries made up to the Saturday nearest to 31 December each year.

In accordance with the exemptions given by S.230(3) of the Companies Act 1985, the Company has not presented its own profit and loss account.

(c) *Goodwill*

Goodwill arising on consolidation is written off directly to reserves in the Group accounts.

(d) *Depreciation*

Tangible fixed assets other than freehold land are depreciated over their useful lives to their estimated residual value on a straight line basis. The principal rates of depreciation are as follows:

Freehold buildings	5% per annum
Plant	10% per annum
Vehicles	12.5% – 20% per annum
Office equipment	20% per annum

(e) *Stocks*

Stocks are stated at the lower of cost and net realisable value as follows:

Cost incurred in bringing each product to its present location and condition:

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

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

(f) *Research and development expenditure*

Expenditure is written off in the financial year in which it is incurred.

(g) *Deferred taxation*

Deferred taxation is provided on the liability method on all timing differences to the extent that they are expected to reverse in the future, calculated at the rate at which it is estimated that tax will be payable.

Advance Corporation Tax ("ACT") which is expected to be recoverable in the future is deducted from the deferred taxation balance. Any excess of recoverable ACT over the deferred tax balance is held as a current asset.

(h) *Foreign currencies*

Normal trading transactions denominated in foreign currencies are recorded in sterling at actual rates as of the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the middle market rates at the balance sheet date, except in the case of third party transactions covered forward where rates fixed in the contracts are used.

All differences are taken to the profit and loss account.

(i) Leasing and hire purchase commitments

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

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

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

(j) Pension cost

The cost of providing benefits under the Group's pension schemes is charged over the remaining working lives of the members.

6. NOTES TO GROUP PROFIT AND LOSS ACCOUNTS

(a) Turnover

Turnover represents the invoiced value of sales net of trade discounts and excluding value added tax and is analysed as follows:

	1986	1987	1988	1989	1990
	£'000	£'000	£'000	£'000	£'000
<i>Geographical:</i>					
United Kingdom	10,965	12,686	14,314	15,709	20,267
Rest of Europe	241	92	55	386	943
North America	—	—	—	70	1,149
	<u>11,206</u>	<u>12,778</u>	<u>14,369</u>	<u>16,165</u>	<u>22,359</u>
<i>Activity:</i>					
Aerosol products	11,206	12,778	14,369	15,678	16,502
Cosmetic products	—	—	—	487	5,857
	<u>11,206</u>	<u>12,778</u>	<u>14,369</u>	<u>16,165</u>	<u>22,359</u>

(b) Interest payable and similar charges

	1986	1987	1988	1989	1990
	£'000	£'000	£'000	£'000	£'000
Finance lease interest	25	33	20	18	47
Bank overdraft	1	—	—	32	292
Bank loans not wholly repayable within five years	340	292	307	342	357
Bank loans wholly repayable within five years	—	—	—	—	11
	<u>366</u>	<u>325</u>	<u>327</u>	<u>392</u>	<u>707</u>

(c) Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is after charging:

	1986	1987	1988	1989	1990
	£'000	£'000	£'000	£'000	£'000
Depreciation of tangible fixed assets:					
owned assets	239	255	366	479	765
leased	20	49	43	48	112
Research and development	—	—	95	106	111
Auditors' remuneration	18	20	20	26	43
Operating leases and hire of plant and machinery	24	23	31	45	112

(d) Information regarding directors and employees

	1986	1987	1988	1989	1990
	£'000	£'000	£'000	£'000	£'000
Directors' emoluments:					
Fees	—	—	13	20	25
Executive remuneration including pension contributions	96	111	168	219	244
	<u>96</u>	<u>111</u>	<u>181</u>	<u>239</u>	<u>269</u>
Emoluments of the Chairman	<u>1</u>	<u>2</u>	<u>6</u>	<u>12</u>	<u>16</u>
Emoluments of the highest paid director	<u>48</u>	<u>55</u>	<u>57</u>	<u>69</u>	<u>78</u>

The emoluments of the Chairman and highest paid director exclude pension contributions and the emoluments of the other directors on the same basis are as follows:

	1986	1987	1988	1989	1990
	No.	No.	No.	No.	No.
£nil-£5,000	4	—	—	—	—
£5,001-£10,000	—	1	1	1	1
£30,001-£35,000	1	—	—	—	—
£40,001-£45,000	—	1	—	—	—
£45,001-£50,000	—	—	2	1	—
£50,001-£55,000	—	—	—	1	1
£55,001-£60,000	—	—	—	—	1

Employee costs, including directors, during the year:

	1986	1987	1988	1989	1990
	£'000	£'000	£'000	£'000	£'000
Wages and salaries	1,394	1,538	1,881	2,234	3,797
Social security costs	115	126	157	179	315
Other pension costs	38	41	133	204	223
	<u>1,547</u>	<u>1,705</u>	<u>2,171</u>	<u>2,617</u>	<u>4,335</u>

Average weekly number of employees, including directors:

	1986	1987	1988	1989	1990
	No.	No.	No.	No.	No.
Production	134	141	156	186	377
Distribution and marketing	13	13	15	16	27
Administration	24	25	29	29	41
	<u>171</u>	<u>179</u>	<u>200</u>	<u>231</u>	<u>445</u>

(e) *Tax on profit on ordinary activities*

	1986 £'000	1987 £'000	1988 £'000	1989 £'000	1990 £'000
Based on the taxable profit for the year:					
Corporation tax	342	479	593	625	715
Deferred taxation	(34)	(40)	35	100	20
	<u>308</u>	<u>439</u>	<u>628</u>	<u>725</u>	<u>735</u>
Effective corporation tax rates	37%	33%	33%	34%	31%

The tax charge for the year ended 31 December 1990 has been reduced by the utilisation of tax losses brought forward in a subsidiary company, leaving £1,300,000 of losses available to be carried forward against future profits of that subsidiary.

(f) *Dividends*

	1986 £'000	1987 £'000	1988 £'000	1989 £'000	1990 £'000
Ordinary dividend	110	272	473	557	637
Preference dividend	72	85	67	—	—
	<u>182</u>	<u>357</u>	<u>540</u>	<u>557</u>	<u>637</u>

The dividends per ordinary share for the years ended 31 December 1986 and 1987 are based on the ordinary share capital of 8,000,000 shares of 5p each in issue immediately prior to the placing on the USM in October 1988. The dividend per ordinary share for the year ended 31 December 1989 is based on the ordinary share capital of 9,750,000 shares of 5p each in issue after the placing on the USM in October 1988.

(g) *Earnings per share*

The calculation of earnings per share is based upon the consolidated profit attributable to the members and the weighted average number of shares in issue during the year.

On a fully diluted basis the earnings per share for the year ended 31 December 1990 is 15.1p based on 11,100,449 Ordinary shares, allowing for the full conversion of the Convertible Cumulative Redeemable Preference shares and the full exercise of share options outstanding and adjusted earnings of £1,674,000.

7. **NOTES TO THE CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 1990**

(a) *Tangible fixed assets*

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost or valuation:			
At 1 January 1990	3,699	8,398	12,097
Additions	21	666	687
Disposals	—	(205)	(205)
At 31 December 1990	<u>3,720</u>	<u>8,859</u>	<u>12,579</u>
Depreciation:			
At 1 January 1990	38	3,917	3,955
Provided during the year	101	776	877
Disposals	—	(142)	(142)
At 31 December 1990	<u>139</u>	<u>4,551</u>	<u>4,690</u>
Net book value:			
At 31 December 1990	<u>3,581</u>	<u>4,308</u>	<u>7,889</u>
At 1 January 1990	<u>3,661</u>	<u>4,481</u>	<u>8,142</u>

The net book value of plant and machinery includes £435,000 in respect of assets held under finance leases.

(b) Stocks

	1990 £'000
Raw materials and consumables	2,198
Work in progress	474
Finished goods for resale	1,532
	<hr/>
	4,204
	<hr/> <hr/>

(c) Debtors

	1990 £'000
Trade debtors	3,072
Loans to employees:	
receivable within one year	11
receivable after more than one year	9
Other debtors	134
Prepayments and accrued income	106
	<hr/>
	3,332
	<hr/> <hr/>

(d) Cash at bank and in hand

	1990 £'000
Cash at bank	1,754
Cash in hand	2
	<hr/>
	1,756
	<hr/> <hr/>

(e) Creditors: amounts falling due within one year

	1990 £'000
Bank overdraft (secured)	1,446
Current instalment due on loan (Note f)	300
Current obligations under finance leases	164
Trade creditors	3,173
Bills of exchange payable	211
Advance corporation tax payable	212
Current corporation tax	538
Other taxes and social security costs	378
Accruals and deferred income	1,022
Proposed dividend	407
	<hr/>
	7,851
	<hr/> <hr/>

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

	1990 £'000
Loans	2,710
Obligations under finance leases	89
	<hr/> 2,799 <hr/> <hr/>

Details of loans are as follows:

	1990 £'000
Secured loan at 1 per cent. above LIBOR repayable in annual instalments	1,600
Secured loan at 12.06 per cent. repayable in full in October 1997	410
Secured loan at various fixed rates between 0 per cent. and 15 per cent. repayable in two instalments of £500,000 in November 1993 and November 1994	1,000
	<hr/> 3,010 <hr/> <hr/>

Amounts due at 31 December 1990 are repayable as follows:

	1990 £'000
After 5 years	410
Between two and five years	2,000
Between one and two years	300
	<hr/> 2,710
Within one year (included in current liabilities)	300
	<hr/> 3,010 <hr/> <hr/>

The bank loans of £1,600,000 and £1,000,000 are secured by fixed and floating charges over certain of the Group's assets. The bank loan of £410,000 is secured by a charge on a part of the Group's freehold premises.

(g) Provisions for liabilities and charges

	1990 Provided £'000	Not provided £'000
Deferred taxation provided in the accounts and the amounts not provided are as follows:		
Capital allowances in excess of depreciation	203	576
Tax losses and other timing differences	(23)	(252)
	<hr/> 180	<hr/> 324
Advance corporation tax	(136)	—
	<hr/> 44	<hr/> 324
Taxation on valuation surplus	—	91
	<hr/> 44	<hr/> 415 <hr/> <hr/>

(h) Called up share capital

	1990 £'000
Authorised share capital:	
Preference Share Capital	
1,000,000 convertible cumulative redeemable preference shares of £1 each	1,000
Ordinary Share Capital	
25,800,000 ordinary shares of 5p each	1,290
	<u>2,290</u>
Issued Share Capital	
Preference Share Capital	
1,000,000 convertible cumulative redeemable preference shares of £1 each	1,000
Ordinary Share Capital	
10,437,369 ordinary shares of 5p each	522
	<u>1,522</u>

On 3 July 1990, the Company issued 358,610 ordinary shares to holders of options under the Company's Executive and Save As You Earn Share Option Schemes for a total consideration of £373,000.

(i) Profit and loss account

	1990 £'000
Balance at 1 January 1990	2,046
Retained profit for the year	1,002
Transfer in respect of goodwill written off in previous year	(185)
	<u>2,863</u>
Balance at 31 December 1990	<u>2,863</u>

(j) Other reserves

	Share premium £'000	Revaluation reserve £'000	Capital reserve £'000
Balance at 1 January 1990	2,171	317	(926)
Excess of issue price over par value of ordinary shares	355	—	—
Transfer in respect of goodwill written off in previous year	—	—	185
	<u>2,526</u>	<u>317</u>	<u>(741)</u>
Balance at 31 December 1990	<u>2,526</u>	<u>317</u>	<u>(741)</u>

(k) Capital commitments

	1990 £'000
Expenditure authorised and contracted for	207
Expenditure authorised and not contracted for	322
	<u>529</u>

(l) Operating lease commitments

At 31 December 1990 the Group was committed to making the following payments during the next year in respect of operating leases:

	<i>Land and buildings £'000</i>	<i>Other £'000</i>
Leases which expire:		
Within one year	—	7
In the second to fifth years inclusive	—	101
Over five years	39	—
	<u>39</u>	<u>108</u>

(m) Pension arrangements

The Group operates a number of defined benefit pension plans and defined contribution plans, all of which are funded by the payment of contributions to separately administered funds.

For defined benefit schemes the pension cost is assessed in accordance with the advice of qualified actuaries. The principal Group plan, being the Aerosols International Limited plan, uses the attained age method. The most recent valuation was conducted as at 6 April 1990; the assumptions which have the most significant effects on results are the valuation rate of interest at 8.5 per cent. per annum, salary growth at 7.0 per cent. per annum, dividend income received by funds would increase by 3.5 per cent. and present and future pensions would increase by 3 per cent. on that part of the pension in excess of the members' guaranteed minimum pension.

The valuation showed that the market value of the plan's assets was £1,360,000 and the actuarial value of the assets was sufficient to cover 117 per cent. of the benefits that had accrued to members, after allowing for future increases in earnings.

The Company operates a defined contribution pension scheme for directors and senior employees.

The Atlas Cosmetics Limited Retirement and Death Benefit Scheme was last subject to a review at 1 April 1989 at which date the actuary reported that there were sufficient assets to cover the benefits that had accrued to members, after allowing for future increases in earnings.

(n) Contingent liability

Cosmetics Plus has recently received an invoice from a former purchasing agent for payment of commission amounting to £167,000 allegedly due for the period from 1985 to 1989.

The Directors have no evidence that this amount is due and believe that the matter will be resolved without material effect on the net asset position shown in these accounts.

(o) Subsidiaries acquired

The following table provides a summary of the effects of subsidiaries acquired on the funds of the Group:

	<i>1986 £'000</i>	<i>1987 £'000</i>	<i>1988 £'000</i>	<i>1989 £'000</i>	<i>1990 £'000</i>
Net assets acquired:					
Fixed assets	1,347	—	—	2,136	—
Other net assets	(427)	—	—	(1,806)	—
Goodwill	405	—	—	1,393	—
	<u>1,325</u>	<u>—</u>	<u>—</u>	<u>1,723</u>	<u>—</u>
Discharged by:					
Shares	1,325	—	—	1,483	—
Expenses	—	—	—	240	—
	<u>1,325</u>	<u>—</u>	<u>—</u>	<u>1,723</u>	<u>—</u>

PART III

ADDITIONAL INFORMATION

1. Responsibility for Listing Particulars

The Directors of the Company, whose names appear on page 4, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation, registration and subsidiaries

(A) The Company was incorporated in England on 7 January 1986 under the Companies Act 1985 as Hawkdyne Limited, a private company limited by shares. By Special Resolution the name of the Company was changed with effect from 26 March 1986 to Aerosols International Holdings Limited. The Company changed its name to Swallowfield plc and was re-registered as a public limited company on 22 July 1988.

(B) The Company acts as the holding company of the Group and has the following principal subsidiaries each of which is a wholly owned private limited company incorporated in England having its registered office at Swallowfield House, Station Road, Wellington, Somerset TA21 8NL. The entire issued share capital of each company is fully paid or credited as fully paid.

<i>Name</i>	<i>Nature of business</i>	<i>Date of incorporation</i>	<i>Issued share capital</i>
Aerosols International Limited	Manufacture of aerosol and other products	30 July 1958	630,000 ordinary shares of 1p each
Atlas Group Limited	Investment holding company	23 August 1988	2,200,000 Cumulative Redeemable Preference Shares of £1 each and 1,000,000 ordinary shares of £1 each
Cosmetics Plus Limited*	Manufacture of cosmetic products	8 March 1951	1,100,000 ordinary shares of 10p each

*Cosmetics Plus Limited is a wholly owned subsidiary of Atlas Group Limited.

3. Share capital

(A) As at 18 April 1988, the date three years immediately preceding the date of this document, the authorised share capital of the Company was £2,100,000 divided into 1,049,600 Participating Preferred Ordinary shares of £1 each ("Preferred shares"), 200,400 A Ordinary shares of £1 each ("A Ordinary shares") and 850,000 Redeemable shares of £1 each ("Redeemable shares"), of which 199,600 Preferred shares and all the A Ordinary shares and the Redeemable shares were in issue fully paid or credited as fully paid.

(B) On 20 April 1988 the authorised share capital of the Company was increased from £2,100,000 to £2,140,000 by the creation of 40,000 new A Ordinary shares.

(C) On 4 October 1988 it was resolved that:

- (i) each of the existing issued and unissued Preferred shares be sub-divided and converted into 20 Ordinary shares of 5p each;
- (ii) each of the existing issued and unissued A Ordinary shares be sub-divided and converted into 20 Ordinary shares of 5p each;
- (iii) each of the Redeemable shares then in issue be redeemed at par and, upon such redemption taking effect, each of the 850,000 Redeemable shares in the authorised share capital of the Company be cancelled thereby reducing the authorised share capital of the Company to £1,290,000;
- (iv) the Directors be generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 (the "1985 Act") to allot relevant securities (as defined in that Section) up to an aggregate nominal amount of £290,000, such authority to expire on 3 October 1993;
- (v) the Directors be empowered, pursuant to Section 95 of the 1985 Act, to allot equity securities (as defined in Section 94 of that Act) for cash pursuant to the authority referred to in sub-paragraph (C)(iv) above as if Section 89(1) of that Act did not apply, such power to expire on 12 May 1989 and being limited to;

- (a) the allotment of Ordinary shares up to an aggregate nominal amount of £87,500 pursuant to the Placing Agreement referred to in sub-paragraph (D)(i) below;
- (b) the allotment of equity securities in connection with a rights issue; and
- (c) the allotment of equity securities otherwise than as mentioned in sub-paragraphs (a) and (b) above up to a maximum aggregate nominal amount of £24,375.

(D) On 12 October 1988:

- (i) 1,750,000 new Ordinary shares were allotted and issued at a price of 145p per Ordinary share to the order of County NatWest Limited pursuant to a Placing Agreement dated 4 October 1988 and made between Messrs Wardell, Dowsett and Goodby, County NatWest Ventures Limited and 3i plc (1), the Directors of the Company (2), the Company (3) and County NatWest Limited (4) whereby County NatWest Limited agreed, *inter alia*, in consideration for a fee of £100,000 plus VAT payable by the Company, to subscribe or procure subscribers for 1,750,000 Ordinary shares in the capital of the Company upon the Council of The Stock Exchange granting permission to deal in the USM in the Company's Ordinary shares; and
- (ii) the 850,000 Redeemable shares referred to in paragraph (C) (iii) above were redeemed at par and cancelled.

(E) On 20 November 1989 it was resolved that:

- (i) the authorised share capital of the Company be increased from £1,290,000 to £2,290,000 by the creation of 1,000,000 Convertible Cumulative Redeemable Preference Shares of £1 each ("Convertible Preference shares") having the rights described in paragraph 4 below;
- (ii) the Directors be given unconditional authority, without prejudice to the authority referred to in sub-paragraph (E)(iii) below, pursuant to Section 80 of the 1985 Act to allot the 1,000,000 Convertible Preference shares and 328,759 Ordinary shares as consideration for the acquisition of the entire issued share capital of Atlas Group Limited pursuant to the Atlas Acquisition Agreement dated 26 October 1989 (more particularly described in paragraph 10(i) below);
- (iii) in addition and without prejudice to the authority referred to in sub-paragraph (E)(ii) above, the maximum aggregate nominal amount of relevant securities (within the meaning of Section 80 of the 1985 Act) which the Directors were authorised to allot pursuant to the authority referred to in sub-paragraph (C)(iv) above be increased to £234,979 (including the 1,750,000 Ordinary shares allotted on 12 October 1988);
- (iv) the Directors be empowered under Section 95 of the 1985 Act to allot equity securities within the meaning of Section 94 of that Act for cash pursuant to the authority conferred by sub-paragraph (E)(iii) above as if Section 89(1) of the 1985 Act did not apply to any such allotment; provided that the power (which superseded and replaced the power granted to the Directors referred to in sub-paragraph (C)(v) above and which was renewed at the Company's Annual General Meeting held on 12 May 1989) be limited to:
 - (a) the allotment of equity securities in connection with a rights issue;
 - (b) the allotment (otherwise than pursuant to sub-paragraphs (a) above and (c) and (d) below) of equity securities for cash up to an aggregate nominal value of £12,600;
 - (c) the allotment of equity securities in connection with the exercise of the rights of conversion attaching to the Convertible Preference shares; and
 - (d) the allotment of equity securities for the purpose of any option, incentive or profit sharing scheme (whether or not an employees' share scheme as defined in the 1985 Act) being a scheme approved by the shareholders in general meeting
 such power to expire on 16 May 1990.

(F) On 20 November 1989 the 1,000,000 Convertible Preference shares and 328,759 Ordinary shares were allotted, credited as fully paid, as regards the Convertible Preference Shares at par and as regards the Ordinary shares at a premium of 142p per share, as consideration for the acquisition of the entire issued share capital of Atlas Group Limited pursuant to the Atlas Acquisition Agreement, following which 10,078,759 Ordinary shares and 1,000,000 Convertible Preference shares were in issue fully paid or credited as fully paid.

(G) Pursuant to a resolution passed at an Extraordinary General Meeting of the Company held on 16 May 1990 the Directors were generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities within the meaning of Section 80 of the 1985 Act up to an aggregate nominal amount of £264,678 provided that that authority should expire on 16 May 1991, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority thereby conferred had not expired; and all other authorities previously conferred on the Directors pursuant to Section 80 of the 1985 Act were thereby revoked.

(H) On 3 July 1990 358,610 Ordinary shares were issued pursuant to the authority referred to in sub-paragraph 3(G) above upon the exercise of options over those shares by holders of options under the Original Schemes (as defined in paragraph 6(A) below).

(I) At the date of this document the authorised share capital of the Company is £2,290,000, divided into 25,800,000 Ordinary shares (of which 10,437,369 are issued fully paid or credited as fully paid), and 1,000,000 Convertible Preference shares (all of which are issued credited as fully paid).

(J) The authorised share capital of Atlas Group Limited upon its incorporation on 23 August 1988 was £1,000 divided into 1,000 ordinary shares of £1 each of which two ordinary shares were issued as subscriber shares on incorporation. On 5 October 1988 the authorised share capital was increased to £1,500,000 by the creation of 499,000 ordinary shares of £1 each and 1,000,000 Cumulative Redeemable Preference shares of £1 each ("CRP shares") all of which (together with the 998 previously authorised but unissued ordinary shares) were allotted on that day. On 11 May 1989 the authorised share capital was increased to £3,700,000 by the creation of 1,200,000 further CRP shares and 1,000,000 further ordinary shares of £1 each. On the same date 500,000 ordinary shares and 1,200,000 CRP shares were issued, credited as fully paid, to 3i Securities Limited in consideration of the cancellation of loan moneys of £1,700,000 owed by Atlas Group Limited to 3i Securities Limited. Accordingly, at the date of this document the authorised share capital of Atlas Group Limited is £3,700,000 divided into 2,200,000 CRP shares (all of which are in issue fully paid or credited as fully paid) and 1,500,000 ordinary shares of £1 each (of which 1,000,000 are in issue fully paid or credited as fully paid).

(K) As at 18 April 1988, the authorised share capital of Cosmetics Plus was £110,000 divided into 100,000 ordinary shares of 10p each and 100,000 deferred shares of £1 each, all of which were in issue fully paid or credited as fully paid. On 6 October 1988 the existing 100,000 deferred shares of £1 each were subdivided into 1,000,000 deferred shares of 10p each and reclassified as ordinary shares. Accordingly, at the date of this document the authorised share capital of Cosmetics Plus is £110,000 divided into 1,100,000 ordinary shares of 10p each, all of which are in issue fully paid or credited as fully paid.

(L) Save as disclosed in paragraphs 3, 6 and 10 of this Part III:

- (i) during the three years immediately preceding the date of this document, there has been no change in the amount of the issued share capital of the Company and no material change in the share capital of any other member of the Group and/or the number and classes of which any such share capital is composed (other than intra-group issues by wholly owned subsidiaries and pro rata issues by partly owned subsidiaries) and no such issue of shares is proposed;
- (ii) no share or loan capital of the Company or of any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
- (iii) during the three years immediately preceding the date of this document, no commissions, discounts, brokerages or other special terms have been granted by any member of the Group in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries.

(M) Other than upon the exercise of options under the Company's share option schemes, there is no present intention to issue any of the authorised but unissued share capital of the Company. Further, without the prior approval of the members in General Meeting:

- (i) no issue of Ordinary shares will be made which would effectively alter the control of the Company or the nature of its business; and
- (ii) no material issue of Ordinary shares (other than to holders of Ordinary shares pro rata to their existing holdings) will be made within one year of the date hereof.

(N) The 1,000,000 issued Convertible Preference shares are all registered in the name of 3i plc and are not listed on any stock exchange.

(O) The Company's shares are all in registered form.

4. Rights attaching to the Company's shares

(A) The rights attaching to the Ordinary shares and the Convertible Preference shares as to entitlement to share in the Company's profits and surplus capital in the event of a liquidation and as to voting are as follows:—

(1) As Regards Income

The Convertible Preference shares entitle the holders thereof *pari passu* as between them and in priority to any payment of dividend to the holders of Ordinary shares to a fixed cumulative preferential cash dividend ("the Preference Dividend") at the following rates (excluding the amount of any associated tax credit) per annum on each such share which is fully paid up or credited as fully paid up. The Preference Dividend is to be paid half yearly on 30 June and 31 December in every year in respect of which a dividend is payable. Unless the Company has insufficient profits available for distribution and the Company is therefore prohibited from paying dividends by the 1985 Act or any other Act for the time being in force concerning companies and affecting the Company (together "the Statutes"), the Preference Dividend shall (notwithstanding Articles 117-129 of the Company's Articles of Association and in particular notwithstanding that there has not been a recommendation of the Directors or resolution of the Company in general meeting) be paid immediately on the due date and if not then paid shall be a debt due by the Company and be payable in priority to any other dividend.

<i>12 months to 31 December</i>	<i>Dividend rate per share</i>
1991	7.5p
1992 to 1996	10p
1997 and thereafter	12p

The first such payment is to be made on 30 June 1991 in respect of the period from 1 January 1991 to 30 June 1991. The Convertible Preference shares do not entitle the holders thereof to any further or other rights of participation in the profits of the Company. The balance of the profits available for distribution so far as resolved to be distributed, subject to any special rights which may be attached to any other class of share, shall be distributed by way of dividend among the holders of the Ordinary shares.

(2) As Regards Capital

On a return of capital on liquidation or otherwise (except on conversion, redemption or purchase of the Convertible Preference shares) the assets of the Company available for distribution among the members shall be applied:—

- (a) first, in repaying to the holders of the Convertible Preference shares *pari passu* as between them the nominal amount paid up on such shares together with a sum equal to any arrears, deficiency or accruals of the Preference Dividend thereon, to be calculated down to the date of the commencement of the winding up (in the case of a winding up) or the return of capital (in any other case) and to be payable irrespective of whether such dividend has been declared or earned;
- (b) secondly, subject to any special rights which may attach to any other class of share, in repaying to the holders of the Ordinary shares the nominal amount paid up on such shares; and
- (c) thirdly, the balance, if any, subject to any special rights which may be attached to any class of share shall belong to and be distributed among the holders of the Ordinary shares rateably according to the amounts paid up on such shares held by them respectively.

(3) As Regards Voting

The holders of the Convertible Preference shares shall be entitled to receive notice of all general meetings but shall not be entitled:—

- (a) to vote upon any resolution (other than a resolution for winding up the Company or a resolution varying or abrogating any of the special rights attached to such shares) unless at the date of the notice convening the meeting at which such resolution is to be proposed the whole or any part of the Preference Dividend on such shares has been due and payable for six months or more and so that for this purpose the Preference Dividend shall be deemed to be payable half yearly on the dates mentioned in sub-paragraph (4)(A)(1) above in respect of the periods therein mentioned or the Company shall have failed to redeem the Convertible Preference shares in accordance with the Articles of Association of the Company; or
- (b) to attend at any general meeting unless the business of the meeting includes the consideration of a resolution upon which such holders are entitled to vote;

but subject as aforesaid on a show of hands every holder of Convertible Preference shares who is present shall have one vote and on a poll every such holder present in person or by proxy shall have one vote for every Convertible Preference share of which he is the holder.

Subject to any special rights or restrictions as to voting attached to any class of shares, at any general meeting on a show of hands, every holder of Ordinary shares who (being an individual) is present in person or (being a corporation) is present by its duly appointed representative has one vote, and, on a poll, every holder of Ordinary shares who is present in person or by representative or by proxy has one vote for every Ordinary share of which he is the holder. Unless the Directors otherwise determine, a member is not entitled to vote unless all calls due from him have been paid, or in respect of any shares held by him in relation to which he or any other person appearing to be interested in such shares has been duly served with a notice under Section 212 of the 1985 Act and has failed to supply the Company with the information thereby required within the period of 28 days from the date of service of such notice.

(B) Additional rights and restrictions attaching to the Convertible Preference shares are as follows:

(1) As Regards Conversion

- (a) Subject as hereinafter provided, any holder of Convertible Preference shares may at the times and in the manner hereinafter set out convert all or any (not involving a fraction of one share) of his holding of such shares into fully paid Ordinary shares at the rate of 54 Ordinary shares for every £100 in nominal amount of Convertible Preference shares and so in proportion for any other nominal amount of Convertible Preference shares (such rate as adjusted from time to time as provided in this sub-paragraph 4(B)(1) being hereinafter referred to as the “conversion rate”).

- (b) The right of conversion shall be exercisable by the holder of any Convertible Preference shares delivering the certificate, or an indemnity in lieu thereof in such form as the Company may reasonably require, for such shares (together with such other evidence (if any) as the Directors may reasonably require to prove the title of the person exercising such right) to the Company at any time during any of the periods mentioned below or in the circumstances described in sub-paragraph (h) below with the conversion notice ("the Notice of Conversion") on the reverse of such certificate duly completed. The periods during which the Notice of Conversion may be delivered are the two calendar months in any of the years 1995 to 1999 inclusive immediately following the date of despatch to shareholders of:
- (i) the audited consolidated accounts of the Company and its subsidiaries for the previous financial year; and
 - (ii) the interim results for the then current financial year.

The last day of each conversion period is hereinafter referred to as "the Conversion Date", the first Conversion Date in 1995 is hereinafter referred to as the "First Conversion Date" and the last Conversion Date in 1999 is hereinafter referred to as the "Final Conversion Date" provided that if any Conversion Date would otherwise fall on a Saturday, Sunday or a day which is a public holiday in England and Wales such Conversion Date shall be the next day which is not of such description. The Company shall also send to each holder of Convertible Preference shares not more than eight weeks and not less than four weeks prior to each Conversion Date a notice in writing stating the relevant basis of conversion (after taking into account any required adjustments). The Notice of Conversion once given may not be withdrawn without the consent in writing of the Company.

- (c) The following provisions shall apply to the exercise of the right of conversion:—
- (i) conversion may be effected in such manner as the Directors shall, subject to the provisions of the Articles of Association of the Company, from time to time determine or in such other manner as may be authorised by law and without prejudice to the generality of the foregoing may be effected:—
 - (aa) by the redemption of Convertible Preference shares at par and the application of the redemption moneys on behalf of the holder of the Convertible Preference shares so redeemed in the subscription of fully paid Ordinary shares at such premium (if any) as shall represent the amount by which the redemption moneys exceed the nominal amount of the Ordinary shares to be subscribed provided that no holder of Convertible Preference shares so redeemed shall be entitled to a fraction of an Ordinary share but any balance of redemption moneys not sufficient to acquire one Ordinary share at the premium (if any) aforesaid shall be paid to the shareholder entitled thereto except that entitlements of less than £2.50 will not be so distributed but will be retained for the benefit of the Company. In the case of a conversion effected by means of the redemption of Convertible Preference shares the Directors may effect redemption of the relative Convertible Preference shares out of profits of the Company which would otherwise be available for distribution, out of the proceeds of a fresh issue of shares or in any other manner for the time being permitted by law. In the case of redemption out of profits the Directors shall apply the redemption moneys in the name of the holder of the Convertible Preference shares to be converted in subscribing for the appropriate number of fully paid Ordinary shares at the premium (if any) aforesaid. In the case of redemption out of the proceeds of a fresh issue of shares the Directors may arrange for the issue of the appropriate number of Ordinary shares to some person selected by the Directors on the terms that such person will (a) subscribe for such Ordinary shares at the premium (if any) aforesaid and (b) renounce the allotment of such Ordinary shares in favour of the holder of the relative Convertible Preference shares against payment to such person out of the redemption moneys in respect of such Convertible Preference shares of an amount equal to the subscription price of such Ordinary shares; or
 - (bb) by the Directors determining to effect conversion by means of consolidation and sub-division. In such case, the requisite consolidation and sub-division shall be effected pursuant to the authority given by the passing of the resolution to create the Convertible Preference shares by consolidating into one share all the Convertible Preference shares to be converted at any Conversion Date held by any holder or joint holders and sub-dividing such consolidated share into shares of 5p each (or such other nominal amount as may be appropriate as a result of any consolidation or sub-division of Ordinary shares) of which 54 shares for each £100 nominal amount of the consolidated share (or such other number of shares as may be appropriate as a result of any adjustment provided in this sub-paragraph) shall be Ordinary shares (and so in proportion for any other nominal amount of the consolidated share, fractional entitlements being disregarded) and the balance of such shares (including any fraction) shall be non-voting deferred shares having the rights set out in this sub-paragraph (bb).

In the case of a conversion effected by means of consolidation and sub-division as provided in this sub-paragraph (bb), the non-voting deferred shares arising as a result thereof shall on a return of assets in a winding-up entitle the holder, subject to repayment of the capital paid up on the Ordinary shares plus the payment of £50,000 on each Ordinary share, to the repayment of the amount paid up on such shares and shall not entitle the holder to the payment of any dividend or to receive notice of or attend or vote at any general meeting of the Company. Such conversion shall be deemed to confer irrevocable authority on the Company at any time thereafter to appoint any person to execute on behalf of the holders of such shares a transfer thereof and/or an agreement to transfer the same, to such person as the Company may determine as custodian thereof and/or cancel or purchase the same (in accordance with the provisions of the Statutes) in any such case for not more than 1p for all the said shares without obtaining the sanction of the holder or holders thereof and pending such transfer and/or cancellation or purchase to retain the certificate for such shares. The Company may at its option at any time after the creation of any non-voting deferred shares pursuant to this sub-paragraph (bb) redeem all of such non-voting deferred shares then in issue, at a price not exceeding 1p for all such non-voting shares then in issue at any time upon giving the registered holders of such shares not less than 28 days' prior notice in writing of its intention so to do, fixing a time and place for the redemption;

- (ii) the Preference Dividend on the Convertible Preference shares converted shall cease to be payable with effect from the date for payment of such dividend last preceding the relevant Conversion Date except to the extent of any arrears of the Preference Dividend. The Ordinary shares so issued on conversion shall be credited as fully paid and shall rank *pari passu* in all respects with the Ordinary shares then in issue and shall entitle the holder to all dividends or other distributions declared, paid or made on or after the relevant Conversion Date other than any dividends declared, paid or made on the Ordinary shares in respect of any financial period earlier than the financial period in which the relevant Conversion Date falls; and
 - (iii) allotments of Ordinary shares arising on conversion shall be effected within 14 days after the Conversion Date and certificates in respect of the Ordinary shares which arise on conversion shall be despatched to those entitled at their own risk within 28 days of the relevant Conversion Date together with, if appropriate, a certificate for any balance of Convertible Preference shares.
- (d) If immediately following any Conversion Date at least 75 per cent. of the Convertible Preference shares shall have been converted pursuant to the foregoing provisions, the Company shall be entitled within one month after any such date to give to the holders of the Convertible Preference shares which have not been so converted not more than 6 weeks', nor less than 4 weeks' notice to convert the whole of the same into Ordinary shares. Upon the expiration of such notice, the holders of such Convertible Preference shares shall be treated as having exercised their right to convert in respect of all their Convertible Preference shares and the same shall be converted in accordance with the foregoing provisions and *mutatis mutandis* on the terms applicable on the said Conversion Date (save that references in sub-paragraph (c)(iii) above to the "Conversion Date" shall mean the date of expiration of such notice) including those contained in sub-paragraph (c)(ii) above for which purpose no further payment of dividend shall be made save as hereinafter mentioned on the Convertible Preference shares once the Company has given any such notice to the holders thereof, provided that a holder of Convertible Preference shares shall have the right within three weeks of the service of such notice to require the Company by notice in writing, in lieu of treating such shares as converted in accordance with the foregoing conditions, to redeem the same. In the event that within the said period of three weeks any holder shall serve a valid notice requiring the Company to redeem, the provisions of sub-paragraph 4(B)(2) below shall apply *mutatis mutandis*.
- (e) Any issue by the Company by way of capitalisation of profits or reserves made prior to the Final Conversion Date will be made only to the holders of Ordinary shares in the form of fully paid Ordinary shares. No capitalisation issue will be made which would result in the Convertible Preference shares being converted into Ordinary shares at less than the par value of such Ordinary shares. The number of Ordinary shares to be issued in respect of any conversion of the Convertible Preference shares following the record date for the allotment of Ordinary shares in respect of such capitalisation issue will be increased *pro rata* so that the percentage of equity share capital represented by Ordinary shares resulting from conversion of Convertible Preference shares shall not be less than the percentage of equity share capital that would have been represented by Ordinary shares resulting from such conversion prior to such capitalisation issue. If any doubt shall arise as to the number thereof, the certificate of the Company's auditors for the time being shall be conclusive and binding on the Company and the holders of the Convertible Preference shares concerned and the Company shall send to each such holder notice in writing of the revised basis of conversion. No increase shall be made in the event of the issue of Ordinary shares (by way of capitalisation of profits or reserves) in lieu of cash dividends.

- (f) If prior to the Final Conversion Date the Company makes any offer or invitation to subscribe for any securities by way of rights to holders of the Ordinary share capital then on the occasion of each such offer the Company shall make a like offer or invitation at the same time to each holder of the Convertible Preference shares as if his conversion rights had been exercisable and were exercised in full on the record date for such offer or invitation at the conversion rate then applicable.
- (g) In the event of any sub-division or consolidation or reduction of the Ordinary share capital of the Company the conversion rate shall be adjusted in such manner as the Directors may determine (but so that the percentage of equity share capital represented by Ordinary shares resulting from conversion of Convertible Preference shares shall not be less than the percentage of equity share capital that would have been represented by Ordinary shares resulting from such conversion prior to such sub-division or consolidation or reduction of Ordinary share capital).
- (h) If prior to the Final Conversion Date the Company becomes aware that as a result of an offer being made to all Ordinary shareholders of the Company (or all such shareholders 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 Ordinary shares, or for any other reason the offeror and/or such companies or persons aforesaid shall have become entitled to exercise more than 50 per cent. of the votes which are ordinarily exercisable at general meetings of the Company (such circumstances being hereinafter referred to as a "Change of Control") or a resolution approving any reconstruction or arrangement affecting the Ordinary shares is passed or becomes effective, the Company shall give notice to the holders of the Convertible Preference shares within 14 days after the Company becomes aware as aforesaid or such resolution becomes effective and each holder of the Convertible Preference shares shall have the right, in the case of such resolution or Change of Control becoming effective before the First Conversion Date, within the period of 6 weeks from the date of such notice, and in any other case the right at any time up to the Final Conversion Date, to convert the whole or such part as he may specify of his holding of Convertible Preference shares into Ordinary shares of the Company and the conversion rate shall be for every £100 in nominal amount of Convertible Preference shares so converted £2.70 in nominal amount of Ordinary shares as adjusted pursuant to sub-paragraphs (e) and (g) above. The Preference Dividend on the Convertible Preference shares so converted shall cease to be payable with effect from the date for payment of such dividend last preceding the date upon which the Ordinary shares are so issued. The Ordinary shares resulting from such conversion shall be credited as fully paid and shall rank as provided in sub-paragraph (c)(ii) above. Subject as aforesaid, the provisions as to conversion shall apply *mutatis mutandis* to such conversion.
- (i) If any resolution shall be passed or order made for the winding up of the Company prior to the Final Conversion Date, the Company shall forthwith give notice thereof in writing to all holders of Convertible Preference shares and any holder of Convertible Preference shares shall have the right, in the case of such resolution or order being passed or made as the case may be before the First Conversion Date, within six weeks after the date of the resolution for winding up the Company or (as the case may be) the date of the order of the Court for such winding up, and in any other case shall have the right at any time before the Final Conversion Date, to be treated as if his conversion rights had been exercisable and had been exercised prior to the commencement of such winding up and as if the Conversion Date for such conversion had been immediately prior to such commencement and in that event he shall be entitled to be paid *pari passu* with the holders of the Ordinary shares in satisfaction of the amount due in respect of such of his Convertible Preference shares as are to be treated as if converted a sum equal to the amount to which he would have become entitled in such liquidation if he had been the holder of the Ordinary shares to which he would have become entitled by virtue of such conversion, fractions being disregarded for this purpose, together with any arrears, deficiency or accrual of the Preference Dividend on such Convertible Preference shares down to the date for payment of such dividend last preceding the date of such resolution or Order, whether or not such dividend has been declared or earned. The Ordinary shares resulting from such conversion shall be credited as fully paid and shall rank as provided in sub-paragraph (c)(ii) above.
- (j) Prior to the Final Conversion Date, without consent of the holders of the Convertible Preference shares given at a separate class meeting:
- (i) no distribution shall be made by the Company out of capital profits or capital reserves or of profits or reserves arising from a distribution of capital profits or capital reserves by a subsidiary, otherwise than in the form of fully paid Ordinary share capital by way of capitalisation of reserves or in the application of sums in the redemption of Convertible Preference shares;
 - (ii) no equity share capital (as defined in Section 744 of the 1985 Act) shall be issued which carries rights as to dividend, voting or repayment of capital in priority to or more favourable than the Ordinary share capital;
 - (iii) no resolution shall be passed for reducing the share capital of the Company or the amount (if any) for the time being standing to the credit of its share premium account or capital redemption reserve in any manner for which the consent of the Court would be required by law;

- (iv) the Company will not do any act or thing if, as a result, the exercise of conversion rights would involve the issue of Ordinary shares at a discount;
 - (v) the Company will not change its accounting reference date from 31 December unless it shall also make such consequential changes (if any) in the conversion rights as it may think appropriate to avoid prejudicing such rights. The Company shall forthwith give written notice of any such changes to the holders of the Convertible Preference shares; and
 - (vi) no resolution shall be passed amending the Company's memorandum or amending or adopting new articles of association of the Company in such manner as to vary the rights attaching to the Convertible Preference shares.
- (k) The Company will keep available and authorised for issue sufficient unissued Ordinary share capital to satisfy in full all rights for the time being outstanding of conversion into its Ordinary share capital attaching to the Convertible Preference shares.
 - (l) So long as the Ordinary shares in issue are dealt in in the USM or on The Stock Exchange the Company shall use all reasonable endeavours to procure that permission is granted by the Council of The Stock Exchange for all Ordinary shares on conversion to be dealt in in the USM or on The Stock Exchange (as the case may be).
 - (m) On the day after the Final Conversion Date or if at that time at least 75 per cent. but not all of the Convertible Preference shares shall have been converted on the day after expiry of the period of one month referred to in sub-paragraph 4(B)(1)(d) above, the conversion rights set out in this sub-paragraph 4(B)(1) attaching to the Convertible Preference shares shall lapse and any Convertible Preference shares then outstanding, and in respect of which a conversion notice has not been served, shall be redeemed in accordance with sub-paragraph 4(B)(2)(a) below.

(2) As Regards Redemption and Purchase

- (a) The Company shall have the right (subject as hereinafter provided and to the provisions of the Articles of Association and the Statutes) to redeem the whole or any part of the Convertible Preference shares at any time following the First Conversion Date, upon giving to the holders of such shares a notice in writing in accordance with sub-paragraph 4(B)(2)(b) below. On receipt of such notice each holder of Convertible Preference shares shall have the right, in the period of one month immediately following the date of receipt of such notice, to serve a notice (a "Counter-Notice") on the Company to convert all or part of his holding of Convertible Preference shares in which event, subject to the terms of this sentence, the provisions of sub-paragraphs 4(B)(1)(a), (b), (c)(i), (c)(ii) and (c)(iii) shall apply *mutatis mutandis*. In the case of any partial redemption of Convertible Preference shares, the Company shall redeem the Convertible Preference shares from all holders of Convertible Preference shares on a *pro rata* basis. Subject to sub-paragraph 4(B)(1)(h) above on the earlier of the date of a Change of Control and 31 December 1999, the Company will give notice of redemption and will redeem any Convertible Preference shares then remaining in issue.
- (b) Any notice of redemption of Convertible Preference shares shall specify the particular shares to be redeemed, the date fixed for redemption (which shall not be less than three months nor more than four months from the date of the giving of such notice) and the place at which the certificates for such shares are to be presented for redemption and upon such date, subject to any holders of the Convertible Preference shares not having served a Counter-Notice, each of the holders of the shares concerned shall be bound to deliver to the Company at such place the certificates for such of the shares concerned as are held by him (or an indemnity in lieu thereof in such form as the Company may reasonably require) in order that the same may be cancelled. Upon such delivery the Company shall pay to such holder (or, in the case of joint holders, to the holder whose name stands first in the Register in respect of such shares) the amount due to him in respect of such redemption. If any certificate so delivered to the Company includes any shares not redeemable on that occasion, a fresh certificate for such shares shall be issued to the holder without charge.
- (c) There shall be paid on each share redeemed the amount paid up thereon together with a sum equal to any arrears, deficiency or accruals of the Preference Dividend thereon to be calculated down to the date fixed for redemption and to be payable whether or not such dividend has been declared or earned. The receipt of the registered holder for the time being of any Convertible Preference shares (or in the case of joint registered holders the receipt of any of them) for the moneys payable on redemption thereof or application of the same as provided on any conversion thereof shall constitute an absolute discharge to the Company in respect thereof.
- (d) As from the date for redemption of any shares, dividends shall cease to accrue thereon unless upon the presentation of the certificate relating thereto (or an indemnity in lieu thereof in such form as the Company may reasonably require) payment of the moneys due at such redemption shall be refused in which case the dividends shall be deemed to have been continued and shall continue to the date of payment.

- (e) If any holder of Convertible Preference shares whose shares are liable to be redeemed under this paragraph shall fail or refuse to deliver up the certificate for his shares (or an indemnity in lieu thereof in such form as the Company may reasonably require) the Company may retain the redemption moneys until delivery up of the certificate (or of an indemnity in lieu of the certificate satisfactory to the Company) and shall within 7 days thereafter pay (by cheque despatched at the holders' risk) the redemption moneys to the shareholder. No holder of Convertible Preference shares shall have any claim against the Company for interest on any redemption moneys so retained.
- (f) Subject to the provisions of the Statutes, the Company may at any time purchase Convertible Preference shares (i) in the market, (ii) by tender (available alike to all holders of the Convertible Preference shares), or (iii) by private treaty in each case at a price (exclusive of all expenses but inclusive of accrued interest) which, if the Convertible Preference shares are then dealt in in the USM shall not exceed the average price for bargains struck for such shares as derived from the USM Appendix to The Stock Exchange Daily Official List during the period of 10 business days immediately prior to the date of such purchase, or if the Convertible Preference shares are then listed on The Stock Exchange, shall not exceed the average of the middle market quotations therefor derived from The Stock Exchange Daily Official List during the period of 10 business days immediately prior to the date of such purchase or, in the case of a purchase on The Stock Exchange, at the market price thereof provided that such market price is not more than 5 per cent. above such average, but not otherwise, and upon such other terms and conditions as the Directors may think fit. The Company may exercise its rights and powers of purchase as regards the Convertible Preference shares at its sole discretion and without obligation to maintain the ratio between the nominal amounts for the time being outstanding of any series.
- (g) Upon the redemption of any Convertible Preference shares the Directors may convert and sub-divide the authorised but unissued Convertible Preference share capital existing as a consequence of such redemption into the shares of any other class of share capital into which the authorised share capital of the Company is or may at any time be divided of a like nominal amount (as nearly as may be) as the shares of such class then in issue or into unclassified shares of the same nominal amount as the Convertible Preference shares.

(3) As Regards Transferability

The Convertible Preference shares shall not be transferable without the consent of the Board, and such consent shall not be withheld where such shareholder is a body corporate and the transfer is to its ultimate parent company or to a company controlled by such shareholder or its ultimate parent company and notwithstanding any other provision of the Articles of Association, the Directors of the Company shall be bound to register such a transfer: provided always that such transferee gives an undertaking to the Company that in the event that it ceases to be so controlled immediately prior to so ceasing such shares shall be transferred to a body corporate so controlled.

(4) Modification of Rights

The Company may from time to time create and issue further preference shares of a different class to the Convertible Preference shares ranking as regards participation in the profits and assets of the Company *pari passu* with, but not in priority to, the Convertible Preference shares and so that, subject as aforesaid, any such further preference shares may either carry as regards participation in the profits and assets of the Company rights identical in all respects with the Convertible Preference shares or rights differing therefrom in any respect including (but without prejudice to the generality of the foregoing) in that:—

- (a) the rate of dividend may differ;
- (b) the further preference shares may rank for dividend as from such date as may be provided by the terms of issue thereof and the dates for payment of dividend may differ;
- (c) a premium may or may not be payable on return of capital;
- (d) the further preference shares may be redeemable on such terms as may be prescribed by the terms of issue thereof and/or the Articles of Association for the time being of the Company; and
- (e) the further preference shares may be convertible into Ordinary shares or any other class of shares (ranking as regards participation in the profits and assets of the Company subject to or *pari passu* with, but not in priority to, the Convertible Preference shares) in each case on such terms and conditions as may be prescribed by the terms of issue thereof.

5. Memorandum and Articles of Association

(A) The main objects of the Company as stated in clause 4(A)(i) of the Company's Memorandum of Association are to carry on the business of a holding and investment company.

(B) In addition to the rights attaching to the Ordinary shares and the Convertible Preference shares, the Articles of Association contain provisions to the following effect:

(1) Variation of rights and changes of capital

The rights attached to any class of shares for the time being in issue may be varied or abrogated either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class, but not otherwise. The Company may, by ordinary resolution, increase its share capital, consolidate or sub-divide its shares and cancel any shares not taken or agreed to be taken by any person. The Company may by special resolution, subject to the provisions of the 1985 Act, reduce its share capital. Subject also to the requirements of that Act, the Company may purchase its own shares, provided it obtains the sanction of an extraordinary resolution passed at a separate meeting of the holders of any class of shares carrying the right to convert into Ordinary shares.

(2) Transfer of shares

The instrument of transfer of a share shall be in any usual form or in any other form approved by the Directors. The Directors may decline to recognise any instrument of transfer of a share which is not fully paid. Subject as provided in sub-paragraph 4(B)(3) above, the Articles of Association contain no restrictions on the free transferability of fully paid shares, provided, *inter alia*, that the instrument of transfer is in favour of not more than four transferees and is in respect of only one class of shares.

(3) Unclaimed dividends

Any dividend unclaimed after a period of twelve years from the date of its declaration will be forfeited and will become the property of the Company.

(4) Borrowing powers

The Directors will restrict the borrowings of the Company and exercise all voting and all other rights or powers of control exercisable by the Company in relation to its subsidiaries so as to secure (as regards the subsidiaries so far as by such exercise they can secure) that the aggregate of the amounts borrowed by the Company and its subsidiaries and remaining outstanding at any time (excluding intra-group borrowings) will not, without the previous sanction of an ordinary resolution of the Company, exceed two and one half times the aggregate of the nominal amount of the issued and paid up share capital of the Company and the amount standing to the credit of the consolidated capital and revenue reserves of the Company and its subsidiaries (including share premium account and capital redemption reserve fund), all as shown in the audited balance sheets of the Company and its subsidiaries last laid before the Company and its subsidiaries in their respective general meetings or the audited consolidated balance sheet of the Company and its subsidiaries last laid before the Company in general meeting but in each case after making such adjustments as are specified in the Articles of Association.

(5) Directors

- (a) Unless and until determined by ordinary resolution the number of Directors will not be subject to any maximum but will be not less than three.
- (b) Each Director is entitled to receive remuneration by way of fee for his services as such at such rate, not exceeding £15,000 per annum, as the Directors may from time to time determine, to accrue from day to day. The Company in general meeting may increase the amount of the aforesaid maximum remuneration either permanently or for a year or longer terms.
- (c) Any Director who holds an executive office, or who serves on any committee, or who otherwise performs services which, in the opinion of the Directors, are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of salary, commission or otherwise as the Directors may determine. Each Director may be repaid all reasonable expenses incurred by him in attending and returning from meetings of the Directors or any committee of the Directors or general meetings or otherwise in or about the business of the Company.
- (d) The Directors may cause the Company to pay and agree to pay pensions or other retirement, superannuation, death or disability benefits to (or to any person in respect of) any Director or ex-Director, and, for the purposes of providing any such pensions or other benefits, to contribute to any scheme or fund or to pay premiums.
- (e) Subject to the provisions of the Statutes and the Articles of Association, a Director may be a party to or in any way interested in any contract or arrangement or transaction to which the Company is a party or in which the Company is in any way interested and he may hold and be remunerated in respect of any office or place of profit (other than the office of auditor of the Company or any subsidiary thereof) and may act in a professional capacity for the Company and be remunerated therefor.
- (f) At each Annual General Meeting of the Company, one-third of the Directors for the time being (or, if the number is not a multiple of three, the number nearest to but not greater than one-third) are required to retire from office by rotation. A Director is required to retire on attaining the age of 70 years.
- (g) Save as provided in sub-paragraph (h) below, otherwise than by virtue of his interest in shares or debentures or other securities of or otherwise in or through the Company a Director shall not vote in respect of any contract or arrangement or any other proposal whatsoever in which he has any material interest and shall not be counted in the quorum of a meeting in relation to any resolution on which he

- is not entitled to vote. The Company may by ordinary resolution suspend or relax such provisions to any extent or ratify any transaction not duly authorised by reason of a contravention of this provision.
- (h) Subject to the provisions of the Statutes, a Director shall (in the absence of any material interest other than those indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:
- (i) the giving of any security or indemnity to him in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;
 - (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
 - (iii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase, in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;
 - (iv) any proposal concerning any other company in which he is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever, provided that he (together with any person connected with him within the meaning of Section 346 of the 1985 Act) is not the holder of or beneficially interested in one per cent. or more of the issued shares of any class of such company (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant company (any such interest being deemed for the purpose of this provision to be a material interest in all circumstances);
 - (v) any proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefits scheme or any employees' share scheme under which he may benefit and which has been approved by or is subject to and conditional upon approval by the Board of Inland Revenue for taxation purposes and which in relation to any employees' share scheme does not accord to any Director as such any privilege or advantage not accorded to the employees to whom the scheme relates.
- (i) Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more Directors to offices or employments with the Company or any company in which the Company is interested, such proposals may be divided and considered in relation to each Director separately, and in such case each of the Directors concerned (if not debarred from voting under sub-paragraph (g) above) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

6. Share Option Schemes

(A) On 25 July 1988 the Company adopted an Executive Share Option Scheme and a Savings-Related Share Option Scheme (the "Original Schemes"). Options were granted on 28 September and 12 October 1988 under the Original Schemes over a total of 421,171 Ordinary shares at an exercise price of £1.04 per share.

At that time the Company believed that the Original Schemes had received formal approval from the Inland Revenue, intending that the options granted under those schemes would be eligible for favourable tax treatment under the provisions of the Income and Corporation Taxes Act 1988 ("the Taxes Act"). It subsequently transpired that formal approval of the Original Schemes was not obtained until some time after the options had been granted and, as a result, the options did not fall within the favourable provisions of the Taxes Act.

At an Extraordinary General Meeting of the Company held on 16 May 1990:

- (i) members approved the adoption of the Second Executive Scheme and the Second Savings-Related Scheme (as defined in paragraph 6(B) below); and
- (ii) members approved the deletion of the existing rules of the Original Schemes and the substitution thereof of new rules allowing (save in limited circumstances) exercise of the options granted under the Original Schemes only during the 14 day period following the formal approval by the Inland Revenue of the Second Executive Scheme and the Second Savings-Related Scheme.

Any options under the Original Schemes which remained unexercised following the end of that 14 day period lapsed. However, the new rules referred to in sub-paragraph (ii) above could not bind a holder of options under either of the Original Schemes without his or her consent.

All holders of options under the original Savings-Related Share Option Scheme exercised their options within the 14 day period. Only one holder of options under the original Executive Share Option Scheme, an employee who is not a Director, did not agree that the amendments to the rules of that scheme should be binding on him and failed to exercise his options under that scheme within the 14 day period. The options over 9,780 Ordinary shares held by that employee are the sole remaining outstanding options under either of the Original Schemes and are exercisable between September 1991 and September 1998.

(B) On 16 May 1990 the Company adopted new share option schemes entitled the Second Swallowfield Executive Share Option Scheme (the "Second Executive Scheme") and the Second Swallowfield Savings-Related Share Option

Scheme (the "Second Savings-Related Scheme") (together "the Schemes") which were subsequently approved by the Inland Revenue under the Taxes Act. The principal terms of the Schemes are as follows:

(i) The Second Executive Scheme

Full-time Directors and employees of the Company and its nominated subsidiaries may be offered options under the Second Executive Scheme to subscribe for Ordinary shares in the Company. The offer of such options is at the absolute discretion of the Board. Options are not transferable.

There is a maximum limit on the value of Ordinary shares over which an Eligible Employee (as defined in the Scheme Rules) can hold options. No Eligible Employee may be granted options under the scheme to acquire Ordinary shares having an aggregate option price (i.e. the price an Eligible Employee must pay if he exercises all the rights he then holds under the scheme or under other approved schemes for employees of the Group to acquire Ordinary shares) in excess of four times his annual gross remuneration or, if greater, £100,000.

The option price for each share under the Second Executive Scheme will be an amount equal to the greater of the market value (as agreed with the Inland Revenue) and the nominal value of an Ordinary share.

At the date of this document, options under the Second Executive Scheme are held by a total of 16 Eligible Employees in respect of a total of 130,040 Ordinary shares at an option price of 126.5p per Ordinary share. Each of those options is normally exercisable between August 1993 and August 2000. The consideration for the grant of these options was £1 in each case. Subsequent offers of options may only be made within 28 days after the public announcement of the Company's interim or final results. Each acceptance of an offer of an option must be accompanied by the sum of £1, which is non-refundable, whether the option is exercised or not.

Options will normally be exercisable at any time after three years and must be exercised within ten years from the date of acceptance of the options by Eligible Employees in each case. Provision is also made for the exercise of options in the event of the change of control of the Company or a member's voluntary liquidation or in the event of a holder of options retiring or ceasing employment with the Group by reason of ill health, disability or redundancy or on the death of the holder of options. The maximum number of Ordinary shares over which options may be granted under the Second Executive Scheme, when aggregated with shares issued or comprised in options granted under other schemes (other than the Original Schemes or a savings-related scheme) providing for the acquisition of Ordinary shares by employees or Directors of the Group, shall not exceed five per cent. of the aggregate issued Ordinary share capital of the Company from time to time and when, in addition, aggregated with shares issued or comprised in options granted under other schemes for employees of the Group (other than the Original Schemes), shall not exceed ten per cent. of the aggregate issued Ordinary share capital of the Company from time to time. All Ordinary shares issued on the exercise of an option will rank *pari passu* in all respects with the existing Ordinary shares of the Company.

In the event that the Company is taken over, options may either be exchanged by agreement with the acquiring company for options in that company or be exercised within 6 months following such takeover.

In the event of any variation in or reorganisation of the share capital of the Company by way of capitalisation or rights issue, sub-division, consolidation or reorganisation of capital, appropriate adjustments will be made to the number of shares covered by options, the option price and the number of shares subject to the Second Executive Scheme. No such adjustment shall take effect unless the Company's auditors certify in writing that such adjustment is in their opinion fair and reasonable and the adjustment has been approved by the Inland Revenue.

With the prior approval of the Inland Revenue, the Board may amend the Rules of the Second Executive Scheme as they consider necessary to maintain the approval of the Inland Revenue but may not, without the prior sanction of the Company in general meeting and of the Inland Revenue, alter certain principal features of the scheme, including those relating to the conditions governing eligibility to participate, the limits for individual participation, the period during which options may be granted or exercised, the calculation of the option price, the non-transferability of options and the provisions relating to the issue of shares under the scheme.

(ii) The Second Savings-Related Scheme

The Board may from time to time at its discretion invite every person who has been a full-time employee of the Company or its nominated subsidiaries for not less than 6 months or any other employee nominated by the Board to apply for options under the Second Savings-Related Scheme. Options are not transferable.

The option price for each share under the Second Savings-Related Scheme must be an amount equal to the greater of 80 per cent. of the market value (as agreed with the Inland Revenue) and the nominal value of an Ordinary share as defined in the Scheme Rules.

Each invitation to apply for options must specify a maximum monthly savings contribution as determined by the Board (which maximum must not in any case exceed the limit specified by law) and must be accompanied by a proposal form for a savings contract and an application form for completion by the relevant employee. In the application form the applicant must state (*inter alia*) the monthly savings contribution (being not less than £10) which he wishes to make.

If the Board receives applications for options over more shares in aggregate than the Second Savings-Related Scheme permits to be available for issue then applications must be scaled down *pro rata* or (to the extent that monthly savings contributions as scaled down would fall short of £10) selected by lot.

Options must be granted within 30 days of the date of issue of the invitation or, if applications for options over an excess number of shares are received, within 42 days of such date.

At the date of this document, options under the Second Savings-Related Scheme are held by a total of 38 Eligible Employees in respect of 127,370 Ordinary shares at an option price of 101.5p per Ordinary share, 80 per cent. of the market value at the date of issue of the invitations as agreed with the Inland Revenue. Subsequent invitations may only be made within 28 days after the public announcement of the Company's interim or final results.

Options will normally be exercisable within six months of the earliest date on which a bonus is payable under the relevant savings contract (normally five years). Provision is also made for the exercise of options in the event of a change of control of the Company or a member's voluntary liquidation.

The Second Savings-Related Scheme contains similar provisions, *mutatis mutandis*, to those applicable to the Second Executive Scheme in respect of the maximum number of shares over which options may be granted (so far as such maximum, as described in paragraph 6(B)(i) above in relation to the Second Executive Scheme, relates to 10 per cent. of the issued Ordinary share capital of the Company from time to time), of the rights attaching to Ordinary shares issued on the exercise of an option and the provisions relating to any take-over of the Company or the variation or reorganisation of the share capital of the Company.

With the prior approval of the Inland Revenue the Board may amend the Rules of the Second Savings-Related Scheme provided that no amendment may materially affect an option holder as regards an option granted before the amendment is made and provided that no amendment is made which would make the terms on which options are granted materially more generous or which would increase the maximum number of shares over which options may be granted, without the prior approval of the Company in general meeting.

7. Premises

The Group operates from the following premises:

	<i>Address</i>	<i>Tenure</i>	<i>Area in sq. ft. (approx.)</i>
(i)	Swallowfield House, Station Road, Wellington, Somerset, TA21 8NL.	Freehold	77,000
(ii)	Station Yard, Station Road, Wellington, Somerset, TA21 8NL.	Freehold	15,000
(iii)	Units 1, 2 and 4 Alverdiscott Road Industrial Estate, Bideford, Devon, EX39 4HJ.	Freehold	69,000
(iv)	Unit 3, Lowmoor Industrial Estate, Wellington, Somerset.	Freehold	40,000
(v)	Unit 3, Alverdiscott Road Industrial Estate, Bideford, Devon, EX39 4HJ.	Leasehold*	20,000

*For a term of 10 years from 1 June 1987 at a current rental of £24,000 per annum, subject to five yearly review, the next review to take place on 1 June 1992.

8. Charges

- (A) (i) The Company has a Mortgage Debenture dated 24 February 1986 over its assets creating:
- (a) a specific equitable charge over its estate or interest in all freehold or leasehold properties for the time being belonging to or charged to the Company and the proceeds of sale thereof;
 - (b) a specific charge over all stocks, shares or other securities in any subsidiary companies for the time being;
 - (c) a specific charge over all book and other debts for the time being;
 - (d) a specific charge over its goodwill and the benefit of any licences; and
 - (e) a floating charge over its undertaking and all its other property and assets present and future including uncalled capital
- in favour of National Westminster Bank PLC ("NatWest Bank") to secure all liabilities of the Company present and future, actual and/or contingent, to NatWest Bank.
- (ii) The Company also has a Debenture dated 19 February 1991 over its assets creating:
- (a) a legal mortgage over its estate and interest in all freehold and leasehold properties for the time being vested in or charged to the Company, both present and future;
 - (b) a fixed charge over all plant, machinery, fixtures and fittings, present and future belonging to the Company and all rights, title or interest of the Company under any purchase lease or hire purchase agreement for such assets;
 - (c) a fixed charge over goodwill and uncalled capital of the Company both present and future;
 - (d) a fixed charge over stocks, shares and other securities belonging to the Company both present and future;
 - (e) a fixed charge over all intellectual property rights, actions or claims both present and future;
 - (f) a fixed charge over all book debts and other debts owing to the Company both present and future; and
 - (g) a floating charge over all the undertaking, property assets and rights of the Company present and future in favour of Société Générale ("Soc Gen") to secure the liabilities of the Company in relation to a medium term credit facility of £1,500,000, together with an intercompany composite guarantee and indemnity also dated 19 February 1991 in relation to the Company, Aerosols International, Atlas Group Limited and Cosmetics Plus. The terms of the medium term credit facility provide for a draw down of the facility in instalments of £250,000 to be repaid in full in 7 years. The first draw down has already been made.
- (B) Aerosols International has created the following charges over its assets:
- (i) a Mortgage Debenture dated 27 March 1986 creating the same charges over its assets as those described in sub-paragraph 8(A)(i) above in respect of the Company's assets;
 - (ii) a Legal Mortgage dated 12 April 1986 over freehold property at Station Road, Wellington, Somerset and the proceeds of sale thereof incorporating a floating charge over all moveable plant, machinery, implements, utensils, furniture and equipment thereon;
 - (iii) a Mortgage dated 22 May 1986 over freehold land at Wellington, Somerset and the proceeds of sale thereof incorporating a floating charge over all moveable plant, machinery, implements, utensils, furniture and equipment thereon; and
 - (iv) a Legal Mortgage dated 23 October 1987 over freehold land at Station Road and Station Yard, Wellington, Somerset and the proceeds of sale thereof incorporating a floating charge over all moveable plant, machinery, implements, utensils, furniture and equipment thereon
- all in favour of NatWest Bank to secure all moneys due or to become due from Aerosols International to NatWest Bank on any account whatsoever; and
- (v) a Debenture dated 19 February 1991 creating the same charges as those described in sub-paragraph 8(A)(ii) above in respect of the Company's assets in favour of Soc Gen to secure the medium term credit facility referred to in that paragraph, together with an intercompany composite guarantee and indemnity also dated 19 February 1991 as set out in sub-paragraph 8(A)(ii) above.
- (C) Atlas Group Limited has created the following charges over its assets:
- (i) a Mortgage Debenture dated 10 October 1988 in favour of 3i Investments plc (and subsequently assigned to 3i Securities plc) creating fixed and floating charges over its undertaking and all its property and assets, present and future, including goodwill, book debts, uncalled capital, buildings, fixtures, fixed plant and machinery, stock in trade, work in progress and prepayments to secure all moneys due or to become due from Atlas Group Limited to 3i Securities plc on any account whatsoever;

- (ii) a Mortgage Debenture dated 31 March 1989 in favour of 3i Securities plc creating the same charges over its assets as those described in sub-paragraph 8(C)(i) above, to secure all moneys due or to become due from Atlas Group Limited to 3i Securities plc on any account whatsoever; and
- (iii) a Debenture dated 19 February 1991 creating the same charges as those described in sub-paragraph 8(A)(ii) above in respect of the Company's assets in favour of Soc Gen to secure the medium term credit facility referred to above, together with an intercompany composite guarantee and indemnity also dated 19 February 1991 as set out in sub-paragraph 8(A)(ii) above.

(D) Cosmetics Plus has created the following charges over its assets:

- (i) a Mortgage Debenture dated 24 June 1981 in favour of NatWest Bank creating fixed and floating charges over its freehold and leasehold property, its undertaking and all its property and assets, present and future, including goodwill, book debts and uncalled capital, to secure all moneys due or to become due from Cosmetics Plus to NatWest Bank on any account whatsoever;
- (ii) a collateral Debenture dated 10 October 1988 in favour of 3i Investments plc (and subsequently assigned to 3i Securities plc) creating the same charges over its assets as those described in sub-paragraph 8(C)(i) above in respect of the assets of Atlas Group Limited, to secure all moneys due or to become due from Atlas Group Limited to 3i Securities plc on any account whatsoever;
- (iii) a collateral Debenture dated 31 March 1989 in favour of 3i Securities plc creating the same charges over its assets as those described in sub-paragraph 8(C)(i) above in respect of the assets of Atlas Group Limited, to secure all moneys due or to become due from Atlas Group Limited to 3i Securities plc on any account whatsoever; and
- (iv) a Debenture dated 19 February 1991 creating the same charges as those described in sub-paragraph 8(A)(ii) above in respect of the Company's assets in favour of Soc Gen to secure the medium term credit facility referred to above, together with an intercompany composite guarantee and indemnity also dated 19 February 1991 as set out in sub-paragraph 8(A)(ii) above.

(E) By Deed of Priority executed on 19 February 1991 between the Company, Aerosols International, Atlas Group Limited and Cosmetics Plus (1), NatWest Bank (2), 3i plc (3) and Soc Gen (4), NatWest Bank, 3i plc and Soc Gen agreed between them the order of priority in which the respective securities given in their favour by the Company and its subsidiaries should rank.

9. Directors' and other interests

(A) The interests (all beneficial unless otherwise indicated) of each of the Directors in the issued Ordinary share capital of the Company as at the date hereof, as notified to the Company pursuant to Section 324 of the 1985 Act, are set out in the table below. None of the Directors has any interest in the issued Convertible Preference shares in the capital of the Company.

Name	No. of Ordinary shares held	Percentage of issued Ordinary share capital	Options to subscribe
T J Organ	282,000	2.7	—
J A Wardell	1,466,300	14.0	8,866**
A P Dowsett	613,769	5.9	8,866**
	80,000*	0.8	—
C A Graves	10,595	0.1	8,866**
			33,660***
N W Otley	7,000	0.1	—

* Non-beneficial holding.

** Options granted under the Second Swallowfield Savings-Related Share Option Scheme exercisable at 101.5p per Ordinary share within six months from the date of maturity of the relevant savings contract.

*** Options granted under the Second Swallowfield Executive Share Option Scheme exercisable at 126.5p per Ordinary share between August 1993 and August 2000.

(B) Save for the Directors shown in sub-paragraph 9(A) above and save for the following shareholders, the Directors are not aware of any shareholding which amounts to 3 per cent. or more of the current issued Ordinary share capital of the Company:

Shareholder	No. of Ordinary shares held	Percentage of issued Ordinary share capital
National Westminster Bank PLC*	1,915,000	18.3
3i Group plc**	1,709,000	16.4
PosTel Investment Management Limited	600,000	5.7
General Portfolio Life Insurance PLC	525,500	5.0
British Gas Pension Funds Management Limited	480,000	4.6
M. A. Wardell	405,769	3.9
The Prudential Assurance Company Limited	395,000	3.8

*Includes the shareholding of County NatWest Ventures Limited of 1,500,000 Ordinary shares.

**Includes the shareholding of Gardens Nominees Limited, an associated company, of 25,000 Ordinary shares.

(C) No Director is interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which has been effected since 31 December 1989 or which was effected prior to that date but remains in any respect outstanding or unperformed.

(D) Messrs J.A. Wardell, A.P. Dowsett and C.A. Graves each have service agreements with the Company pursuant to which they have agreed to serve the Company as Managing Director, Operations Director and Finance Director respectively with current annual salaries of £80,000, £55,000 and £50,000 respectively together with a bonus to be not more than 30 per cent of the fixed annual salary in each case. The service agreements in each case are for an initial period of 3 years from 4 October 1988 and continue automatically thereafter unless terminated by the Company by 12 months' notice or by the employee concerned by 6 months' notice.

(E) There are no outstanding loans granted by any member of the Group to any of the Directors nor any guarantees provided by any member of the Group for their benefit.

(F) There are no arrangements in existence under which future emoluments have been waived or agreed to be waived by any of the Directors.

(G) The aggregate of the remuneration paid and benefits in kind (including bonuses) granted to the Directors by any members of the Group in respect of the financial year ended 31 December 1990 was £269,000 and in respect of the current financial year is estimated, under the arrangements currently in force, to be approximately £309,000.

10. Material Contracts

The following contracts not being contracts in the ordinary course of business have been entered into by the Group during the two years preceding the date hereof and are or may be material:—

- (i) An Agreement dated 26 October 1989 between 3i Securities Limited (1) and the Company (2) (the "Atlas Acquisition Agreement") whereby the Company agreed, conditionally (*inter alia*) on the approval of the shareholders of the Company in General Meeting, to acquire the entire issued share capital of Atlas Group Limited. The consideration for the acquisition was £1,483,275 and was satisfied as to £483,275 by the issue to 3i Securities Limited, credited as fully paid, of 328,759 new Ordinary shares, and as to £1 million by the issue to 3i Securities Limited, credited as fully paid, of 1,000,000 Convertible Preference shares. On completion Atlas Group Limited repaid £9,340 of the Consolidated Loan referred to in sub-paragraph 10(iii) below and the Company entered into a Deed guaranteeing repayment by Atlas Group Limited of the balance of the Consolidated Loan being £1,000,000.
- (ii) An Agreement dated 26 October 1989 between 3i Securities Limited (1), the Directors of the Company (2), the Company (3) and County NatWest Limited (4) pursuant to which County NatWest Limited purchased from 3i Securities Limited 328,759 Ordinary shares at a price of 147p per share with a view to effecting a private placing of such shares for a fee equal to one per cent. of the aggregate placing price of such shares.
- (iii) An Agreement dated 20 November 1989 between Atlas Group Limited (1), Cosmetics Plus (2) and 3i Securities Limited (3) pursuant to which 3i Securities Limited agreed to consolidate the outstanding balances of two loans originally advanced to Atlas Group Limited on 10 October 1988 and 31 March 1989 respectively, the consolidated loan totalling in aggregate £1,009,340 as at 20 November 1989 (the "Consolidated Loan"). Repayment of £9,340 of the Consolidated Loan was made with immediate effect on 20 November 1989. The outstanding principal amount of the Consolidated Loan, amounting to £1,000,000, is repayable in two tranches of £500,000 each on 30 November 1993 and 30 November 1994 respectively. Interest was payable on the Consolidated Loan at the rate of 10 per cent. per annum until 30 November 1990 and thereafter has been payable at the rate of 15 per cent. per annum. The Agreement contains provisions (*inter alia*) to the following effect:
 - (a) the Consolidated Loan and all moneys due under the Agreement are guaranteed by Cosmetics Plus;
 - (b) the Mortgage Debentures referred to in sub-paragraphs 8 (C) (i) and (ii) and 8 (D) (ii) and (iii) are provided as security in support of the Agreement;
 - (c) the Consolidated Loan is repayable at the option of 3i Securities Limited in the event of a change of control of Atlas Group Limited, Cosmetics Plus or the Company in certain circumstances;
 - (d) there are provisions containing certain restrictions on the right of Atlas Group Limited or Cosmetics Plus to give guarantees, make loans or advances or enter into certain transactions affecting their assets or undertakings.
- (iv) The Deed of Priority described in paragraph 8(E) above.
- (v) An Agreement dated 15 March 1991 between Cosmetics Plus (1) and English Industrial Estates Corporation (2) for the purchase by Cosmetics Plus of the reversionary interest in Unit 4, Alverdiscott Road Industrial Estate, Bideford, Devon for the sum of £220,000 plus VAT, completion of which took place on 3 April 1991.

11. Litigation

The Directors are not aware of any legal or arbitration proceedings pending or threatened against any member of the Group which have or have had during the previous 12 months a significant effect on the Group's financial position.

12. Taxation

(A) Under current United Kingdom tax legislation, no tax will be withheld from dividend payments by the Company, but the Company is required to account to the United Kingdom Inland Revenue for advance corporation tax (currently at the rate of one third of the amount of the cash dividend) when it pays a dividend. Accordingly, the advance corporation tax related to a dividend currently equals one-quarter of the sum of the cash dividend plus the attributable advance corporation tax.

Individual shareholders resident in the United Kingdom for taxation purposes are liable to income tax on the aggregate amount of the dividend and a tax credit equal to the attributable advance corporation tax; the tax credit is available to be set against any income tax payable. United Kingdom resident corporate shareholders are not liable to corporation tax or income tax in respect of dividends received from the Company, and such dividends are available to frank dividends paid by such corporate shareholder. United Kingdom resident shareholders who are exempt from tax in respect of investment income are entitled to repayment by the United Kingdom Inland Revenue of the tax credit in respect of dividends, and individual shareholders resident in the United Kingdom whose income tax liability on their total income for the relevant year of assessment is less than the tax credit in respect of dividends are entitled to an appropriate repayment of tax.

Non-United Kingdom resident shareholders are not generally entitled to the benefit of a tax credit in respect of any dividends received. However, no assessment is made on such persons in respect of basic rate income tax and a non-resident's liability, if any, to pay income tax in respect of dividends is limited to the excess of higher rate over basic rate liability. A repayment of part of the tax credit might, however, be available if there is an appropriate provision granting such entitlement in any applicable double tax agreement. A non-United Kingdom resident shareholder might also be subject to tax on dividend income under any law to which that person is subject outside the United Kingdom.

The above is only a general outline of the taxation treatment of dividends paid by the Company. Any person who is in doubt as to his tax position should consult his professional adviser.

(B) The Directors have been advised that the Company is not a close company within the meaning of Section 414 of the Taxes Act.

13. Working capital

The Directors of the Company are of the opinion that, taking into account available bank facilities, the Group has sufficient working capital for its present requirements.

14. General

(A) Ernst & Young have given and have not withdrawn their written consent to the inclusion of their name in this document in the forms and contexts in which it appears.

(B) There has been no significant change in the financial or trading position of the Group since 31 December 1990, the date to which the latest audited accounts of the Company and its subsidiaries were made up.

(C) There is no arrangement under which future dividends are to be waived or agreed to be waived.

(D) Cosmetics Plus has recently received an invoice from a former purchasing agent for payment of £167,000 allegedly due for the period from 1985 to 1989 by way of commissions on powder and raw material purchases made by it during this period.

The Directors have no evidence that this payment is due and believe that the matter will be resolved without material effect on the net asset position shown in the accounts.

15. Documents available for inspection

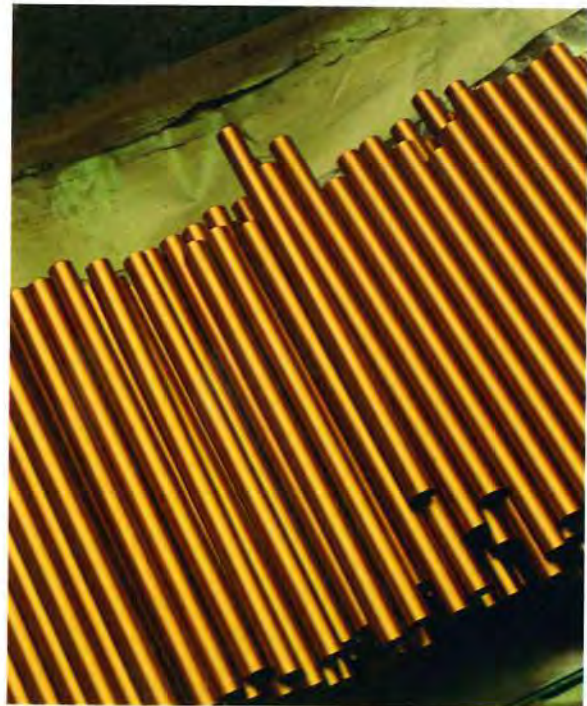
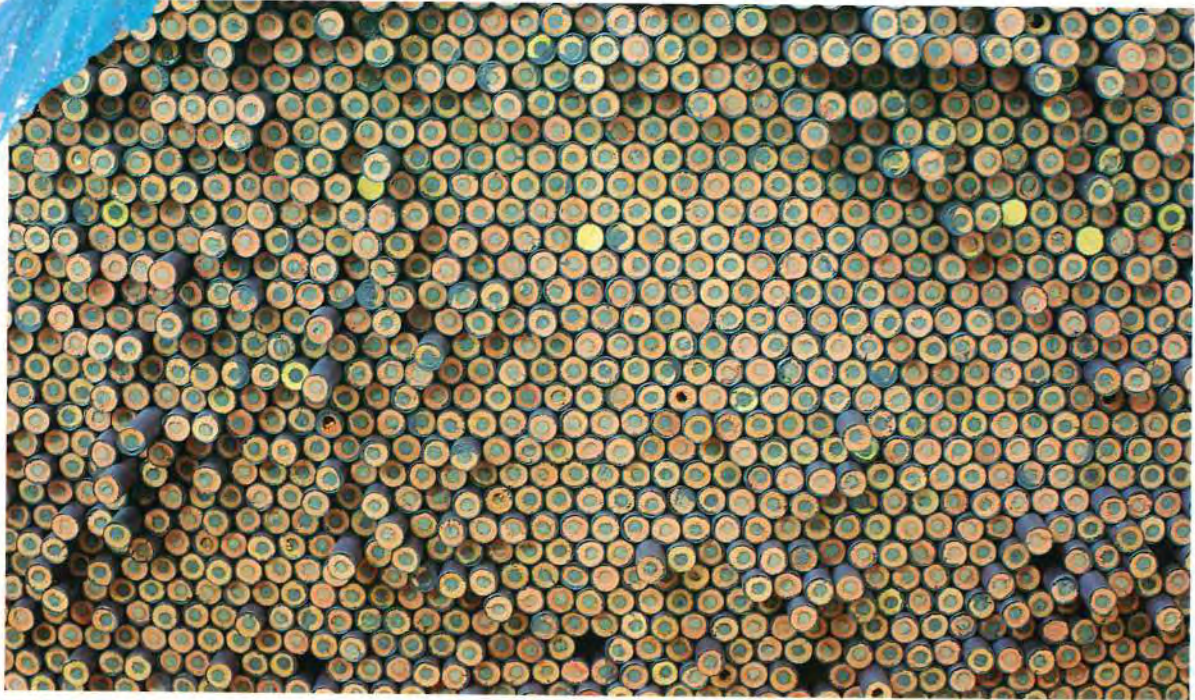
Copies of the following documents may be inspected at the offices of Osborne Clarke at 6-9 Middle Street, London EC1A 7JA and at the registered office of the Company during normal office hours on any weekday (Saturdays and public holidays excepted) until 3 May 1991:

- (i) the Memorandum and Articles of Association of the Company;
- (ii) the audited consolidated accounts of the Group for the years ended 31 December 1988, 31 December 1989 and 31 December 1990;
- (iii) the Rules of the Company's share option schemes;

- (iv) the service contracts of the executive Directors of the Company referred to in paragraph 9(D) of this Part III;
- (v) the material contracts referred to in paragraph 10 of this Part III;
- (vi) the consent letter referred to in paragraph 14(A) of this Part III;
- (vii) the circular to shareholders of the Company dated 26 October 1989 concerning the acquisition of Atlas Group Limited;
- (viii) the circular to shareholders of the Company dated 23 April 1990 concerning the adoption of the Second Executive Scheme and the Second Savings-Related Scheme; and
- (ix) these Listing Particulars.

18 April 1991

C O S M E T I C S
P L U S
L I M I T E D



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