CRO

RAP Group plc

Annual report and consolidated financial statements

31 December 1997

Registered number 2641001

RAP Group plc

Annual report and consolidated financial statements

RAP Group plc

Directors and advisers

Current Directors

John Arthur Savage BSc *(Chairman and Chief Executive) - age 60*
He has held executive and non-executive board positions with a number of industrial companies over the past 20 years and has considerable experience of a variety of industry sectors and markets. Over the last ten years he has worked with a broad range of financial institutions as a management consultant and advised on numerous venture capital operations. He has built up a particular expertise in corporate recovery, where he has established an excellent track record.

Michael George Bickerton FCA *(Finance Director) - age 54*
He qualified as a chartered accountant in 1965. From 1968 to 1970 he worked as a management accountant for Michelin Tyre Company Limited and from 1970 to 1980 he held positions with Peat Marwick Mitchell & Co (now KPMG). He joined Rubber and Allied Products (RAP) Limited in 1980 and co-led the management buy-out having become finance director of the Group in 1985.

Fredrik Knut Jochum Arp BA *(Non-Executive Director) - age 44*
He is the president and chief executive officer of PLM AB. PLM AB is a Swedish company with around 5,200 employees and its activities are concerned with packaging for beverages. Prior to joining PLM AB, he was executive vice-president of Trelleborg AB and chief executive officer of Trelleborg Industries, its rubber manufacturing operation. He was appointed to the board on 3 November 1994 and is currently also a non-executive director of Munksjo AB, a Swedish paper group. He is also the non-executive chairman of Chapman Inveresk Limited.

Patrick David Bulmer BA, ACA *(Non-Executive Director) - age 40*
He is a director of ABN Amro Private Equity (UK) Limited and was appointed as a director of the company on 30 December 1991 when Causeway became a shareholder. He qualified with Coopers & Lybrand, Chartered Accountants, and in 1983 joined the corporate finance department of Robson Rhodes, Chartered Accountants. From 1986 to 1990 he was employed by NatWest Ventures Limited, latterly as a director, and joined ABN Amro Private Equity (UK) Limited in 1990.

The Hon Robert Ward Jackson BA, ACA *(Non-Executive Director) - age 42*
He is a qualified accountant and has held senior positions in both the City and Industry. From 1977 until 1985 he worked for Coopers & Lybrand, Chartered Accountants. Between 1985 and 1994 he worked in stockbroking, most recently with Charterhouse Tilney Securities which he left in 1994, as Director, Corporate Finance. In September 1994 he joined The Hollas Group PLC, initially as Corporate Development and Finance Director before becoming Chairman of the Personal Protective Equipment division. He is currently a consultant to a number of companies in the textile and health & safety at work industries and a Corporate Finance Director with the accountants Deloitte & Touche.

Directors during the year

JA Savage (appointed 12 March 1998)
MG Bickerton
DJ Emmett (removed 31 March 1998)
FKJ Arp
PD Bulmer
RW Jackson (appointed 4 April 1997)
LJ Stammers (resigned 4 April 1997)

Company secretary

MG Bickerton FCA

Registered office

Loomer Road Industrial Estate, Chesterton, Newcastle-under-Lyme,
Staffordshire ST5 7LU

Stockbrokers

Williams de Broë Plc
6 Broadgate, London EC2M 2RP

Auditors

KPMG Audit Plc
Festival Way, Stoke-on-Trent, Staffordshire ST1 5TA

Solicitors

Travers Smith Braithwaite
10 Snow Hill, London EC1A 2AL

Bankers

Royal Bank of Scotland plc
3/4 Syer House, Stafford Court, Stafford Park 1, Telford, Shropshire TF3 3BD

Registrars

KPMG
Festival Way, Stoke-on-Trent, Staffordshire ST1 5TA

RAP Group plc

Chairman's statement

Financial

The group produced a loss before tax of £1,272,000 for the year ended 31 December 1997 *(1996: profit of £690,000)* on turnover of £27,356,000, which is some 16% lower than the £32,592,000 of the last year. A considerable proportion of this reduction was due to a dramatic decline in sales from the Burnley operation of Welpac. Sales were reduced throughout the group except for Potter Cowan, part of the Rubber and Plastics Industrial Consumer Products operation, and Poplar, part of the Safety and Workwear business, where sales were static. The greatest contraction in sales was at the Burnley operation of Welpac where a decrease of 53% occured on prior year sales of £6,388,000 to £2,980,000. The group operating loss of £812,000 was sustained after substantial write off of stocks, fixed assets and bad/disputed debts at the group's Burnley operation. In addition to a further provision of £92,000 for a potential underfunding of the Welpac pension scheme, it has also been necessary to write down the value of the Barking and Peckham properties by £96,000.

The loss per share for the year is 10.3p *(1996: earnings per share 4.4p)*, and the directors do not propose a final dividend for the year, making the total dividend for the year 0.7p *(1996: 1.5p)*.

Welpac companies

The action taken during 1997 failed to produce the desired results at Welpac Hardware and Harwood Hardware and these operations again produced substantial losses. There was a considerable decline in sales and the failure to reduce inventory resulted in a serious overstocking situation, necessitating a write off of some £1,379,000 of old, obsolete and slow-moving stock. It has also been necessary to write off some £173,000 of fixed assets at Burnley and to make a provision of £60,000 for dilapidation claims in relation to leased property. In addition a substantial write off of £90,000 of debtors was made and potential underfunding of £92,000 may have arisen in the Welpac pension scheme. This has been fully accounted for in the 1997 accounts.

Chairman's Statement (continued)

Properties

No properties were disposed of during 1997. However, two properties were sold in May 1998. These were:

Barking: The sale of this Welpac property was completed on 1 May for a total of £1,060,000 net of costs, which represented a reduction of some £69,000 to book cost.

Peckham: A RAP property was sold on 8 May for £84,000 which represented a book loss of £27,000. The operations at this site have now been transferred to our location at Maidstone.

The book losses have been fully accounted for in the 1997 accounts.

Employees

1997 has been a difficult year for the group. I would like to thank all employees on behalf of the Board and the shareholders for their work and support during this challenging time. Our employees are RAP's major asset and I have confidence in their ability to succeed in the year ahead.

The Board

A number of Board changes have been made over the last few months. On 12 March, David Emmett relinquished his position as Chairman and I was appointed Non-executive Chairman. On 31 March, David Emmett ceased all his executive functions and was removed from the Board. I was appointed to the role of full time Chief Executive in his place. David Emmett has since lodged claims against the group for breach of contract and unfair dismissal. However the company does not acknowledge that Mr Emmett has any valid claims and intends to contest the claims vigorously.

Fredrik Arp has indicated his intention to resign as a Non-executive Director at the group's Annual General Meeting on 29 July 1998 and the Board wishes to thank him for his contribution during his period of office. As reported in the last statement, on 4 April 1997, Robert Jackson, a qualified accountant who has held senior positions in the City and Industry, was appointed as a Non-executive Director, replacing Lionel Stammers.

Chairman's Statement (continued)

Prospects and current trading

The core group has continued its pattern of reduced sales in the first five months of 1998 and it is likely that sales will continue to run at a disappointing level during the current year. Turnover at both the Burnley operation and Anderson & Firmin is also expected to decline further in 1998. The group traded profitably in the first five months of 1998 although profits were substantially below those for the same period last year.

My immediate priority is to examine the whole of the group's operations and to devise a strategy to return it to sustainable and profitable trading patterns. The investigations so far have been restricted to the Burnley operations of Welpac Hardware Limited and Harwood Hardware Limited. Further reviews into all group operations will be necessary. I also intend to reorganise the structure of the group and expect to make a major investment in information technology throughout the company. Further restructuring charges may be necessary and a general increase in operating costs is envisaged in order to install modern management control systems.

JA Savage
Chairman and Chief Executive
29 June 1998

RAP Group plc

Operational and financial review

Operating review

The Group has incurred a loss before tax of £1,272,000 *(1996: profit £690,000)* on turnover of £27,356,000 *(1996: £32,592,000)*.

The loss is struck after making substantial provisions and write-offs against asset values at the two companies which operate from the Burnley site, these are Welpac Hardware Limited and Harwood Hardware Limited. Activity levels at Burnley reduced during 1997 and have declined further in 1998.

Difficult trading conditions were experienced in the rubber and plastic industrial consumable products, conveyor belt and protective clothing companies and sales decreased in these products. The strength of sterling also resulted in a fall in imported prices on certain products which has reduced selling prices.

Financial review

At 31 December 1997 there were 12,325,841 ordinary shares of 5p each in issue.

There was a net cash inflow in the year from operating activities of £2,449,000.

Bank debt together with hire purchase and finance lease commitments stood at £3,952,000 which represents a reduction of £1,620,000 from the previous year end. Based on shareholders' funds of £6,341,000 the gearing level at 31 December 1997 stood at 62%, a reduction of 10% on the previous year end.

At 31 December 1997, the balance on the medium term loan stood at £2,017,000 *(1996: £2,521,000)*. Since the year end, in addition to the half-yearly instalment of £252,000 having been repaid, a further sum of £685,000 has been repaid. This additional repayment was made from the proceeds of sale of the freehold property at Barking which was completed on 1 May 1998.

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1997.

Principal activities

The principal activities of the Group are the assembly and distribution of rubber and allied products including the distribution of safety and protective clothing and equipment, and the supply of pre-packed hardware, DIY and gardening products.

Business review

The consolidated results for the year are shown on page 17.

Dividends

The directors do not recommend the payment of a final dividend:

	£000
Loss for the financial year	(1,272)
Dividends - ordinary shares:	
Interim equity paid	(86)
Retained loss for the financial year	(1,358)

Policy on the payment of creditors

It is the policy of the company that each of the businesses in the group should agree appropriate terms and conditions for its transactions with suppliers and that payment should be made in accordance with those terms and conditions, provided that the supplier has also complied with them. The total owed to trade creditors at the balance sheet date was equivalent to 87 days average purchases.

Directors' report

Directors and directors' interests

The directors who held office during the year were as follows:

DJ Emmett (removed 31 March 1998)
MG Bickerton
*PD Bulmer
*FKJ Arp
*RW Jackson (appointed on 4 April 1997)
LJ Stammers (resigned 4 April 1997)

*Non-executive directors, members of audit and remuneration committees.

JA Savage was appointed non-executive Chairman on 12 March 1998. Upon the removal of DJ Emmett on 31 March 1998, JA Savage was appointed as Chairman and Chief Executive of the Group. A resolution for Mr Savage's appointment as a director is to be proposed at the forthcoming Annual General Meeting.

MG Bickerton retires by rotation and offers himself for re-election.

The disclosable interests of the directors in the shares of the company were as follows:

	Ordinary shares of 5p each 31 December 1997	Ordinary shares of 5p each 31 December 1996
FKJ Arp	–	–
MG Bickerton	**367,421**	367,421
PD Bulmer	–	–
RW Jackson	–	–

DJ Emmett's interest in the shares of the company at 31 December 1996 and to the date of his removal was 1,218,712 ordinary shares of 5p each.

PD Bulmer is a director of ABN Amro Private Equity (UK) Limited, the investment adviser to the Third Causeway Development Capital Fund ("The Fund"). Mr Bulmer has an interest in the Fund. The Fund's holding of shares in the company were as follows:

	31 December 1997	31 December 1996
Ordinary shares of 5p each	**2,510,000**	2,510,000

ABN Amro Private Equity (UK) Limited receives a fee in respect of the provision of the services of a non-executive director to the board of the company.

None of the directors had any interest in the shares of other Group companies.

RAP Group plc

Directors' report

Details of directors' share options are set out in the report of the remuneration committee on page 12 of the accounts.

There have been no changes in the above interests between 31 December 1997 and 24 June 1998 and no further share options have been granted to directors in this period.

Substantial Share holdings as at 24 June 1998

The company has been notified of the following interests pursuant to section 198 of the Companies Act 1985:

	Number	%
Barfield Nominees Limited (The Fund)	2,510,000	20.4
National Westminster Bank Plc	1,869,153	15.2
DJ Emmett	1,218,712	9.8
Prudential Client (MSS) Nominees	514,347	4.2
Hambros Bank (Nominees) Limited	375,000	3.0

Employees' involvement

The Group recognises the importance of good communications with its employees and considers the most effective form of communication regarding its activities, performance and plans is by way of informal discussions between management and other employees at a local level.

Employment of disabled persons

It is the Group's policy to give disabled people full and fair consideration for all job vacancies for which they offer themselves as suitable candidates, having regard to their particular aptitudes and abilities. Training and career development opportunities are available to all employees and the Group will endeavour to retrain any member of staff who develops a disability while in the employment of the Group.

RAP Group plc

Directors' report

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

M.G. Bickerton

MG Bickerton
Secretary

Loomer Road Industrial Estate
Chesterton
Newcastle-under-Lyme
Staffordshire
ST5 7LU

29 June 1998

RAP Group plc

Corporate governance

Directors' statement on compliance with the Code of Best Practice published by the committee on the Financial Aspects of Corporate Governance (the Cadbury Report):

The Board has taken due notice of the Code of Best Practice recommended by the Cadbury Committee throughout the year and draws attention to the following:

- The Board consists of two executive directors and three non-executive directors. JA Savage is both Chairman and Chief Executive of the group. Throughout the year there has been however, a strong and independent element on the board, with three non-executive directors. Following Mr Arps resignation at the forthcoming Annual General Meeting the number of non-executive directors will reduce to two. Whilst this is not strictly compliant with the Cadbury Code it is felt appropriate to the current circumstances and size of the Group.

- The terms of the non-executive directors' service agreements are in compliance with Section 1.5 of the Code of Best Practice. The Board are currently taking steps to extend such rights to the executive directors.

- The Board has overall responsibility for the Group's system of internal financial control. It should be recognised that such a system can provide only reasonable and not absolute assurance against misstatement or loss. The principal elements of the system, which is designed to recognise the specific characteristics of the Group and risks to which they expose the Group include:

  a clearly defined structure which delegates responsibility and accountability to the management of the operating locations .

  all locations are regularly visited by senior managers and/or directors.

  a well established reporting function which includes monthly management accounts packages which are reviewed by senior management and directors.

  all capital expenditure commitments require authorisation by executive directors.

  The directors acknowledge that they are responsible for the Group' s systems of internal control and continue to monitor their effectiveness on an ongoing basis.

- After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis.

By order of the board

M.G. Bickerton

MG Bickerton 29 June 1998

RAP Group plc

Report of the Remuneration Committee

The remuneration committee consists of each of the three non-executive directors. Its composition, responsibilities and operation comply with the best practice provisions of Section A of the annexe to the Listing Rules of the London Stock Exchange. In implementing its policy, the Committee has given full consideration to the provisions of Section B of the annexe to the Listing Rules.

Remuneration

The remuneration and emoluments of executive directors are determined by the remuneration committee. The remuneration of the non-executive directors is determined by the full Board.

The salaries of the executive directors are determined after a review of the performance of the individual. It is the aim of the Committee to award directors competitively; consideration is, therefore, given to the median remuneration paid to senior management of comparable public companies.

The executive directors noted below participate in a performance related bonus scheme. Bonus payments are determined by reference to the growth in earnings per ordinary share in comparison to the average earnings per ordinary share for the preceding two years. No bonus payment is paid if the growth in earnings per share does not reach 10%. No bonuses were paid in respect of the year to 31 December 1997 (1996: £nil).

The table set out below summarises the value of remuneration received by each director during the year:

Director	**Salary**	**Fees**	**Pension**	**Total Benefits**	**1997 Total**	**1996 Total**
	£	£	£	£	£	£
Executive directors						
DJ Emmett	125,600	-	12,560	11,173	149,333	150,000
MG Bickerton	56,000	-	5,600	8,257	69,857	71,000
Non-executive directors						
PD Bulmer	-	-	-	-	-	-
FKJ Arp	-	20,000	-	-	20,000	20,500
RW Jackson	-	-	-	15,594	15,594	-
LJ Stammers	-	5,222	-	-	5,222	20,500
	181,600	25,222	18,160	35,024	260,006	262,000

In addition fees of £10,500 (1996: £10,500) in respect of the services of PD Bulmer were paid to ABN Amro Private Equity (UK) Limited.

Share options

The Committee is responsible for supervising the Executive Share Option Scheme and the Sharesave Scheme. Details of the individual share options held by the directors at 31 December 1997 were as follows:

	Granted	Number	Option price	Date from which exercisable	Expiry date
MG Bickerton	6 December 1994	19,000	142p	1 January 1998	6 December 2004

The non-executive directors cannot be granted options under the share option schemes.

Pension scheme

The executive directors are members of the group's defined contribution pension scheme.

The non-executive directors do not participate in the group's pension schemes.

Service contracts

MG Bickerton retires by rotation and is proposed for re-election, his contract of employment provides for a period of notice of twelve months.

JA Savage's proposed contract of employment provides for a twelve month notice period.

John Savage

John Savage was appointed Chief Executive on 31 March 1998 at a salary of £150,000 per annum. In addition the group will make pension payments on his behalf amounting to 10% of earnings per annum and he has been provided with the benefits of a fully expensed executive car. The Remuneration Committee has agreed that it is appropriate for him to receive share options over 650,000 ordinary shares of 5p each (representing 5% of the share capital after the exercise of each option). These are exercisable subject to the company's share price achieving pre-determined levels at the appropriate date of exercise. The Remuneration Committee considers such an incentive arrangement to be appropriate given Mr Savage's experience and the need to halt the long term decline in the company's share price. Full details of the proposed scheme are to be considered at the Annual General Meeting. A copy of his proposed service contract will be made available for inspection at the forthcoming Annual General Meeting.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the Group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

RAP Group plc

Review report by KPMG Audit Plc to RAP Group plc on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the directors' statement on page 11 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the Listing Rules and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with the disclosure requirements of the Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures, or on the ability of the Group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control and on going concern which are set out on page 11, in our opinion the directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on page 11 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants

29 June 1998

Report of the auditors to the members of RAP Group plc

We have audited the financial statements on pages 17 to 41. We have also examined the amount disclosed relating to emoluments, share options and directors pension entitlements which form part of the remuneration committee report on page 12.

Respective responsibilities of directors and auditors

As described on page 14 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1997 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

29 June 1998

RAP Group plc

Consolidated profit and loss account

for the year ended 31 December 1997

	Note	1997 £000	1996 £000
Turnover - continuing operations	2	**27,356**	32,592
Cost of sales		**(20,195)**	(23,310)
Gross profit		**7,161**	9,282
Distribution costs		**(2,361)**	(2,414)
Administrative expenses		**(5,612)**	(5,654)
Operating (loss)/profit - continuing operations		**(812)**	1,214
Interest payable and similar charges	6	**(460)**	(524)
(Loss)/profit on ordinary activities before taxation	3-5	**(1,272)**	690
Tax on (loss)/profit on ordinary activities	7	**-**	(148)
(Loss)/profit for the financial year		**(1,272)**	542
Dividends paid and proposed on equity shares	8	**(86)**	(185)
Retained (loss)/profit for the financial year	19	**(1,358)**	357
(Loss)/earnings per ordinary share	9	**(10.3p)**	4.4p

There were no recognised gains or losses during the year other than the loss above.

RAP Group plc

Consolidated balance sheet

at 31 December 1997

	Note	1997		1996	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	*10*		**39**		45
Tangible assets	*11*		**2,603**		3,019
			2,642		3,064
Current assets					
Stocks	*13*	**6,532**		8,580	
Debtors	*14*	**7,145**		8,340	
		13,677		16,920	
Creditors: amounts falling due within one year	*15*	**(8,245)**		(10,173)	
Net current assets			**5,432**		6,747
Total assets less current liabilities			**8,074**		9,811
Creditors: amounts falling due after more than one year	*16*		**(1,533)**		(2,046)
Provisions for liabilities and charges	*17*		**(200)**		(66)
Net assets			**6,341**		7,699
Capital and reserves					
Called up share capital	*18*		**616**		616
Share premium account	*19*		**5,259**		5,259
Profit and loss account	*19*		**466**		1,824
Equity shareholders' funds			**6,341**		7,699

These financial statements were approved by the board of directors on 29 June 1998 and were signed on its behalf by:

M.G. Bickerton

MG Bickerton
Director

RAP Group plc

Company balance sheet

at 31 December 1997

	Note	1997 £000	1997 £000	1996 £000	1996 £000
Fixed assets					
Tangible assets	*11*		**220**		188
Investments	*12*		**3,530**		3,530
			3,750		3,718
Current assets					
Debtors	*14*	**6,154**		7,963	
Cash at bank and in hand		**2,849**		1,197	
		9,003		9,160	
Creditors: amounts falling due within one year	*15*	**(3,916)**		(3,336)	
Net current assets - including debtors recoverable after more than one year of £nil *(1996: £1,027,000)*			**5,087**		5,824
Total assets less current liabilities			**8,837**		9,542
Creditors: amounts falling due after more than one year	*16*		**(1,512)**		(2,003)
Net assets			**7,325**		7,539
Capital and reserves					
Called up share capital	*18*		**616**		616
Share premium account	*19*		**5,259**		5,259
Profit and loss account	*19*		**1,450**		1,664
Equity shareholders' funds			**7,325**		7,539

These financial statements were approved by the board of directors on 29 June 1998 and were signed on its behalf by:

M.G. Bickerton

MG Bickerton
Director

RAP Group plc

Consolidated cash flow statement

for the year ended 31 December 1997

	Note	1997 £000	1997 £000	1996 £000	1996 £000
Net cash flow from operating activities	*24*		**2,449**		710
Returns on investments and servicing of finance					
Interest paid			**(451)**		(508)
Taxation			-		(404)
Capital expenditure					
Payments to acquire tangible fixed assets		**(115)**		(121)	
Receipts from sales of tangible fixed assets		**53**		659	
Receipts from sale of property		-		1,565	
			(62)		2,103
Equity dividends paid			**(197)**		(444)
Cash flow before financing			**1,739**		1,457
Financing					
Issue of equity share capital		-		22	
Repayment of loan capital		**(504)**		(1,931)	
Capital element of finance lease rental payments		**(84)**		(409)	
			(588)		(2,318)
Movement in cash in the year	*26*		**1,151**		(861)

RAP Group plc

Reconciliation of movements in shareholders' funds

for the year ended 31 December 1997

	Group		Company	
	1997	1996	1997	1996
	£000	£000	£000	£000
(Loss)/Profit for the financial year	(1,272)	542	(128)	1,198
Dividends	(86)	(185)	(86)	(185)
Retained profit for the year	(1,358)	357	(214)	1,013
New equity share capital subscribed (net of costs)	-	22	-	22
Net (reduction in)/addition to shareholders' funds	(1,358)	379	(214)	1,035
Opening shareholders' funds	7,699	7,320	7,539	6,504
Closing shareholders' funds	6,341	7,699	7,325	7,539

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

Basis of consolidation

The group financial statements consolidate the financial statements of RAP Group plc and all its subsidiary undertakings. These financial statements are made up to 31 December 1997 for all group companies.

On the acquisition of a business the results of the undertaking acquired are included in the consolidated profit and loss account from the date of acquisition. Goodwill arising on consolidation representing the excess of the fair value of the consideration given over the fair value of the separate net assets acquired is written off against reserves on acquisition. Purchased goodwill is capitalised and amortised over a period of ten years.

On subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the gross amount of any related goodwill previously taken directly to reserves.

In the company's financial statements, investments in subsidiary undertakings are stated at cost less provision for any permanent diminution. Dividends received and receivable are credited to the company's profit and loss account to the extent that they represent a realised profit for the company.

In accordance with Section 230(4) of the Companies Act 1985 RAP Group plc is exempt from the requirement to present its own profit and loss account.

The amount of the profit for the year dealt with in the financial statements of RAP Group plc is disclosed in the reconciliation of movement in shareholders' funds

1 **Accounting policies** *(continued)*

Fixed assets and depreciation

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

Freehold and long leasehold buildings	-	2% per annum
Purchased goodwill	-	10% per annum
Plant, office equipment and fixtures	-	10-20% per annum
Motor vehicles	-	25% per annum

Short leasehold buildings are amortised over the period of the lease.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Pension costs

The group principally operates defined contribution pension schemes. The assets of the schemes are held separately from those of the group in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in the period.

A further scheme is operated for certain Welpac employees providing benefits based on final pensionable earnings. The assets of this scheme are also held separately from the Group and contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' estimated working lives.

Stocks

Stocks are stated at the lower of cost and net realisable value. A portion of labour and overhead costs are included in stocks where appropriate.

Taxation

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

1 **Accounting policies** *(continued)*

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year.

2 **Segmental analysis**

In the opinion of the directors, the Group carries on only one class of business for the purposes of the disclosures required by Statement of Standard Accounting Practice No 25, namely the assembly and distribution of industrial, DIY and gardening products. All turnover and profits before taxation are derived from this class of business and originated in the United Kingdom.

The destination of turnover by geographical market is as follows:

	1997	1996
	£000	£000
United Kingdom	**26,919**	32,098
Europe and other	**437**	494
	27,356	32,592

3 (Loss)/Profit on ordinary activities before taxation

	1997	1996
	£000	£000
(Loss)/Profit on ordinary activities before taxation is stated		
after charging		
Fees paid to the auditor and its associates:		
Audit	**115**	110
Other services	**10**	10
Depreciation and other amounts written off tangible fixed assets:		
Owned	**616**	568
Leased	**29**	79
Hire of plant and machinery - rentals payable under operating leases	**412**	175
Hire of other assets - operating leases	**424**	248
Stock provisions at Burnley	**1,379**	-
Fixed asset write downs at Burnley	**173**	-
Debtor write offs at Burnley	**90**	-
Property dilapidations provision	**60**	-
Welpac plc pension scheme provision	**92**	-
Property write downs	**96**	-
after crediting		
Profit on disposal of fixed assets	**51**	160

The total amount charged to revenue for the hire of plant and machinery amounted to £447,000 *(1996: £269,000)*. This comprises rentals payable under operating leases as well as depreciation and related finance charges on plant and machinery and motor vehicles held under finance leases and similar hire purchase contracts.

Fees of £20,000 *(1996: £9,000)* were paid to the auditor and its associates by the company.

4 Remuneration of directors

	1997	1996
	£000	£000
Directors' emoluments	**242**	272
Company contributions to money purchase pension schemes	**18**	18
Amounts paid to third parties in respect of directors' services	**11**	11

4 Remuneration of directors *(continued)*

The aggregate of emoluments of the highest paid director was £136,773 *(1996: £138,454)*, and company pension contributions of £12,560 *(1996: £12,300)* were made to a money purchase scheme on his behalf.

Number of directors	**1997**	1996
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**2**	2

5 Staff numbers and costs

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

	Number of employees	
	1997	1996
Production, assembly and on-site service	**88**	149
Sales and distribution	**170**	204
Administration	**117**	117
	375	470

The aggregate payroll costs of these persons were as follows:

	1997	1996
	£000	£000
Wages and salaries	**4,649**	5,419
Social security costs	**423**	468
Other pension costs (see note 23)	**108**	113
	5,180	6,000

Notes (continued)

6 Interest payable and similar charges

	1997	1996
	£000	£000
On bills of exchange	**39**	38
On bank loans and overdrafts	**411**	460
Finance charges payable in respect of finance leases and hire purchase contracts	**7**	15
Other	**3**	11
	460	524

7 Taxation

	1997	1996
	£000	£000
UK corporation tax at 31%	-	50
Deferred taxation	-	100
Adjustment relating to an earlier year	-	(2)
	-	148

8 Dividends

	1997	1996
	£000	£000
Equity		
Ordinary dividends - interim paid	**86**	74
- final proposed	-	111
	86	185

Notes (continued)

9 (Loss)/earnings per share

Loss per share is calculated by dividing the loss attributable to ordinary shareholders of £1,272,000 *(1996: profit £542,000)* by the weighted average of the number of ordinary shares in issue during the year of 12,325,841 *(1996: 12,321,866)*.

A fully diluted earnings per share is not provided as the dilution is not material.

10 Intangible fixed assets

	Goodwill
Group	£000
Cost	
At beginning and end of year	56
Amortisation	
At beginning of year	11
Charged in year	6
At end of year	17
Net book value	
At 31 December 1997	39
At 31 December 1996	45

11 Tangible fixed assets – Group

	Land and buildings	Plant, office equipment and fixtures	Motor vehicles	Total
	£000	£000	£000	£000
Cost				
At beginning of year	1,944	2,645	346	4,935
Additions	20	132	79	231
Disposals	-	(13)	(123)	(136)
At end of year	1,964	2,764	302	5,030
Depreciation and diminution in value				
At beginning of year	201	1,493	222	1,916
Charge for year	67	534	44	645
On disposals	-	(13)	(121)	(134)
At end of year	268	2,014	145	2,427
Net book value				
At 31 December 1997	1,696	750	157	2,603
At 31 December 1996	1,743	1,152	124	3,019

The net book value of land and buildings comprises:

	1997	1996
	£000	£000
Freehold	**1,400**	1,441
Long leasehold	**198**	201
Short leasehold	**98**	101
	1,696	1,743

The gross book value of freehold property includes £507,000 *(1996: £507,000)* of non-depreciable land.

Included in the total net book value of motor vehicles is £145,000 *(1996: £97,000)* in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £29,000 *(1996: £79,000)*.

Included in the net book value of plant, office equipment and fixtures is £39,000 *(1996: £nil)* in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £nil *(1996: £nil)*.

11 **Tangible fixed assets – Company**

	Land and buildings	Plant, office equipment and fixtures	Motor vehicles	Total
	£000	£000	£000	£000
Cost				
At beginning of year	160	34	67	261
Additions	-	41	-	41
At end of year	160	75	67	302
Depreciation and diminution in value				
At beginning of year	5	24	44	73
Charge for year	2	3	4	9
At end of year	7	27	48	82
Net book value				
At 31 December 1997	153	48	19	220
At 31 December 1996	155	10	23	188

The gross book value of freehold property includes £55,000 *(1996: £55,000)* of non-depreciable land.

Included in the net book value of motor vehicles is £nil *(1996: £nil)* in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £nil *(1996: £6,000)*.

Included in the net book value of plant, office equipment and fixtures is £39,000 *(1996: £nil)* in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £nil *(1996: £nil)*.

12 Fixed asset investments - Company

	Shares in subsidiary undertakings £000
Cost	
At beginning and end of year	3,530

The principal trading subsidiary undertakings of the company at 31 December 1997 are as follows:

Rubber & Allied Products (R.A.P.) Limited	Manufacture, assembly and distribution of industrial rubber and allied products
Potter Cowan & Co Limited (registered in Scotland)	Assembly and distribution of industrial rubber products and protective clothing
*Waugh of Hamilton Limited (registered in Scotland)	Assembly and distribution of industrial rubber products and protective clothing
Safety Specialists Limited	Suppliers of safety and protective clothing and equipment
Planet Gloves (Industrial) Limited	Importing and distribution of industrial gloves and protective clothing
*R.A.P. Industrial Distributions Limited	Assembly and distribution of industrial rubber and allied products
*R.A.P. Conveyors Limited	Assembly and distribution of conveyor belts and ancillary products
*Engineers Supply Co (Teesside) Limited	Supply of industrial materials and parts
Welpac plc	Sub-holding company
*Welpac Hardware Limited	Supply of fasteners and ironmongery parts to DIY stores and builders merchants
*Anderson & Firmin Limited	Distribution of gloves, footwear and garden accessories
*Harwood Hardware Limited	Supply of door furniture to DIY stores and builders merchants

12 **Fixed asset investments - Company** *(continued)*

Poplar Industrial Supplies (Stourbridge) Limited	Manufacturer and distributor of industrial gloves and safety equipment

*Shares held via subsidiary undertakings.

All subsidiary undertakings are wholly owned and all shareholdings consist of ordinary shares only, except for Rubber & Allied Products (R.A.P.) Limited where the company also owns all the deferred shares.

All the subsidiary undertakings operate in the United Kingdom and are registered in England and Wales, unless otherwise stated.

All the above Group companies are included in the consolidation.

13 **Stocks**

	Group		Company	
	1997	1996	**1997**	1996
	£000	£000	**£000**	£000
Raw materials and consumables	**133**	105	-	-
Finished goods and goods for resale	**6,399**	8,475	-	-
	6,532	8.580	-	-

14 Debtors

	Group		Company	
	1997	1996	**1997**	1996
	£000	£000	**£000**	£000
Freehold property held for resale	**1,060**	1,129	**-**	-
Trade debtors	**5,474**	6,420	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**6,040**	7,614
Other debtors	**359**	402	**78**	203
Prepayments and accrued income	**252**	389	**36**	146
	7,145	8,340	**6,154**	7,963

Company

Included within amounts owed by subsidiary undertakings and other debtors are the amounts of £nil and £nil respectively which are recoverable in more than one year *(1996: £1,000,000 and £27,000).*

15 Creditors: amounts falling due within one year

	Group		Company	
	1997	1996	**1997**	1996
	£000	£000	**£000**	£000
Bank loans and overdrafts (note 20)	**2,330**	3,479	**503**	501
Obligations under finance leases and hire purchase contracts	**89**	47	**12**	-
Trade creditors	**4,415**	4,950	**8**	36
Bills of exchange payable	**239**	107	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**3,052**	2,544
Corporation tax	**100**	50	**50**	-
Other taxes and social security	**477**	623	**101**	47
Other creditors and accruals	**595**	806	**190**	97
Proposed dividend	**-**	111	**-**	111
	8,245	10,173	**3,916**	3,336

16 Creditors: amounts falling due after more than one year

	Group		Company	
	1997	1996	**1997**	1996
	£000	£000	**£000**	£000
Bank loans (note 20)	**1,500**	2,003	**1,500**	2,003
Obligations under finance leases and hire purchase contracts	**33**	43	**12**	-
	1,533	2,046	**1,512**	2,003

Creditors payable by instalments:

	1997	1996
Group and company	**£000**	£000
Bank loan:		
Instalments payable within one year	**504**	504
Instalments payable between one and two years	**504**	504
Instalments payable between two and five years	**992**	1,496
Instalments payable after five years	**17**	17
	2,017	2,521
Less finance charges allocated to future periods	**(14)**	(17)
	2,003	2,504

The bank loan is repayable in half-yearly instalments up to 30 September 2001. Interest is payable quarterly in arrears and is charged at a rate of 1.5% per annum above LIBOR on the first £1,836,000 of the loan and at a rate which is equivalent to 2% per annum above LIBOR on the remainder of the loan.

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	Group		Company	
	1997	1996	**1997**	1996
	£000	£000	**£000**	£000
Within one year	**89**	47	**12**	-
In the second to fifth years	**33**	43	**12**	-
	122	90	**24**	-

17 Provisions for liabilities and charges

Group	Other £000	Deferred taxation £000	Pensions £000	Total £000
At beginning of year	-	-	66	66
Utilised during the year	-	-	(18)	(18)
Charge during the year	60	-	92	152
At end of year	60	-	140	200

No provision has been released or applied for any purposes other than that for which it was established.

The amounts provided for deferred taxation and the amounts not provided are set out below:

Group	1997 Provided £000	1997 Unprovided £000	1996 Provided £000	1996 Unprovided £000
Difference between accumulated depreciation and amortisation and capital allowances	-	**111**	-	142
Other timing differences	-	**117**	-	126
	-	**228**	-	268

There is no provided or unprovided deferred tax in the company.

18 Share capital

	1997 £000	1996 £000
Authorised		
15,000,000 ordinary shares of 5p each	**750**	750
Allotted, called up and fully paid		
12,325,841 ordinary shares of 5p each	**616**	616

18 **Share capital** *(continued)*

RAP Group plc Executive Share Option Scheme 1994

As at 31 December 1997 options outstanding in respect of grants made under the Executive Scheme were as follows:

Date of grant	Option exercise period	Price	Options outstanding at the end of the year 1997	1996
6 December 1994	3 to 10 years following grant	142p	136,200	139,700

No options were exercised by members of the Executive Scheme during the year. 3,500 options lapsed unexercised during the year.

RAP Group plc Sharesave Scheme 1994

As at 31 December 1997 options outstanding in respect of grants made under the Sharesave Scheme were as follows:

Date of grant	Option exercise period	Price	Options outstanding at the end of the year 1997	1996
6 December 1994	6 months following fifth anniversary of Save-As-You-Earn contract	128p	138,430	161,665

No options were exercised by members of the Sharesave Scheme during the year. 23,235 options lapsed unexercised during the year.

19 Statement of movements on reserves

Group	Share capital £000	Share premium account £000	Profit and loss account £000
At beginning of year	616	5,259	1,824
Retained loss for the financial year	-	-	(1,358)
At end of year	616	5,259	466

The cumulative amount of goodwill resulting from acquisitions which has been written off is £930,000 *(1996: £924,000)*.

Company	Share capital £000	Share premium account £000	Profit and loss account £000
At beginning of year	616	5,259	1,664
Retained loss for the financial year	-	-	(214)
At end of year	616	5,259	1,450

20 Secured liabilities

There are unlimited cross guarantees and fixed and floating charges over the whole of the company's and Group's assets in favour of The Royal Bank of Scotland plc, as security for total bank loans and overdrafts which at 31 December 1997 amounted to £3,844,000 *(1997: £5,499,000)*.

21 Commitments

(a) Capital commitments at the end of the financial year for which no provision has been made.

	Group		Company	
	1997	1996	**1997**	1996
	£000	£000	**£000**	£000
Contracted	**27**	25	**-**	-

(b) Annual commitments under non-cancellable operating leases are as follows:

	1997		1996	
	Land and buildings	**Other**	Land and buildings	Other
Group	**£000**	**£000**	£000	£000
Operating leases which expire:				
Within one year	**53**	**35**	4	75
In the second to fifth years inclusive	**76**	**371**	85	326
Over five years	**280**	**-**	298	-
	409	**406**	387	401

The company has no annual commitments under non-cancellable operating leases.

22 Contingent liabilities

Outstanding contingent liabilities at 31 December 1997 on HM Customs and Excise bonds amounted to £345,000 and on irrevocable letters of credit amounted to £125,000 *(1996: £320,000 and £326,000* respectively).

23 Pension scheme

The Group operates defined contribution pension schemes.

The pension cost charge for the year represents contributions payable by the Group to the schemes and amounted to £108,000 *(1996: £113,000)*.

There were contributions of £6,000, which have now been paid, accrued at the end of the year *(1996: £6,000)*.

The Welpac plc scheme, which has no contributing members, provided benefits based on final pensionable earnings and ordinary contributions to the plan ceased during 1996. The last valuation was carried out on 1 November 1995. A review has been carried out earlier this year which compares the existing assets with the accrued liabilities and such liabilities include transfer values calculated on the full MFR basis. The market value of the scheme's assets was sufficient to cover 90% of the accrued benefits and a further provision of £92,000 has, therefore, been made.

24 Reconciliation of operating (loss)/profit to net cash flow from operating activities

	1997	1996
	£000	£000
Operating (loss)/profit	**(812)**	1,214
Depreciation charge	**645**	647
Write down of property held for resale	**69**	-
Amortisation of goodwill	**6**	6
Profit on sale of property held for resale	**-**	(37)
Profit on sale of tangible fixed assets	**(51)**	(160)
Decrease in stocks	**2,048**	796
Decrease in debtors	**1,175**	2
Decrease in creditors	**(765)**	(1,699)
Movement on provisions	**134**	(59)
Net cash inflow from operating activities	**2,449**	710

25 Reconciliation of net cash flow to movement in net debt

	1997 £000	1996 £000
Increase/(decrease) in cash in the year	**1,151**	(861)
Net cash flow from decrease in bank loans due after one year	**504**	1,931
Net cash flow from decrease in finance leases	**84**	409
Change in net debt resulting from cash flows	**1,739**	1,479
Other non-cash movements	**(119)**	(141)
Movement in net debt	**1,620**	1,338
Net debt at the beginning of the year	**(5,572)**	(6,910)
Net debt at the end of the year	**(3,952)**	(5,572)

26 Analysis of net debt

	At 1 January £000	Cash flow £000	Other charges £000	At 31 December £000
Year ended 31 December 1996				
Overdraft	(2,117)	(861)	-	(2,978)
Bank loans	(4,434)	1,931	(1)	(2,504)
Finance leases	(359)	409	(140)	(90)
	(6,910)	1,479	(141)	(5,572)
Year ended 31 December 1997				
Overdraft	(2,978)	1,151	-	(1,827)
Bank loans	(2,504)	504	(3)	(2,003)
Finance leases	(90)	84	(116)	(122)
	(5,572)	1,739	(119)	(3,952)

Notes (continued)

27 Related party transactions

RW Jackson is a non executive director of the company and a director of Deloitte & Touche, Chartered Accountants. Subsequent to the end of the financial year, Deloitte & Touche were engaged to review the stock provisioning policy at Burnley and £16,800 was provided in relation to the fee for this work.

28 Post balance sheet events

Subsequent to the year end the group has disposed of two properties.

The property at Barking, which was acquired on the acquisition of Welpac plc and at the year end is held as a property for resale, was sold for £1,060,000 on 1 May 1998. A provision to reflect the loss on disposal of £69,000 has been made at 31 December 1997. In accordance with the terms of the Loan Agreement, £685,000 of these sale proceeds were used to repay the medium term loan.

On 8 May 1998, the Peckham Property was sold for £84,000. A provision of £27,000 was made against the carrying value at 31 December 1997.

On 31 March 1998, Mr DJ Emmett was removed as Chief Executive of the Group. Subsequently, Mr Emmett has issued a writ against the company amounting to £480,000 plus interest for breach of contract and unfair dismissal. The Group does not acknowledge this claim and no provision for any cost has been made in the accounts to 31 December 1997.

RAP Group plc

Group financial record

Consolidated profit and loss account
for the year ended 31 December

	1994 £000	1995 £000	1996 £000	**1997 £000**
Turnover - continuing operations	21,962	27,919	32,592	**27,356**
Operating profit/(loss) - continuing operations	2,037	1,532	1,214	**(812)**
Net interest expense	(291)	(390)	(524)	**(460)**
	1,746	1,142	690	**(1,272)**
Taxation	(576)	(317)	(148)	**-**
Profit/(loss) after taxation	1,170	825	542	**(1,272)**
Earnings/(loss) per equity share	12.9p	7.3p	4.4p	**(10.3p)**
Equity dividends per share	0.26p	4.65p	1.50p	**0.70p**

Consolidated net assets
at 31 December

	1994 £000	1995 £000	1996 £000	**1997 £000**
Fixed assets	2,636	3,955	3,064	**2,642**
Stocks	4,960	9,376	8,580	**6,532**
Debtors	4,794	9,829	8,340	**7,145**
Cash	952	-	-	**-**
Creditors: due within one year	(5,388)	(13,819)	(10,173)	**(8,245)**
Net current assets	5,318	5,386	6,747	**5,432**
Creditors: due after one year	(2,310)	(1,896)	(2,046)	**(1,533)**
Provisions	(85)	(125)	(66)	**(200)**
Net assets	5,559	7,320	7,699	**6,341**

RAP Group plc

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of RAP Group plc will be held at the office of Harwood Hardware Limited, Harwood House, Harrison Street, Burnley at 12 noon on 29 July 1998.

Ordinary business

1 To receive the report of the directors and the accounts for the twelve months ended 31 December 1997.

2 To re-elect Mr MG Bickerton as a director.

3 To elect Mr JA Savage as a director.

4 To re-appoint KPMG Audit Plc as auditors of the company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the company at a remuneration to be fixed by the directors.

5 That for the purposes of section 80 of the Companies Act 1985 (and so that expressions used in this resolution shall bear the same meanings as in the said section 80):

i the directors be and they are hereby generally and unconditionally authorised to exercise all powers of the company to allot relevant securities up to a maximum nominal amount of £133,706 to such persons and at such times and on such terms as they think proper during the period expiring at the end of five years from the date of the passing of this resolution;

ii the company be and it is hereby authorised to make prior to the expiry of such period any offer or agreement which would or might require relevant securities to be allotted after the expiry of the said period and the directors may allot relevant securities in pursuance of any such offer or agreement notwithstanding the expiry of the authority given by this resolution;

so that all previous authorities of the directors pursuant to the said section 80 be and they are hereby revoked.

6 To consider, and if thought fit, to pass the following resolution which will be proposed as a special resolution:

That, subject to the passing of resolution 5 set out in the notice convening this meeting,

a. the directors be and they are hereby empowered in accordance with section 95 of the Companies Act 1985 ("the Act"), to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority conferred on them to allot relevant securities (as defined in section 80 of the Companies Act 1985) by the resolution 5 as if section 89(1) and subsections (1)-(6) of section 90 of the Act did not apply to any such allotment provided that this power shall be limited:

   i to allotment of equity securities in connection with an issue or offering of such securities made on terms that such securities are in the first instance offered to ordinary shareholders and holders of any other shares or securities of the company that by their terms are entitled to participate in such issue or offering where the equity securities respectively attributable to the interest of all ordinary shareholders and such holders are proportionate (as nearly as may be) to the respective numbers of equity securities held by them or which are deemed to be held by them in calculating the extent of their participation but subject to such exclusions as the directors may deem fit to deal with fractional entitlements or problems arising in respect of any overseas territory; and

   ii to the allotment (otherwise than pursuant to sub-paragraph (a)(i) of this resolution) of equity securities up to an aggregate nominal amount of £30,814;

b. the power hereby conferred shall expire on the conclusion of the next annual general meeting of the company following the date of this resolution (or, if sooner, 15 months from the date of this resolution) or on such later date as the company may by special resolution from time to time prescribe but may be previously revoked or varied by special resolution; and

c. the power hereby conferred shall enable the company to make any offer or agreement before the expiry of that power that would or might require equity securities to be allotted after such power expires and the directors may allot equity securities in pursuance of any such offer or agreement up to the maximum amount permitted by paragraph (a) of this resolution as if the power hereby conferred had not expired.

7. That the proposed amendments to the rules of the RAP Group plc Executive Share Option Scheme 1994 including the adoption of an unapproved schedule summarised in the circular to shareholders dated 29 June 1998, a copy of the amended version of which has been produced to the meeting and initialled for the purposes of identification by the Chairman, be and are hereby approved and that the Directors be and they are hereby authorised to do all such things as may be necessary to carry such amendments into effect including making such amendments as they, in their absolute discretion, deem necessary or desirable to maintain the approval of the Inland Revenue to the approved part of the scheme under Schedule 9 to the Income and Corporation Taxes Act 1988.

By order of the board

MG Bickerton FCA
Secretary

Registered office:
Loomer Road Industrial Estate
Chesterton
Newcastle-under-Lyme
Staffordshire
ST5 7LU

29 June1998

Notice of Annual General Meeting (continued)

Notes

1 A member entitled to attend and vote may appoint a proxy or proxies to attend, and on a poll, vote instead of him.

2 A proxy need not be a member of the company.

3 A form of proxy for use by ordinary shareholders is enclosed which, if required, should be completed in accordance with the instructions set out therein.

4 Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, the time by which a person must be entered on the register of members in order to have the right to attend or vote at the annual general meeting is 5.00 pm on 27 July 1998. Entries on the register of members after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

5 The following will be available for inspection at the registered office during usual business hours (Saturdays excluded) from the date of this notice until the date of the meeting:

(a) a statement of transactions of directors and of their family interests in the shares of the company;

(b) copies of all contracts of service of the directors with the company.

The above statements will also be available for inspection at the offices of Harwood Hardware Limited, Burnley, on the day of the meeting from 11:45 am until the conclusion of the meeting.

Ordinary shareholders are entitled to attend, or be represented, and to vote on all resolutions at the meeting.