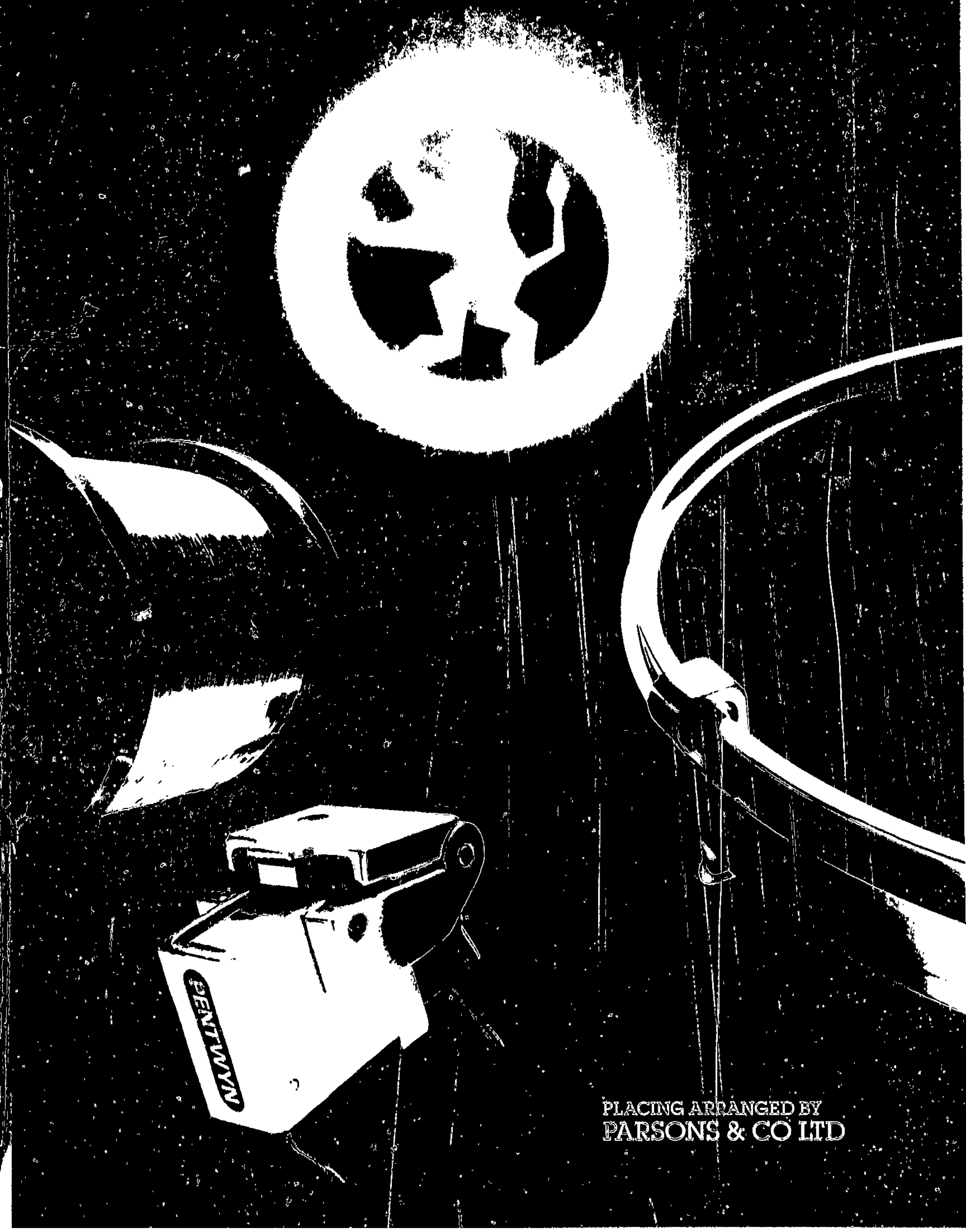
EADIE HOLDINGS plc



PLACING ARRANGED BY
PARSONS & CO LTD

CONTENTS

		Page
Summary of Information		3
Directors and Advisers		4
Placing Statistics		5
Part I	Introduction	6
	History and Development	6
	Business	7
	Manufacture and Sales	8
	Current Trading and Prospects	9
	Profit Forecast	10
	Earnings per Share and Dividends	10
	Directors, Senior Management and Staff	10
	Reasons for, and Proceeds of, the Placing	12
	Financial Information	13
Part II	Accountants' Report on the Group	15
Part III	Accountants' Report on the Cloudknoll Group	25
Part IV	Pro Forma Results and Net Assets of the Enlarged Group	33
Part V	Profit Forecast and Letters	34
Part VI	Statutory and General Information	36

DEFINITIONS

Unless the context otherwise admits, the following definitions hold true in this document:

"the Company"	Eadie Holdings plc
"Eadie Bros."	Eadie Bros. & Co. Limited
"the Group"	the Company and its subsidiaries
"Cloudknoll"	Cloudknoll Limited
"SSW"	The Stainless Steel Wire Co. Limited
"the Cloudknoll Group"	Cloudknoll and SSW
"the enlarged Group"	the Group and the Cloudknoll Group
"Winterbottom"	Winterbottom (Wiredrawers) Limited
"Alloy"	Alloy Wire Co. Limited
"Pentwyn"	Pentwyn Precision Limited
"TML"	Textile Mouldings Limited
"the Directors"	the directors of the Company
"wire division"	Winterbottom, SSW and Alloy
"machine accessory division"	Eadie Bros. and Pentwyn
"ordinary shares"	the ordinary shares of 25p each in the Company
"new ordinary shares"	the 2,436,000 ordinary shares to be issued pursuant to the placing
"preference shares"	the 4.2 per cent. Cumulative Preference Shares of £1 each in the Company
"the placing"	the placing of 894,140 existing ordinary shares and 2,436,000 new ordinary shares under the arrangements set out herein

SUMMARY OF INFORMATION

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

Business

The Company is the holding company of a group of specialist engineering companies engaged in the drawing and processing of wire and in the manufacture and sale of machine accessories for the textile industry. The Group markets its products worldwide and in 1985 approximately 45 per cent. of its turnover was attributable to exports. A new management team was formed in 1982, which has been responsible for the restoration and subsequent enhancement of the Group's profitability.

Trading Record

The turnover and results of the Group for its five financial years ended 31st December, 1985, were as follows:—

	Year ended 31st December				
	1981	1982	1983	1984	1985
	£000	£000	£000	£000	£000
Turnover	4,904	4,679	4,787	5,907	6,736
Profit/(Loss) before exceptional items and taxation	(63)	(300)	120	144	262

Conditional upon entry to the Unlisted Securities Market, the Group has agreed to acquire the 80 per cent. of the share capital of Cloudknoll which it does not already own. The Cloudknoll Group draws and processes fine wire. The turnover and results of the Cloudknoll Group for its five financial periods ended 31st December, 1985, were as follows:—

	Year ended 30th Sept.			15 months ended 31st Dec.	Year ended 31st Dec.
	1981	1982	1983	1984	1985
	£000	£000	£000	£000	£000
Turnover	1,102	1,247	1,221	1,599	1,779
Profit/(Loss) before taxation	(178)	(54)	(85)	(74)	10

Profit Forecast

The Directors forecast that, in the absence of unforeseen circumstances, and on the bases and assumptions set out in Part V, the profit before taxation of the enlarged Group for the year ending 31st December, 1986 will be not less than £450,000.

DIRECTORS AND ADVISERS

Directors	Roderic Cameron Mather (Chairman) Paul James McGregor Eadie (Deputy Chairman) Graeme Richard Smith BCom, FCA (Managing Director) William Graham all of: Victoria Works Violet Street Paisley PA1 1PD
Company Secretary and Registered Office	James Russell Cockburn BA, CA Victoria Works Violet Street Paisley PA1 1PD
Financial Advisers	I. H. Rickitt & Partners Limited Clarence House 4 Clarence Street Manchester M2 4DW
Sponsoring Stockbrokers	Parsons & Co. Limited 100 West Nile Street Glasgow G1 2QU
Auditors and Reporting Accountants	Arthur Young Chartered Accountants George House 50 George Square Glasgow G2 1RR
Solicitors to the Company	MacRoberts 91 West George Street Glasgow G2 1PA
Solicitors to the Placing	Maclay Murray & Spens Erskine House 68/73 Queen Street Edinburgh EH2 4NF
Principal Bankers	Bank of Scotland St Mirren Branch 37 Causeyside Street Paisley PA1 1YL
Registrars and Transfer Office	Bank of Scotland Registrar Department 26A York Place Edinburgh EH1 3EY

PLACING STATISTICS

The following statistics are based on the placing price of 39p per ordinary share and the number of ordinary shares in issue following the placing and the acquisition of Cloudknoll:—

Market capitalisation	£3,495,105
Percentage of ordinary share capital being placed	
— on behalf of the Company	27.18%
— on behalf of Scottish Development Agency	9.98%
Forecast earnings per share	
for year to 31st December, 1986 after	
— an estimated tax charge of 15 per cent.	4.23p
— a notional tax charge of 35 per cent.	3.23p
Forecast price earnings multiple	
for year to 31st December, 1986 after	
— an estimated tax charge of 15 per cent.	9.22
— a notional tax charge of 35 per cent.	12.07
Gross dividend yield	5.42%
Net assets per ordinary share	34.70p

For the bases of the calculation of earnings per share, price earnings multiple and dividend yield, see page 10 and the paragraph headed "Earnings per Share and Dividends". Net assets per ordinary share are based on the pro forma net assets of the enlarged Group shown in Part IV on page 33, and reflect the deduction of £149,000 attributable to the preference shares.

PART I

INTRODUCTION

The Group has two principal activities: the wire division manufactures and processes wire and metal ribbon for a wide range of uses including the electrical resistance, metal fastening, aviation and filter markets; the machine accessory division manufactures specialist products, a significant proportion of which is wire-based, used in the production of textile yarns and a range of advanced splicers for joining broken yarns. The Group markets its products worldwide through a long-established international sales network. In 1985, approximately 45 per cent. of its turnover was attributable to exports.

The Group has an experienced management team, which was formed in 1982, undertook a radical reorganisation of the Group and was responsible for the return to profitability . The subsequent growth in profitability is largely the result of substantial capital expenditure, the streamlining of manufacturing methods, the strengthening of the sales effort and the development of new products, initiated by the management team.

The placing of the new ordinary shares, which will raise approximately £800,000 of additional capital for the Company, and the associated entry into the Unlisted Securities Market, will enhance the Group's opportunities to develop and expand its product range, will provide additional working capital and will increase flexibility for growth by acquisition, whilst adding to its existing strong asset base.

HISTORY AND DEVELOPMENT

Eadie Bros. & Company was formed as a partnership in 1872 to manufacture travellers, which are used to twist and direct spun yarn as it is wound onto a bobbin. The success of this venture led to the production of the rings on which travellers are run. The Company was incorporated in 1904 and is now the holding company for the Group's activities.

As the principal component of metal travellers is wire, the Company acquired its major wire supplier, Winterbottom, in 1970. Alloy, which produces fine wire for the electrical and spring-making industries, was acquired in 1972. Both Winterbottom and Alloy were long-established businesses.

Eadie Bros. traded profitably until the late 1970's, when its slow response to the effects of the textile recession resulted in a major setback in the machine accessory division. In 1982, the new management team carried out a substantial reorganisation of the Group, facilitated by the injection of additional permanent capital from institutional and private sources (including existing shareholders), which resulted in the return to profitabilty.

In 1984, the machine accessory division was expanded by the acquisition of Pentwyn, which manufactures a range of yarn splicers.

Also in 1984, a 20 per cent. stake in Cloudknoll, the holding company of SSW, was purchased. SSW processes a range of wire which is complementary to the products of Winterbottom and Alloy A new management team was formed (including Roderic Mather, Gary Smith and Bill Graham, members of the Group management team formed in 1982), which rationalised the operations of SSW and returned it to profitability. Conditional on entry to the Unlisted Securities Market, the Company has agreed to acquire the remaining 80 per cent. of the share capital of Cloudknoll, in exchange for the issue to the vendor shareholders of 880,000 fully paid ordinary shares in the Company. As Roderic Mather and Gary Smith both have interests in the share capital of Cloudknoll, the acquisition has been approved by the Company in General Meeting. The acquisition agreement is referred to as a material contract in paragraph 17 of Part VI.

In addition, the Company owns a 25 per cent. interest in TML, which manufactures nylon travellers and plastic mouldings for a variety of industries. The remaining 75 per cent. of the share capital is held by a subsidiary of Coats Viyella Plc.

BUSINESS

Wire Division

The three companies in the wire division operate in complementary size ranges in the wire industry and between them produce the most extensive range of wire manufactured in the UK. Although a substantial proportion of the wire is sold to established customers, the wire division is able, by virtue of the constant development of the inherent composition of the raw material available to it, to meet the demand for new applications of its products and thus expand its customer base.

Winterbottom, based in Oxspring, South Yorkshire, draws wire from 8.0mm to 0.8mm in diameter and its end product is used for many purposes, including the manufacture of needles, metal fasteners, building ties, springs and supermarket trolleys. Selling almost exclusively to the home market, where no single supplier dominates, some 80 per cent. of turnover is in stainless steel wire and 20 per cent. in carbon steel wire. Winterbottom has a customer base of approximately 400. Recently, a more effective and aggressive marketing strategy has been introduced, promoting Winterbottom's excellent reputation for service and quality and its ability to provide a wide variety of materials and finishes.

SSW, based in Sheffield, draws fine wire in 20 different types of stainless steel and other related high value materials in sizes from 2.0mm to 0.05mm. It is one of the largest producers of fine diamond-drawn stainless steel wire in the UK. Selling to over 600 customers in different sectors, the principal uses of its products are in the weaving of filter cloth, the braiding for hoses, and the production of flame control materials, electric fencing, welding wire and music wire. SSW has full approval from the Ministry of Defence and the Civil Aviation Authority, for which precision of size and quality is essential. Approximately 20 per cent. of turnover is now exported, principally to Western Europe, as a result of increased sales effort and of the high quality of its products.

Alloy, based in the West Midlands, is the only company in the UK making superfine resistance wire down to 0.025mm, about half the diameter of a human hair. Its principal product is electrical resistance wire and metal ribbon but, in addition, Alloy draws wire for springs used in hostile environments and special purpose wire, of titanium and nickel alloys, for use in aerospace and defence products. The growth in Alloy's profits is due substantially to increased UK and overseas selling efforts. There are some 300 customers and, in 1985, over 30 per cent. of turnover was exported. Recently, Alloy has developed a new technique for the manufacture of high precision resistance ribbon for use in a wide variety of heating elements for electrical products. These replace existing elements and demand for this ribbon is increasing rapidly.

Machine Accessory Division

Eadie Bros., based in Paisley, manufactures rings and travellers which are essential components in the ring spinning of all types of natural and man-made yarns. The bobbin onto which the yarn is wound is situated in the centre of the ring; the traveller runs freely around the ring and the yarn is threaded through it, so that, as the bobbin spins and draws the yarn through the traveller, a twist is introduced into the yarn to strengthen it for knitting or weaving.

Traditionally, Eadie Bros. manufactured only steel rings, but has recently concentrated on the production of porous sintered metal ("PSM") rings, a premium product, the oil-retaining properties of which ensure good lubrication for high speed production and yarn cleanliness. Metal travellers are made from drawn wire, which is shaped and given special polished finishes. Since the 1950's, Eadie Bros. has also sold nylon travellers, manufactured under contract by TML to Eadie Bros. specifications and designs. In addition, certain other machine accessories are also merchanted to enable a full range of products to be offered.

Eadie Bros. dominates the UK market for all types of rings and travellers, with an estimated 90 per cent. share of the ring and traveller market, and in Western Europe it has some 30 per cent. of the total market. Approximately 75 per cent. of turnover is represented by exports to some 70 countries throughout the world. Eadie Bros. is a leader in PSM ring manufacture and nylon traveller design. It competes with six other major manufacturers of rings and travellers in the world, with four competitors based in Europe and one in each of Japan and the United States.

Pentwyn, based in Pontypool, Gwent, was founded in 1972 and manufactures a range of pneumatic splicers, which join the broken ends of yarn, in a fraction of a second, by intermingling the fibres using compressed air to make a splice, which is barely thicker than the yarn and has approximately 90 per cent. of its strength. The traditional knotting method for joining yarn is now being superseded by splicing, which increases the strength of the join and reduces snagging in the weaving and knitting process. These products are sold worldwide using the Eadie Bros. sales network. There is only one other manufacturer making a comparable range of products.

MANUFACTURE AND SALES

Wire Division

The production process is essentially the same for each wire division company. Wire rod is bought in from a variety of suppliers and the first stage of production involves the rod being drawn through tungsten dies, which reduces the diameter of the wire and causes it to harden. Periodically during the process, the wire must be softened by annealing, which involves heating the wire in a hydrogen atmosphere. Fine wire is wet drawn, using lubricants, through diamond dies and annealing is carried out on a strand basis through tubes. At Alloy, resistance ribbon is manufactured on specialised, electronically controlled machines, developed by Alloy, which represent a considerable advance on other methods of production. In general, production is against order with lead times varying from 4 weeks to 10 weeks.

Whilst each company is responsible primarily for its own marketing and sales, there is significant co-operation within the wire division in offering a comprehensive range of sizes and qualities. In addition, the expansion of export sales is being assisted by the Eadie Bros. sales personnel.

Machine Accessory Division

Eadie Bros. offers a wide range of shapes and sizes of rings for specific yarns and machines. Since textile mills consider rings as a capital item which can last for a number of years, rings are only made to order. Rings require specialist machining before being heat-treated and polished.

Traveller life, however, can vary from hours to weeks and consequently travellers are considered by the mills to be consumable items. Travellers, therefore, are manufactured in economic batch sizes to be held in stock at Eadie Bros.. Metal travellers are made from drawn wire, formed on high speed precision machines, after which they are heat-treated and polished. Nylon travellers are manufactured at TML by the injection moulding process and are shipped in bulk to Eadie Bros.. The high quality of Eadie Bros. manufactured rings and travellers is due to the particular skills involved in the heat-treatment process and in the application of surface finishes.

Pentwyn manufactures the majority of the components for its splicers on precision machinery. These are assembled, together with a number of bought-in parts, to order.

The multilingual sales team, supported by experienced technical staff, visits both UK and overseas customers and provides assistance to the established international network of agents, who operate aggressively in their own territory, and most of whom carry a substantial stock of travellers to ensure competitive service. Trade advertising and sales brochures are used extensively to market products worldwide, together with a regular presence at international textile machinery exhibitions.

CURRENT TRADING AND PROSPECTS

Trading conditions for the wire division are buoyant and the order book is healthy. In the machine accessory division, the order book reflects the continuing high levels of activity of textile producers and the outlook remains encouraging.

In the wire division, Alloy's resistance ribbon is considered to have excellent sales potential with an increasing number of applications within the domestic appliance market. Alloy's advanced production process at present ensures a competitive advantage over other ribbon manufacturers. It is the intention to maintain this advantage through continuing development and by increased marketing to the wide range of manufacturers at home and abroad.

Throughout the wire division, the principal growth area is considered to be the development of new markets for wire made from specialist alloys, the inherent properties of which are the subject of constant development by the division's suppliers. Exports have shown considerable recent growth and will remain a high priority within the Group marketing strategy.

Whilst the market for rings and travellers is mature, it continues to offer opportunities for growth and development. Eadie Bros. has a policy of exploiting these market opportunities by improving products to permit increased production speeds and improved yarn quality. A new PSM ring material has been introduced recently for high speed applications, and a number of new traveller finishes, currently being mill-tested, are showing significant performance improvements.

At Pentwyn, a new range of splicers will be introduced this year, which will increase significantly the types of yarns which can be spliced; consequently a premium price can be obtained.

PROFIT FORECAST

The Directors forecast that, in the absence of unforeseen circumstances, and on the bases and assumptions in Part V, the profit before taxation of the enlarged Group for the year ending 31st December, 1986, will be not less than £450,000.

EARNINGS PER SHARE AND DIVIDENDS

Forecast earnings per share for the year ending 31st December, 1986, calculated using the forecast profit before taxation of £450,000, less taxation and preference dividends of £3,000, and on the basis of 8,961,808 ordinary shares of 25p each in issue following the placing and the acquisition of Cloudknoll are 4.23p (at an estimated taxation rate of 15 per cent.) and 3.23p (at a notional taxation rate of 35 per cent.).

The Directors expect, in respect of each financial year, to pay an interim dividend and to recommend a final dividend, which will normally be payable in November and May respectively.

If the placing had taken place at the beginning of the financial year ending 31st December, 1986, the Directors would have expected to recommend dividends for the full year totalling 1.75p net per ordinary share (consisting of 0.25p per ordinary share as an interim dividend and 1.5p per ordinary share as a final dividend.) These total dividends would have produced a gross dividend yield of 6.32 per cent. at the placing price.

As the placing is to take place five months into the financial year ending 31st December, 1986, only a single dividend will be recommended in respect of the current year. In the absence of unforeseen circumstances this payment is expected to be 1.5p net per ordinary share, equivalent to 2.11p per ordinary share inclusive of tax credit, payable in May, 1987.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Directors

Roderic Mather

Aged 43, Roderic Mather has been the Chairman of the Group since 1982 and is a direct descendant of the founder. After training as a stockbroker, he formed the stockbroking firm of Illingworth & Co in 1970, which became Illingworth & Henriques in 1974. He was the senior partner of that firm until he became chairman of the recently incorporated Illingworth & Henriques (Stockbrokers) Limited. As Chairman of the Group, he has been heavily involved in its restructuring and development and will continue to be so in the future.

Paul Eadie

Aged 43, Paul Eadie has recently been appointed Executive Deputy Chairman and is the Group's Sales and Marketing Director, having joined the Board in 1978. He joined Eadie Bros. in a sales capacity in 1964 since when he has travelled extensively in both West and East Europe, USA, South America and, more recently, the People's Republic of China. He is fluent in eight languages and has an invaluable knowledge of the textile industry. As the Group's Sales and Marketing Director, he co-ordinates the marketing activities of the wire and machine accessory divisions. He has been a member of the Executive Committee of the British Textile Machinery Association for four years. He is also a director of the Manchester Chamber of Commerce and Industry and has led a number of trade delegations.

Graeme (Gary) Smith

Aged 39, Gary Smith was appointed Managing Director of the Group early this year, having been a director of Eadie Bros. since 1982. He played a major role in the rationalisation and subsequent development of the Group and SSW.

He is an economics graduate of Edinburgh University and in 1971 qualified as a chartered accountant with Thomson McLintock after which he joined the merchant bank Henry Ansbacher. Between 1974 and 1979, he worked for ICI, becoming deputy head of Group Management Accounting in 1978. He then spent 2 years as Finance Director of the Oldham operation of what is now Stone International, before joining Rickitt & Partners as a director in 1981. He continues to be a non-executive director of Rickitt & Partners, who remain as corporate financial advisers to the Group.

William Graham

Aged 36, Bill Graham is the Group Director with responsibility for the wire division. He joined Alloy in 1972 as a management trainee, after obtaining a City & Guilds qualification in Mechanical Engineering. In 1976 he became a director of Alloy and was appointed to the Board of the Company in 1982. His innovative development and manufacturing skills have played a significant part in the rapid growth of the wire division in general and of Alloy in particular.

Senior Management

Russell Cockburn

Aged 38, Russell Cockburn has been the Group Financial Controller and Secretary of the Company since 1982. He has a degree in Business Administration and is a Chartered Accountant. He joined Eadie Bros. in 1980 after several years in various manufacturing and merchanting industries. Together with Gary Smith, he is responsible for the financial management of the Group.

Peter Eadie

Aged 36, Peter Eadie is the Production Director of Eadie Bros.. He joined Eadie Bros. as an apprentice and has also worked for Winterbottom. He joined the Eadie Bros. board in 1982 and is a director of both Alloy and Winterbottom.

Matthew Waddell

Aged 59, Matthew Waddell is Technical and Development Director of Eadie Bros.. He joined Eadie Bros. in 1950 as a metallurgist and was appointed to the board in 1984.

Derrick Ward

Aged 53, Derrick Ward is the Managing Director of Winterbottom. He obtained a City & Guilds qualification in wire manufacture and, after spending several years in the wire drawing industry with John Rigbys and Charles Hurst, joined Winterbottom as works manager in 1973 and became Managing Director in 1984.

Lewis Smith

Aged 53, Lewis Smith, a Chartered Engineer, has been the Managing Director of SSW since 1984. He served a Student Apprenticeship with Firth Brown and has worked for Rolls-Royce Aero Engines. He spent nine years with GEC traction division, progressing to Chief Engineer, Manufacturing. He joined SSW in 1973 as Works Manager and was appointed Works Director in 1978.

Roger Brea

Roger M. Roger Brea is a Director and General Manager of Farmers. After obtaining a mechanical engineering degree he spent several years with C and SF as a development engineer before joining Farmers in [illegible]. He was appointed General Manager in [illegible] and has particular responsibility for product development.

Staff

In addition to the Group Chairman and Managing Director who are employed by the Company, the enlarged Group's employees total 252, analysed as follows:-

	Total	Eadie Bros.	Farmers	[illegible]	[illegible]	[illegible]
Administration	25	11	[illegible]	[illegible]	[illegible]	7
[illegible]	7	[illegible]	—	—	—	1
Sales	[illegible]	4	-	-	-	1
[illegible]	[illegible]	71	11	[illegible]	[illegible]	[illegible]
Technical	3	4	2	—	—	1
	252	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

The Group maintains good relations with its employees. It operates a contributory pension scheme for eligible employees and, in addition, a share option scheme, details of which are given in Part [illegible], [illegible]. Operations at Eadie Bros., [illegible] and [illegible] are [illegible].

[illegible] AND PROCEEDS OF, THE PLACING

The Directors consider that entry to the Unlisted Securities Market will enhance the Group's standing with existing and potential customers and suppliers and will increase the flexibility for growth by acquisition. It will also provide existing shareholders, who include [illegible], with a market for their shares.

The placing of new ordinary shares will raise approximately [illegible] after expenses for the Company, which will be used initially to [illegible] borrowings and to provide additional working capital to fund the Group's continuing growth and expansion.

In [illegible] [illegible] Development Agency was the principal provider of [illegible] capital, which enabled the management to carry out [illegible]. In line with its investment policy, it is now taking the opportunity to realise its investment and [illegible] a facility made available by [illegible] & Co. Limited [illegible].

Roger Shea

Aged 44,Roger Shea is a Director and General Manager of Pentwyn. After obtaining a mechanical engineering degree, he spent several years with ICI and BP as a development engineer before joining Pentwyn in 1975. He was appointed General Manager in 1985 and has particular responsibility for product development.

Staff

In addition to the Group Chairman and Managing Director who are employed by the Company, the enlarged Group's employees total 252, analysed as follows:-

	Total	Eadie Bros.	Pentwyn	Winterbottom	Alloy	SSW
Administration	29	10	2	5	5	7
Shipping	7	6	—	—	—	1
Sales	8	4	1	1	1	1
Works	200	70	10	43	18	59
Technical	8	4	3	—	—	1
	252	94	16	49	24	69

The Group maintains good relations with its employees. It operates a contributory pension scheme for eligible employees and in addition, a share option scheme, details of which are given in Part VI, is operated for senior executives. Operatives at Eadie Bros., Winterbottom and SSW are represented by a number of unions.

REASONS FOR, AND PROCEEDS OF, THE PLACING

The Directors consider that entry to the Unlisted Securities Market will enhance the Group's standing with existing and potential customers and suppliers and will increase the flexibility for growth by acquisition. It will also provide existing shareholders, who number 110, with a market for their shares.

The placing of new ordinary shares will raise approximately £800,000 (after expenses) for the Company, which will be used initially to reduce borrowings and to provide additional working capital to fund the Group's continuing growth and expansion.

In 1983, Scottish Development Agency was the principal provider of new permanent capital, which enabled the management to carry out its rationalisation plans. In line with its investment policy, it is now taking the opportunity to realise its investment and, under a facility made available by Parsons & Co. Limited, the ordinary shares held by it are to be included in the placing.

FINANCIAL INFORMATION

The Group

The tables below set out the Group's turnover and results, and the contributions to turnover and profit of the companies comprising the Group, for the five financial years ended 31st December, 1985:—

Turnover and results

	Year ended 31st December				
	1981 £000	1982 £000	1983 £000	1984 £000	1985 £000
Turnover—to third parties	4,899	4,654	4,683	5,811	6,604
—to SSW	5	25	104	96	132
	4,904	4,679	4,787	5,907	6,736
Profit/(loss) before exceptional items	(63)	(300)	120	144	262
Exceptional items	(33)	(177)	(48)	—	(53)
Profit/(loss) on ordinary activities before taxation	(96)	(477)	72	144	209
Profit/(loss) before extraordinary item	(103)	(483)	108	119	175
Extraordinary item	—	—	—	—	109

Reorganisation of Eadie Bros. contributed to the exceptional items in 1981, 1982 and 1983. Further exceptional items arose in 1982 from the sale of Eadie Wire Company Limited and in 1983 from the expenses of capital restructuring. The 1985 exceptional items were due to preliminary flotation and share issue expenses.

The tax charge in each year is reduced as a result of tax losses carried forward.

In 1985 an extraordinary profit arose from the disposal of the Company's 39 per cent. holding in BRT Limited an Indian manufacturer of rings and travellers.

In 1985, the turnover and profit before taxation of TML were £7,333,000 and £54,000 respectively. In addition, a change in the accounting policy on leasing resulted in a prior year reduction in reserves of £38,000.

Turnover analysis

	Year ended 31st December				
	1981 £000	1982 £000	1983 £000	1984 £000	1985 £000
Eadie Bros.	3,429	3,024	2,979	3,469	3,625
Pentwyn	—	—	—	101	228
Machine accessory division	3,429	3,024	2,979	3,570	3,853
Winterbottom	922	1,138	1,252	1,673	2,099
Alloy	445	482	556	664	784
Eadie Wire Company Limited	108	36	—	—	—
Wire division	1,475	1,655	1,808	2,337	2,883
Group total	4,904	4,679	4,787	5,907	6,736

Analysis of profit before taxation

	Year ended 31st December				
	1981 £000	1982 £000	1983 £000	1984 £000	1985 £000
Eadie Bros.	(93)	(478)	57	112	140
Pentwyn	—	—	—	(38)	(38)
Machine accessory division	(93)	(478)	57	74	102
Winterbottom	20	5	19	70	105
Alloy	10	(20)	38	29	64
Eadie Wire Company Limited	(71)	(8)	—	—	—
Wire division	(41)	(23)	57	99	169
Associated companies					
—TML	23	5	(6)	(37)	4
—the Cloudknoll Group	—	—	—	(5)	7
Investments	12	14	12	15	—
Company	3	5	(48)	(2)	(73)
Group total	(96)	(477)	72	144	209

The Cloudknoll Group

The table below sets out the Cloudknoll Group's turnover and results for the five financial periods ended 31st December, 1985:—

	Year ended 30th September			15 months ended 31st December	Year ended 31st December
	1981 £000	1982 £000	1983 £000	1984 £000	1985 £000
Turnover — to third parties	1,097	1,243	1,218	1,582	1,778
— to the Group	5	4	3	17	1
	1,102	1,247	1,221	1,599	1,779
Profit/(loss) on ordinary activities before taxation	(178)	(54)	(85)	(74)	10
Profit/(loss) after taxation before extraordinary item	(98)	(54)	(85)	(74)	10
Extraordinary item	—	—	—	(95)	—

The results to 30th September, 1983 are attributable to SSW, thereafter to Cloudknoll.

No taxation charge has arisen owing to the availability of tax losses.

The extraordinary item in 1984 related to the reorganisation costs incurred by SSW following its acquisition by Cloudknoll.

Export Analysis

Turnover of both the Group and the Cloudknoll Group can be further analysed as follows:—

The Group

	Year ended 31st December				
	1981 £000	1982 £000	1983 £000	1984 £000	1985 £000
United Kingdom	2,362	2,423	2,546	3,075	3,649
Overseas	2,542	2,256	2,241	2,832	3,087
	4,904	4,679	4,787	5,907	6,736

From 1983 to 1985 export sales by geographical area were as follows:—

	1983	1984	1985
Europe	1,353	1,962	2,058
North America	129	181	183
South America	244	174	252
Other	515	515	594
	2,241	2,832	3,087

The Cloudknoll Group

	Year ended 30th September			15 months ended 31st December	Year ended 31st December
	1981 £000	1982 £000	1983 £000	1984 £000	1985 £000
United Kingdom	962	1,061	1,092	1,330	1,440
Overseas	140	186	129	269	339
	1,102	1,247	1,221	1,599	1,779

The principal export market for the Cloudknoll Group is Europe.

PART II

ACCOUNTANTS' REPORT ON THE GROUP

The following is a copy of the report made by Arthur Young, auditors and reporting accountants, on the Group:—

The Directors,
Eadie Holdings plc,
Victoria Works,
Violet Street,
Paisley, PA1 1PD

27th May, 1986

and

The Directors,
Parsons & Co. Limited,
100 West Nile Street,
Glasgow, G1 2QU

Gentlemen,

A. Introduction

We have examined the audited accounts of Eadie Holdings plc ("the Company") and its subsidiaries for the five years ended 31st December, 1985. For the purposes of this report the Company and its subsidiaries are referred to as "the Group".

The subsidiary companies are.

Name of subsidiary	*Activity*	*Proportion of ordinary shares held*
Eadie Bros. & Co. Limited	Textile machinery accessories	100 per cent.
Pentwyn Precision Limited	Textile machinery accessories	100 per cent.
Eadie Electronics Limited (now dormant)	Electronic products for textile machinery	51 per cent.
Winterbottom (Wiredrawers) Limited	Wiredrawing	100 per cent.
Alloy Wire Co. Limited	Wiredrawing	100 per cent.

The share capital of Pentwyn Precision Limited was acquired by Eadie Bros. & Co. Limited for a cash consideration of £40,000 on 30th June, 1984 and Eadie Electronics Limited was incorporated on 29th April, 1983. The results of these subsidiaries have been included from these dates.

Eadie Boyd Limited and Eadie Wire Company Limited, which were part of the machine accessory division, and the wire division respectively, ceased to be wholly owned subsidiaries in 1980 and 1982 as a result of closure and management buyout respectively. Eadie Electronics Limited ceased to trade at 31st December, 1985, its trade being transferred to Eadie Bros. & Co. Limited.

We have been auditors of the Company and its subsidiaries throughout the period covered by this report or since incorporation of the subsidiaries into the Group.

The financial information set out in this report is based on the audited accounts of the Group. No adjustments are considered necessary. No accounts have been prepared for the Group in respect of any period since 31st December, 1985.

Since 31st December, 1985 the Company has agreed to acquire the 80% of the issued share capital of Cloudknoll Limited which it does not already own. See paragraph G. 13 below. We have prepared a separate report on Cloudknoll Limited and its subsidiary set out in Part III of the placing document to be dated 28th May, 1986.

Our work has been carried out in accordance with the Auditing Guideline, "Prospectuses and the reporting accountant".

In our opinion the financial information set out below, which has been prepared under the historical cost convention modified to include the revaluation of certain fixed assets, gives a true and fair view of the results and source and application of funds of the Group for each of the five years ended 31st December, 1985 and of the state of affairs of the Group at the end of each of these years.

B. Accounting Policies

The significant accounting policies adopted in arriving at the financial information set out in this report are as follows:

(a) Basis of consolidation

The consolidated accounts incorporate the accounts of the Company and its subsidiaries made up to the relevant dates.

Any difference between the cost of acquisition and the fair value of the assets is taken to reserves.

(b) Associated companies

The consolidated accounts include the Group's share of the post-acquisition results of associated companies based on audited accounts made up to the relevant dates.

(c) Tangible fixed assets

The Group's policy is to depreciate all tangible fixed assets at rates calculated to write off the valuation or cost of assets over their estimated useful lives. The rates used are as follows:

– Freehold buildings	2 — 2.5 per cent. of written down value
– Plant and machinery	15 — 20 per cent. of written down value
– Furniture, equipment and motor vehicles	15 — 25 per cent. of written down value.

Assets receive a full year's charge in the year of acquisition and no charge in the year of disposal.

B. Accounting Policies (continued)

(d) Stocks

Stocks and work-in-progress have been valued at the lower of cost and net realisable value. Cost comprises actual cost on a first-in, first-out basis in the case of raw materials and goods purchased for sale, and direct materials, direct labour and appropriate production overheads in the case of work-in-progress and finished goods.

Net realisable value is defined as the estimated selling price, net of trade discounts, less further costs to completion and costs to be incurred in marketing, selling and distribution.

(e) Deferred taxation

Deferred taxation is provided on the liability method on all significant 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 which is expected to be recoverable in the future is deducted from the deferred taxation balance.

(f) Foreign currencies

Monetary assets denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

(g) Research and development

Expenditure on research and development is written off in the year in which it is incurred.

(h) Deferred Credit

Regional development grants receivable have been credited to a deferred credit account and are released to the profit and loss account on the same basis as depreciation is charged on the assets to which the grants relate.

(i) Leasing and hire purchase obligations

Rentals paid under leases are charged to income in the period in which they are incurred. Assets obtained under hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

C. Consolidated Profit and Loss Accounts

The consolidated profit and loss accounts of the Group for the five years ended 31st December, 1985, are set out below:

	Notes	Year ended 31st December 1981	1982	1983	1984	1985
		£000	£000	£000	£000	£000
Turnover	1	4,904	4,679	4,787	5,907	6,736
Cost of sales		3,028	2,974	2,970	3,833	4,383
Gross profit		1,876	1,705	1,817	2,074	2,353
Distribution and administration expenses		2,069	1,938	1,624	1,811	1,968
Trading profit/(loss)		(193)	(233)	193	263	385
Other operating income/(charges)	2	194	10	4	(2)	(9)
Share of profit/(loss) of associated companies						
—Textile Mouldings Limited		23	5	(6)	(37)	4
—Cloudknoll Limited		—	—	—	(5)	7
Operating profit/(loss)		24	(218)	191	219	387
Income from investments		12	14	12	15	—
Interest receivable		21	48	32	29	21
Interest payable		(120)	(144)	(115)	(119)	(146)
Profit/(loss) before exceptional items		(63)	(300)	120	144	262
Exceptional items	3	33	177	48	—	53
Profit/(loss) before taxation	4	(96)	(477)	72	144	209
Tax charge/(credit)	5	7	6	(36)	25	34
Profit/(loss) before extraordinary items		(103)	(483)	108	119	175
Extraordinary items less taxation	6	—	—	—	—	(109)
Profit/(loss) attributable to members of the Company		(103)	(483)	108	119	284
Dividends	7	3	3	33	52	77
Amortisation of revaluation surplus		—	—	(1)	(1)	(1)
Retained profit/(loss) for the year		(106)	(486)	76	68	208
Retained by the Company and subsidiaries	8	(112)	(489)	35	109	197
Retained by associates	8	6	3	41	(41)	11
		(106)	(486)	76	68	208
Earnings/(loss) per share	9	(1.88p)	(8.61p)	1.86p	2.05p	3.05p

D. Notes to the Profit and Loss Accounts

1. Turnover by activity is as follows

	Year ended 31st December				
	1981	1982	1983	1984	1985
	£000	£000	£000	£000	£000
Machine accessory division	3,429	3,024	2,979	3,570	3,853
Wire division	1,367	1,620	1,808	2,337	2,883
Discontinued operations	108	35	—	—	—
	4,904	4,679	4,787	5,907	6,736

Turnover can be analysed between home and export as follows:

	Year ended 31st December				
	1981	1982	1983	1984	1985
	£000	£000	£000	£000	£000
United Kingdom	2,362	2,423	2,546	3,075	3,649
Overseas	2,542	2,256	2,241	2,832	3,087
	4,904	4,679	4,787	5,907	6,736

2. Other operating income/(charges)

	Year ended 31st December				
	1981	1982	1983	1984	1985
	£000	£000	£000	£000	£000
Gain on sale of fixed assets	107	—	—	—	—
Release from deferred credit	19	15	17	11	10
Surplus on pension fund refunded on closure of Eadie Boyd Limited	30	—	—	—	—
Sundry income/(expenses)	38	(5)	(13)	(13)	(19)
	194	10	4	(2)	(9)

3. Exceptional items

	Year ended 31st December				
	1981	1982	1983	1984	1985
	£000	£000	£000	£000	£000
Reorganisation of Eadie Bros. & Co. Limited	32	156	12	—	—
Losses from discontinued operations:					
Eadie Boyd Limited	1	—	—	—	—
Eadie Wire Company Limited	—	21	—	—	—
Group flotation expenses	—	—	—	—	36
Share issue expenses	—	—	36	—	17
	33	177	48	—	53

4. Profit/(loss) before taxation

	Year ended 31st December				
	1981	1982	1983	1984	1985
	£000	£000	£000	£000	£000
Machine accessory division	(93)	(478)	57	74	102
Wire division	(41)	(23)	57	99	169
The Company	3	5	(48)	(2)	(73)
Associated companies	23	5	(6)	(42)	11
Investments	12	14	12	15	—
	(96)	(477)	72	144	209

This is stated after charging/(crediting):

	1981	1982	1983	1984	1985
Depreciation	154	134	97	108	118
(Gain)/loss on sale of fixed assets	(107)	9	(17)	3	6
Directors' remuneration	83	165	39	72	98
Auditors' remuneration	20	17	17	21	22
Leasing charges	15	29	40	65	93

Staff costs for the three years ended 31st December, 1985

	1983	1984	1985
Wages and salaries	1,108	1,339	1,561
Social security costs	128	144	156
Other pension costs	92	112	131
	1,328	1,595	1,848

D. Notes to the Profit and Loss Accounts (continued)

5. Taxation

	1981 £000	1982 £000	1983 £000	1984 £000	1985 £000
	Year ended 31st December				
Corporation tax	3	9	2	8	15
Deferred tax	—	—	—	17	15
ACT written off/(recovered)	(3)	(4)	12	(4)	5
Double taxation relief	(3)	(3)	—	(4)	—
Overseas taxation	3	3	3	4	—
	—	5	17	21	35
Taxation (over)/underprovided in previous years:					
Corporation tax	—	—	(6)	1	(1)
Deferred taxation	—	—	—	3	—
	—	5	11	25	34
Associated companies	7	1	(47)	—	—
	7	6	(36)	25	34

The corporation tax charge in the years 1983 to 1985 has been reduced by taxation losses carried forward.

6. Extraordinary item

	Year ended 31st December, 1985 £000	£000
Proceeds from disposal of investment in BRT Limited		224
Less investment at cost		53
		171
Less UK Corporation tax	42	
Indian capital gains tax	62	
	104	
Double taxation relief	(42)	62
		109

7. Dividends

	1981 £000	1982 £000	1983 £000	1984 £000	1985 £000
	Year ended 31st December				
4.2 per cent. Cumulative Preference	3	3	3	3	3
10 per cent. Cumulative Convertible Redeemable Participating Preference	—	—	30	43	47
Ordinary	—	—	—	6	17
'A' Ordinary	—	—	—	—	10
	3	3	33	52	77
Dividend rate per share					
10 per cent. Cumulative Convertible Redeemable Participating Preference		—	9.11p	13.01p	14.36p
Ordinary	—	—	—	1.0p	2.5p
'A' Ordinary	—	—	—	—	2.5p

8. Retained profit

	1981 £000	1982 £000	1983 £000	1984 £000	1985 £000
	Year ended 31st December				
Retained by the Company and subsidiaries					
At 1st January	759	647	158	193	302
Profit/(loss) for year	(112)	(489)	35	109	197
At 31st December	647	158	193	302	499
Retained by associates					
At 1st January	146	152	155	196	187
Capital reserve on acquisition of share in associate	—	—	—	32	—
Profit/(loss) for year	6	3	41	(41)	11
At 31st December	152	155	196	187	198

D. Notes to the Profit and Loss Accounts (continued)

9. Earnings per share

The earnings per share have been calculated on the profit after taxation and 4.2 per cent. Preference dividends but before extraordinary items and on the 5,645,805 ordinary shares of 25p each in issue following the capital reorganisation approved on 16th May, 1986 but before the issues of shares in respect of the acquisition of Cloudknoll Limited and the placing (see Section G.13).

E. Source and Application of Funds

The consolidated source and application of funds for the five years ended 31st December, 1985 are set out below:

	Year ended 31st December 1981 £000	1982 £000	1983 £000	1984 £000	1985 £000
Source of funds:					
Total funds generated from operations*	—	—	129	271	421
Funds from other sources:					
Proceeds of sale of fixed assets	157	80	82	14	8
Dividends from associated companies exclusive of related tax credit	10	—	—	—	—
Government grant receivable on fixed assets acquired	31	2	—	3	9
Dividends from unlisted investment exclusive of related tax credit	9	10	9	11	—
Tax recovered	—	1	—	9	—
Proceeds of share issue	—	—	336	—	202
Transfer from cash on deposit	—	—	12	—	—
Hire purchase contracts	—	—	—	25	—
Disposal of investment	—	—	—	—	53
Acquisition of Pentwyn Precision Limited — capital reserve on consolidation	—	—	—	41	—
— deferred taxation	—	—	—	10	—
— deferred credit	—	—	—	7	—
— corporation tax recoverable	—	—	—	(2)	—
	207	93	568	389	693
Application of funds:					
Funds absorbed by operations*	96	371	—	—	—
Purchase of fixed assets	192	108	73	279	186
Tax paid	5	1	5	—	35
Dividends paid	8	2	28	41	53
Investment in BRT Limited	—	—	—	12	—
Investment in associated company	—	18	—	—	—
Current instalments on hire purchase contracts	—	—	15	—	13
	301	500	121	332	287
Working capital (decrease)/increase	(94)	(407)	447	57	406
Components of (decrease)/increase in working capital:					
Stock and work-in-progress	(224)	(40)	97	235	93
Debtors	147	(298)	336	193	363
Creditors	(14)	36	(4)	(225)	(131)
	(91)	(302)	429	203	325
Movement in net liquid funds:					
Cash at bank and in hand	2	1	15	6	4
Bank Overdrafts	(5)	(106)	3	(152)	77
	(3)	(105)	18	(146)	81
	(94)	(407)	447	57	406

E. Source and Application of Funds (continued)

* Total funds generated from and ab orbed by operations comprise:

	1981 £000	1982 £000	1983 £000	1984 £000	1985 £000
	Year ended 31st December				
Profit/(loss) before taxation	(96)	(477)	72	144	209
Share of (profit)/loss of associated companies	(23)	(5)	6	42	(11)
Income from investments	(12)	(14)	(12)	(15)	—
Extraordinary item	—	—	—	—	109
	(131)	(496)	66	171	307
Adjustments for items not involving the use of funds:					
Depreciation	154	134	97	108	118
(Gain)/loss on sale of fixed assets	(107)	9	(17)	3	6
Release from deferred credit	(19)	(15)	(17)	(11)	(10)
Disposal of deferred credit of Eadie Wire Company Limited	—	(4)	—	—	—
Licences written off	7	1	—	—	—
	(96)	(371)	129	271	421

Summary of the effects of the disposal of Eadie Wire Company Limited in 1982 and of the acquisition of Pentwyn Precision Limited in 1984:

	1982 £000	1984 £000
Net assets (disposed)/acquired:		
Fixed assets	(34)	119
Stock	(7)	81
Debtors	(19)	46
Taxation recoverable	—	2
Cash	(25)	1
	(85)	249
Creditors	(27)	28
Bank overdraft	—	111
Deferred taxation	—	10
RDG deferred credit	(4)	7
Loan	(33)	—
	(64)	156
	(21)	93
Proceeds/cost of investment	—	52
(Loss on disposal)/capital reserve on acquisition	(21)	41

F. Consolidated Balance Sheets

The consolidated balance sheets for the five years ended 31st December, 1985 are:

	Notes	1981 £000	1982 £000	1983 £000	1984 £000	1985 £000
Fixed assets:						
Tangible assets	1	1,032	917	828	982	1,036
Investments	2	237	246	287	291	248
		1,269	1,163	1,115	1,273	1,284
Current assets:						
Stocks	3	1,048	1,008	1,105	1,340	1,433
Debtors	4	1,517	1,212	1,554	1,738	2,102
Cash at bank and in hand		8	22	25	31	35
		2,573	2,242	2,684	3,109	3,570
Creditors: amounts falling due within one year	5	1,785	1,868	1,882	2,294	2,369
Net current assets		788	374	802	815	1,201
Total assets less current liabilities		2,057	1,537	1,917	2,088	2,485
Creditors: amounts falling due after more than one year	6	34	16	2	27	14
Provision for liabilities and charges: Deferred taxation	7	—	—	—	8	11
Accruals and deferred income: Deferred government grants		83	67	50	49	48
		117	83	52	84	73
		1,940	1,454	1,865	2,004	2,412
Capital and reserves:						
Called up share capital	8	732	732	1,068	1,068	1,269
Revaluation reserve	9	196	196	195	194	193
Other reserves	9	365	368	409	440	451
Profit and loss account	9	647	158	193	302	499
		1,940	1,454	1,865	2,004	2,412

G. Notes to the Consolidated Balance Sheets

1. Tangible fixed assets

The tangible fixed assets at 31st December, 1985 comprise:

	Cost or valuation £000	Accumulated depreciation £000	Net book value £000
Freehold land and buildings	668	116	552
Plant, machinery and motor vehicles	1,592	1,[illegible]	456
Fixtures, fittings, tools and equipment	198	0	28
	2,458	1,422	1,036

Certain of the freehold properties were valued on an existing use basis in 1980 by independent valuers. The remaining fixed assets of the Group have not been revalued in the accounts.

	Cost £000	Valuation £000	Total £000
Land	8	71	79
Buildings	324	265	589
	332	336	668

2. Investments

	31st December, 1985 £000
Associated companies – share of net assets	248

Investments in associated companies are stated at the book values of the underlying assets in the associated companies.

The associated companies are:

Name of company	Country of registration	Class of shares	Proportion held	Nature of business
Textile Mouldings Limited	England	Ordinary	25%	Precision moulding of plastics
Cloudknoll Limited	England	Ordinary	20%	Holding company

Cloudknoll Limited owns 100% of the issued share capital of The Stainless Steel Wire Co. Limited, a company registered in England, which is engaged in the drawing of wire.

G. Notes to the Consolidated Balance Sheets (continued)

3. Stocks

	31st December, 1985 £000
Raw materials and consumables	495
Work-in-progress	369
Finished goods and goods for resale	569
	1,433

4. Debtors

	31st December, 1985 £000
Trade debtors	1,778
Amounts owed by associated company	69
Other debtors	65
Prepayments and accrued income	28
Sale of investment in BRT Limited	162
	2,102

5. Creditors: amounts falling due within one year

	31st December, 1985 £000
Bank overdraft	863
Obligations under hire purchase contracts	19
Trade creditors	1,164
Current corporation tax	28
Other taxes and social security costs	130
Other creditors	22
Accruals	100
Proposed dividend	43
	2,369

6. Creditors: amounts falling due after more than one year

	31st December, 1985 £000
Obligations under hire purchase contracts	14

7. Deferred taxation

	31st December, 1985	
	Provision £000	Potential £000
Accelerated capital allowances	118	146
Other timing differences	—	47
Tax losses carried forward	(43)	(43)
ACT recoverable	(64)	(89)
	11	61

The provision and potential liability for deferred taxation are calculated at 35 per cent. Subsidiary companies have further tax losses at 35 per cent. of £321,000.

8. Share capital

	31st December, 1985 £000
Authorised share capital:	
940,259 Ordinary shares of £1	940
889,332 "A" Ordinary shares of 50p	445
59,741 4.2 per cent. Cumulative Preference shares of £1	60
336,060 10 per cent. Cumulative Convertible Redeemable Participating Preference shares of £1	336
	1,781
Allotted, called up and fully paid share capital:	
672,120 Ordinary shares of £1	672
403,272 "A" Ordinary shares of 50p	201
59,741 4.2 per cent. Cumulative Preference shares of £1	60
336,060 10 per cent. Cumulative Convertible Redeemable Participating Preference shares of £1	336
	1,269

The 10 per cent. Participating Preference shares were issued at par for cash during 1983. In addition to the fixed dividend, they attract a further dividend equivalent to 7 per cent. of pre tax profit. Conversion terms permit the conversion of every second share into two "A" Ordinary shares. Each "A" Ordinary share is entitled to a dividend equal to that declared on the Ordinary shares. Conversion may take place in 1984-1988. Conversion has taken place since the year end. This is described in note 13.

9. Reserves

	Year ended 31st December				
	1981 £000	1982 £000	1983 £000	1984 £000	1985 £000
Revaluation reserve:					
At 1st January	196	196	196	195	194
Amortisation for year	—	—	1	1	1
At 31st December	196	196	195	194	193
Other reserves:					
Capital reserve:					
At 1st January	15	15	15	15	55
Capital reserve on acquisition of subsidiary	—	—	—	40	—
At 31st December	15	15	15	55	55
Preference dividend reserve	18	18	18	18	18
Plant replacement reserve	180	180	180	180	180
Reserves of associated companies:					
At 1st January	146	152	155	196	187
Capital reserve on acquisition of share in associate	—	—	—	32	—
Group share of retained profits	6	3	41	(41)	11
At 31st December	152	155	196	187	198
Total Other reserves	365	368	409	440	451
Profit and loss account:					
At 1st January	759	647	158	193	302
Retained profits for year	(112)	(489)	35	109	197
At 31st December	647	158	193	302	499

10. Capital commitments

The approximate amounts authorised by the directors for which no provision has been made in the accounts are:

	31st December, 1985 £000
Expenditure contracted for	—
Expenditure authorised but not contracted for	21

11. Financial commitments

Net obligations under leases for plant and motor vehicles comprise:

	31st December, 1985 £000
Due within one year	95
Due within two to five years	115
	210

12. Pension commitments

The Group has a managed defined benefit pension scheme for its directors and employees. The Group's contributions are fixed periodically following actuarial advice.

13. Events since the end of the year

(a) On 9th April, 1986 options were granted under the Company's Executive Share Option Scheme in respect of an aggregate of 140,000 "A" Ordinary Shares of 50p each.

(b) At an extraordinary general meeting on 16th May, 1986:—

(1) one of every two issued Participating Preference Shares held by each holder was sub-divided and converted into 2 "A" Ordinary Shares of 50p each ranking *pari passu* in all respects with the existing "A" Ordinary Shares of 50p each;

(2) the Company was empowered to redeem all of the remaining Participating Preference Shares on or before 14th June, 1986 at par together with a premium of 20p per share. All such Participating Preference Shares are to be redeemed on 28th May, 1986:—

G. Notes to the Consolidated Balance Sheets (continued)

(3) the Directors were authorised and instructed to allot 739,332 "A" Ordinary Shares of 50p each credited as fully paid, by way of capitalisation of reserves, to the holders of the existing 739,332 "A" Ordinary Shares of 50p;

(4) each of the "A" Ordinary Shares of 50p was sub-divided and converted into 2 Ordinary Shares of 25p each,

(5) each of the Ordinary Shares of £1 was sub-divided into 4 Ordinary Shares of 25p each;

(6) the authorised share capital of the Company was increased to £3,000,000 by the creation of 4,877,096 Ordinary Shares of 25p each ranking *pari passu* in all respects with the existing Ordinary Shares of 25p each;

(7) the Directors were authorised to allot 880,000 ordinary shares credited as fully paid in consideration for the acquisition of the share capital of Cloudknoll Limited not already owned;

(8) The Company has agreed to acquire the 80 per cent. of the issued share capital of Cloudknoll Limited, not already owned by the Company. Such acquisition was conditional upon its approval by a Special Resolution of the Company which was passed on 16th May, 1986.

The Special Resolutions effecting the matters referred to in sub-paragraphs (1) to (8) above are subject to the condition that in the event that by 3.30 p.m. on 14th June, 1986 permission shall not have been granted by the Council of The Stock Exchange to deal in the ordinary shares in the Unlisted Securities Market, each of such Special Resolutions shall be void and have no effect whatsoever. In that event any redemption moneys paid to the holders of the Participating Preference Shares are to be repaid to the Company on 14th June, 1986.

H. Audited Accounts

The financial information set out above constitutes abridged accounts (within the meaning of Section 255 of the Companies Act 1985) and not full accounts. Full accounts have been delivered to the Registrar of Companies in respect of the five years ended 31st December, 1985 on which Arthur Young, Chartered Accountants, have made reports under Section 236 of the Companies Act 1985.

All such reports were unqualified.

Yours faithfully,

ARTHUR YOUNG
Chartered Accountants.

PART III

ACCOUNTANTS' REPORT ON THE CLOUDKNOLL GROUP

The following is a copy of the report made by Arthur Young, auditors and reporting accountants on the Cloudknoll Group:—

The Directors,
Eadie Holdings plc,
Victoria Works,
Violet Street,
Paisley, PA1 1PD

27th May, 1986

and

The Directors,
Parsons & Co. Limited,
100 West Nile Street,
Glasgow, G1 2QU

Gentlemen,

A. Introduction

Cloudknoll Limited ("Cloudknoll") was incorporated on 12th January, 1982 and acquired the whole of the issued share capital of The Stainless Steel Wire Co Limited ("SSW") on 5th March, 1984. SSW was incorporated on 14th February, 1939. For the purposes of this report, "the Cloudknoll Group" refers to Cloudknoll and its subsidiary at the relevant time and, for periods prior to its acquisition by Cloudknoll, to SSW alone. We have examined the audited accounts of Cloudknoll since its incorporation and of SSW for the five periods ended 31st December, 1985.

We have been auditors of Cloudknoll since the date of its incorporation and of SSW since the date of its acquisition by Cloudknoll. Messrs. Hawson & Co., Chartered Accountants, were the auditors of SSW prior to that date for periods relevant to this report.

The financial information set out in sections B to H below is based on audited accounts as follows:

(a) For the three years ended 30th September, 1983 on the accounts of SSW. From its incorporation on 12th January, 1982 to 30th September, 1983 Cloudknoll was a dormant company;

(b) For the fifteen months ended 31st December, 1984 on the accounts of SSW and Cloudknoll consolidated as though Cloudknoll had been the holding company of SSW throughout the whole of the period;

(c) For the year ended 31st December, 1985 on the consolidated accounts of the Cloudknoll Group;

after making such adjustments as we consider necessary. No accounts have been prepared for the Cloudknoll Group in respect of any period since 31st December, 1985.

Our work has been carried out in accordance with the Auditing Guideline "Prospectuses and the reporting accountant."

In our opinion, the financial information, which has been prepared under the historical cost convention modified to include the revaluation of certain fixed assets, gives a true and fair view of the results and source and application of funds for the Cloudknoll Group for the five periods ended on 31st December, 1985 and of the state of affairs of the Cloudknoll Group at the end of each of these periods.

B. Accounting Policies

The significant accounting policies adopted in arriving at the financial information set out in this report are as follows:

(a) **Basis of consolidation**
The basis of consolidation is described in Part A of this report.

(b) **Goodwill**
Negative goodwill arising on consolidation, representing the excess of the fair values of the net assets acquired over the fair value of the consideration given, is credited directly to a capital reserve.

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

—Long leasehold land and buildings	2 per cent. straight line
—Plant, machinery and motor vehicles	25 per cent. reducing balance
—Dies	33⅓ per cent. straight line

The revaluation reserve relating to revalued assets is transferred to the profit and loss account over the remaining useful life of the assets.

(d) **Stocks**
Stocks are stated at the lower of cost and net realisable value.

Cost comprises purchase cost in the case of raw materials, and direct materials, and direct labour and appropriate production overheads based on a normal level of activity in the case of work-in-progress and finished goods.

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

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

(f) **Foreign currency**
Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

All differences are taken to the profit and loss account.

(g) **Assets acquired under hire purchase contracts and finance leases**
Assets acquired under hire purchase contracts, and from 1st January, 1985 assets obtained under finance leases, as defined by Statement of Standard Accounting Practice No. 21, are capitalised in the balance sheet and depreciated over the shorter of the lease term and the useful life of the asset. The related capital element of the rental obligations is included in the balance sheet.

The interest element of the rental obligations is charged to the profit and loss account on a straight line basis over the lease term.

Assets obtained under finance leases prior to 31st December, 1984 are not capitalised in the balance sheet. Rental payments relating to these leases are expensed in the profit and loss account.

(h) **Turnover**
Turnover represents the invoiced amount of goods sold and services provided stated net of value added tax.

C. Consolidated Profit and Loss Accounts

The consolidated profit and loss accounts of the Cloudknoll Group for the five periods ended 31st December, 1985 are set out below:

	Notes	Year ended 30th September 1981 £000	1982 £000	1983 £000	15 months ended 31st December 1984 £000	Year ended 31st December 1985 £000
Turnover	1	1,102	1,247	1,221	1,599	1,779
Raw materials and consumables		499	556	567	652	829
Other external charges		208	244	268	318	314
Staff costs		431	464	449	564	557
Depreciation		68	52	41	63	70
Change in stocks of finished goods and works in progress		53	(37)	(37)	32	(66)
		1,259	1,279	1,288	1,629	1,704
Operating profit/(loss)	2	(157)	(32)	(67)	(30)	75
Interest payable	3	(21)	(22)	(18)	(44)	(65)
Profit/(loss) before taxation		(178)	(54)	(85)	(74)	10
Tax charge/(credit)	4	(80)	—	—	—	—
Profit/(loss) before extraordinary item		(98)	(54)	(85)	(74)	10
Extraordinary item	5	—	—	—	(95)	—
		(98)	(54)	(85)	(169)	10
Amortisation of revaluation surplus		—	—	—	—	(1)
Profit/(loss)		(98)	(54)	(85)	(169)	11
Earnings/(loss) per share	6	£ (980)	£ (540)	£ (850)	£ (740)	£ 100

D. **Notes to the Profit and Loss Accounts**

1. Turnover can be analysed between home and export as follows:

	Year ended 30th September 1981 £000	1982 £000	1983 £000	15 months ended 31st December 1984 £000	Year ended 31st December 1985 £000
United Kingdom	962	1,061	1,092	1,330	1,440
Overseas	140	186	129	269	339
	1,102	1,247	1,221	1,599	1,779

The principal export market for The Cloudknoll Group is Europe.

2. Operating profit/(loss)

Operating profit/(loss) is stated after charging:

	Year ended 30th September 1981 £000	1982 £000	1983 £000	15 months ended 31st December 1984 £000	Year ended 31st December 1985 £000
Depreciation	68	52	41	63	71
Leasing and hire charges	12	15	4	2	2
Directors' remuneration	75	77	63	52	28
Auditors' remuneration	3	3	4	7	8

Staff costs for the three periods ended 31st December, 1985:			
Wages and salaries	379	472	481
Social security costs	33	42	39
Other pension costs	37	50	37
	449	564	557

3. Interest payable

	Year ended 30th September 1981 £000	1982 £000	1983 £000	15 months ended 31st December 1984 £000	Year ended 31st December 1985 £000
Bank overdrafts and loans	20	21	18	38	55
Finance charges in respect of hire purchase contracts and finance leases	1	1	—	1	3
Interest on extended credit terms with suppliers	—	—	—	—	5
Other loans wholly repayable within five years	—	—	—	5	2
	21	22	18	44	65

4. Taxation

In 1981 there was a taxation credit of £80,000 being the release of a deferred taxation provision no longer required.

No taxation charge arose on profits for the subsequent periods as a result of the existence of unutilised tax losses.

5. Extraordinary item

The extraordinary charge in 1984 related to reorganisation costs incurred by SSW following its acquisition by Cloudknoll. There was no taxation attributable to these costs.

6. Earnings/(loss) per share

Earnings/(loss) per share is calculated by dividing the profit/(loss) on ordinary activities after taxation by the 100 ordinary shares in issue at 31st December, 1985.

E Source and Application of Funds

The source and application of funds of the Cloudknoll Group for the five periods ended 31st December, 1985, are set out below:

	Year ended 30th September 1981 £000	1982 £000	1983 £000	15 months ended 31st December 1984 £000	Year ended 31st December 1985 £000
Source of funds:					
Profit/(loss) on ordinary activities before taxation	(178)	(54)	(85)	(74)	10
Extraordinary item	—	—	—	(95)	—
Adjustment for items not involving the movement of funds:					
Depreciation	68	52	41	63	71
Loss on disposal of fixed assets	—	—	1	—	—
Total generated from/(absorbed by) operations	(110)	(2)	(43)	(106)	81
Funds from other sources:					
Proceeds from disposal of tangible fixed assets	18	3	5	2	—
Loans received	—	—	—	209	—
Increase in obligations under hire purchase contracts and finance leases	—	—	7	17	11
Loan capital received	—	—	—	31	—
Other creditors	—	—	—	17	—
	(92)	1	(31)	170	92
Application of funds:					
Purchase of tangible fixed assets	(31)	(18)	(39)	(134)	(62)
Purchase of shares in a subsidiary*	—	—	—	(85)	—
Loan repayments	(10)	(10)	(10)	(28)	(35)
Payments under hire purchase contracts and finance leases	—	—	(3)	(5)	(11)
	(41)	(28)	(52)	(252)	(108)
Working capital (decrease)	(133)	(27)	(83)	(82)	(16)
Components of (decrease) in working capital					
Stocks and work-in-progress	(53)	(13)	43	(32)	66
Debtors	(40)	(11)	31	39	36
Creditors	12	2	(130)	(58)	(77)
	(81)	(22)	(56)	(51)	25
Movements in net liquid funds:					
Cash at bank and in hand	—	1	(1)	—	(1)
Bank overdrafts	(52)	(6)	(26)	(31)	(40)
	(52)	(5)	(27)	(31)	(41)
	(133)	(27)	(83)	(82)	(16)

E. Source and Application of Funds (Continued)

*Effects of acquisition of SSW

	£000	£000
Net assets acquired:		
Tangible fixed assets	377	
Stocks	203	
Debtors	274	
Cash at bank and in hand	1	
		855
Creditors	415	
Bank overdraft	191	
		606
		249
Represented by:		
Called up share capital		9
Revaluation reserve		232
Profit and loss account		8
		249
Less: Capital reserve on consolidation		164
Cost of shares		85

F. Consolidated Balance Sheets

The consolidated balance sheets of the Cloudknoll Group for the five periods ended 31st December, 1985 are set out below:

	Notes	30th September 1981 £000	30th September 1982 £000	30th September 1983 £000	31st December 1984 £000	31st December 1985 £000
Fixed assets:						
Tangible assets	1	190	153	145	446	493
Current assets:						
Stocks	2	210	197	240	208	274
Debtors	3	286	275	306	345	381
Cash at bank and in hand		1	2	1	1	—
		497	474	547	554	655
Creditors: amounts falling due within one year	4	352	356	513	638	784
Net current assets/(liabilities)		145	118	34	(84)	(129)
Total assets less current liabilities		335	271	179	362	364
Creditors: amounts falling due after more than one year:						
Loans	5	(35)	(25)	(15)	(196)	(151)
Other creditors		—	—	—	(17)	—
Obligations under hire purchase contracts	6	—	—	(3)	(10)	(8)
		300	246	161	139	205
Capital and reserves:						
Called up share capital (1984, 1985 £100)	7	8	8	8	—	—
Capital reserve on consolidation		—	—	—	164	164
Revaluation reserve	8	—	—	—	—	55
Profit and loss account	9	292	238	153	(25)	(14)
		300	246	161	139	205

G. Notes to the Consolidated Balance Sheets

1 Tangible fixed assets

The tangible fixed assets at 31st December, 1985 comprised:—

	Cost or valuation £000	Accumulated depreciation £000	Net book value £000
Long leasehold land and buildings	350	7	343
Plant and machinery	563	413	150
	913	420	493

Included in the amounts for plant and machinery are the following amounts relating to assets held under hire purchase contracts and finance leases:

Cost £000	Accumulated depreciation £000	Net book value £000
44	15	29

The historical cost of the long leasehold land and buildings included at valuation:

Cost £000	Accumulated depreciation £000	Net book value £000
309	21	288

The long leasehold land and buildings were valued on the basis of a sale with vacant possession from a willing seller to a willing buyer by Jackson and Son, Chartered Surveyors, on 21st June, 1985.

2. Stocks

	31st December, 1985 £000
Raw materials and consumables	49
Work-in-progress	222
Finished goods and goods for resale	3
	274

3. Debtors

	31st December, 1985 £000
Trade debtors	362
Other debtors	2
Prepayments and accrued income	17
	381

4. Creditors: amounts falling due within one year

	31st December, 1985 £000
Current instalment due on bank loan (note 5)	40
Current instalment due on loan capital (note 5)	6
Loans (note 5)	9
Bank overdraft (see below)	211
Obligations under hire purchase contracts and finance leases	10
Trade creditors	319
Other taxes and social security costs	49
Other creditors	10
Accruals	66
Amounts due to affiliated companies	64
	784

The bank overdraft is secured by a second legal charge over the long leasehold land and buildings and a first fixed and floating charge over the other assets of the subsidiary company.

Notes to the Consolidated Balance Sheets (continued)

5. Loans

Loans repayable within five years:

	31st December, 1985 £000
Bank loan	115
Loan capital – 8 per cent.	19
Other loans	17
	151

The bank loan is secured by a first legal charge over the long leasehold land and buildings and a second floating charge over the other assets of the subsidiary company. It is repayable by quarterly instalments of £10,000.

The loan capital is repayable by annual instalments of £6,000.

The other loan is interest free and is repayable by quarterly instalments of £2,000.

The current portions of the loans are shown in current liabilities.

6. Obligations under hire purchase contracts and finance leases

Obligations under hire purchase contracts and finance leases in respect of assets which have been capitalised were as follows:

	31st December, 1985 £000
Due within one year	12
Due in the second to fifth years	10
	22
Less: Finance charges allocated to future periods	(4)
	18
Shown as:	
Current obligations	10
Non-current obligations	8
	18

In addition there were obligations under finance leases in respect of assets which have not been capitalised as follows:

	31st December, 1985 £000
Due within one year	2
Due in the second to fifth years	6
	8
Less: Finance charges allocated to future periods	(3)
	5

7. Share capital

The authorised, allotted, issued and fully paid share capital of Cloudknoll at 31st December, 1985 was 100 ordinary shares of £1 each.

The authorised, allotted, issued and fully paid share capital of SSW at 30th September, 1983 was 8,255 ordinary shares of £1 each.

8. Revaluation reserves

	31st December, 1984 £000	31st December, 1985 £000
At the beginning of the period	—	—
Arising on revaluation during the period	232	56
Amortisation for the period	—	(1)
	232	55
Elimination of pre-acquisition revaluation of SSW	(232)	—
At the end of the period	—	55

G. **Notes to the Consolidated Balance Sheet (continued)**

9. Profit and loss account

	Year ended 30th September 1981 £000	1982 £000	1983 £000	15 months ended 31st December 1984 £000	Year ended 31st December 1985 £000
At the beginning of the period	390	292	238	153	(25)
Profit/(loss) retained for the period	(98)	(54)	(85)	(169)	11
Bonus issue of shares by SSW	—	—	—	(1)	—
	292	238	153	(17)	(14)
Elimination of pre-acquisition profits of SSW	—	—	—	(8)	—
At the end of the period	292	238	153	(25)	(14)

10. Deferred taxation

	31st December, 1985 £000
Accelerated capital allowances	42
Less: Taxation losses	(42)
	—

The potential liability to deferred taxation is calculated at 35 per cent..

At 31st December, 1985 there were further unrelieved tax losses of approximately £250,000 gross.

If the long leasehold land and buildings were sold at their valuation, a tax liability of £76,000 would arise.

11. Events since the end of the year

On 23rd April, 1986 the authorised share capital was increased to 200 ordinary shares of £1 each. On the same date 50 ordinary shares were issued to existing shareholders for a cash consideration of £2,000 each by means of a 1 for 2 rights issue.

The excess of £1,999 per share over the par value is to be credited to a share premium account.

H. **Audited Accounts**

The financial information set out above constitutes abridged accounts (within the meaning of Section 255 of the Companies Act 1985) and not full accounts. Full accounts have been delivered to the Registrar of Companies in respect of the five periods, on which Messrs Hawson & Co., Chartered Accountants have made reports for the three years ended 30th September, 1983, and Arthur Young, Chartered Accountants, have made reports for the two periods ended 31st December, 1985, under Section 236 of the Companies Act 1985.

All such reports were unqualified.

Yours faithfully,

ARTHUR YOUNG
Chartered Accountants

PART IV

PRO FORMA RESULTS AND NET ASSETS OF THE ENLARGED GROUP

The following are illustrative pro forma profit and loss account of the enlarged Group for the year ended 31st December, 1985 and pro forma net assets of the enlarged Group as at that date. These are based on the audited consolidated profit and loss accounts for the year ended 31st December, 1985 and on the consolidated balance sheets at 31st December, 1985 of the Group and the Cloudknoll Group adjusted as set out below:

PRO FORMA PROFIT AND LOSS ACCOUNT

	£000
Turnover	8,384
Cost of sales and other operating expenses	(7,933)
Share of profit of associated company	4
Operating profit	455
Interest receivable	21
Interest payable	(211)
Profit before exceptional items	265
Exceptional items	(53)
	212
Taxation charge	(34)
	178
Extraordinary item after taxation	109
	287

Notes to the Pro forma Profit and Loss Account

1. The Group share of profit from the Cloudknoll Group has been eliminated from the Group's results.
2. Inter company sales have been eliminated from turnover and cost of sales.

PRO FORMA NET ASSETS

	£000	£000
Fixed assets:		
Tangible assets		1,529
Investments		212
		1,741
Current assets:		
Stocks	1,707	
Debtors	2,419	
Cash at bank and in hand	35	
	4,161	
Creditors: amounts falling due within one year:		
Bank overdraft	396	
Creditors	2,015	
	2,411	
Net current assets		1,750
Total assets less current liabilities		3,491
Creditors: Amounts falling due after more than one year	173	
Provision for liabilities and charges	11	
Accruals and deferred income	48	
		232
		3,259

Notes to the Pro forma Net Assets

1. The Group share of net assets of Cloudknoll since acquisition has been eliminated from the Group's balance sheet.
2. Inter company balances have been eliminated.
3. The net proceeds to the enlarged Group of a rights issue in Cloudknoll, amounting to £80,000, have been deducted from bank overdraft.
4. The cost to the Group of redeeming 168,030 10 per cent. Cumulative Convertible Redeemable Participating Preference Shares of £1 at £1.20 per share has been added to bank overdraft.
5. The net proceeds of the placing, of the new ordinary shares, estimated at £800,000, have been deducted from bank overdraft.

PART V

PROFIT FORECAST AND LETTERS

1. Bases and assumptions

The forecast of profit before taxation of the enlarged Group for the year ending 31st December, 1986 has been compiled on the basis of the accounting policies currently adopted by the Group and the Cloudknoll Group as set out in Part II and Part III and includes the results for the three months ended 31st March, 1986 based on unaudited management accounts. The forecast in respect of the Group's associated company, TML, includes the results shown in the unaudited management accounts for the four months ended 30th April, 1986. 20 per cent. of the profits of the Cloudknoll Group for the first five months of 1986 are incorporated as a share of results of an associated company. Thereafter its results are consolidated on the basis that it is a wholly owned subsidiary of the Company.

The principal assumptions on which the Directors have based their forecast are:

1. There will be no significant changes in interest or exchange rates.
2. The operations of the enlarged Group will not be affected by changes in Government policy.
3. Trading results will not be affected by industrial disputes, either within the enlarged Group or at its customers or suppliers.

2. Letters

The following are copies of letters received relating to the profit forecast for the year ending 31st December, 1986:–

(a) From Arthur Young, Chartered Accountants:–

27th May, 1986

The Directors,
Eadie Holdings plc,
Victoria Works,
Violet Street,
Paisley PA1 1PD

Gentlemen,

We have examined the accounting bases and calculations for the profit forecast of Eadie Holdings plc and its wholly-owned subsidiaries including Cloudknoll Limited ("the enlarged Group") for the year ending 31st December, 1986 except that the scope of our work was limited by the matter referred to below. The profit forecast, for which the Directors of Eadie Holdings plc are solely responsible, referred to on page 10 of the placing document to be dated 28th May, 1986 has been prepared under the historical cost convention and reflects the results of the enlarged Group including associated companies based on the unaudited management accounts for the three months to 31st March, 1986.

We were not able to examine the enlarged Group's share of the forecast results of Textile Mouldings Limited, an associated company, amounting to £25,000, and can therefore express no opinion on this part of the forecast.

Subject to the matter referred to above, in our opinion, the profit forecast so far as the accounting bases and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors set out in Part V of the placing document and on bases consistent with the accounting policies normally adopted by the enlarged Group.

Yours faithfully,

ARTHUR YOUNG,
Chartered Accountants

(b) From Parsons & Co. Limited:—

The Directors
Eadie Holdings plc
Victoria Works
Violet Street
Paisley PA1 1PD

27th May, 1986

Gentlemen,

We have discussed with you and with Arthur Young the forecast of profit before taxation of Eadie Holdings plc ("the Company") and its subsidiaries for the year ending 31st December, 1986, set out in the placing document to be dated 28th May, 1986. We consider that the forecast, for which you, as Directors of the Company, are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

Elizabeth A. Morton
DIRECTOR, FOR PARSONS & CO. LIMITED

PART VI

STATUTORY AND GENERAL INFORMATION

1. The Company and its Capital History

(a) The Company was incorporated in Scotland (No. 5543) on 24th February, 1904 under the Companies Acts, 1862 to 1900 as a private company limited by shares under the name Eadie Bros. & Co., Limited. In January, 1967 the name of the Company was changed to Eadie Bros. Holdings Limited and the Company's trading activities were transferred to Eadie Bros., a then newly incorporated wholly owned subsidiary of the Company. On 23rd May, 1986, pursuant to Special Resolutions passed on 16th May, 1986, the Company was re-registered as a public limited company and its name was changed to Eadie Holdings plc.

(b) On 28th May, 1984, the authorised and issued share capital was as follows:—

Authorised £		Issued and fully paid £
59,741	4.2 per cent. Cumulative Preference Shares of £1 each	59,741
336,060	10 per cent. Cumulative Convertible Redeemable Participating Preference Shares of £1 each ("Participating Preference Shares")	336,060
940,259	Ordinary Shares of £1 each	672,120
168,030	"A" Ordinary Shares of 50p each	—
1,504,090		1,067,921

(c) On 7th June, 1985, the authorised share capital of the Company was increased to £1,780,726 by the creation of 553,272 "A" Ordinary Shares of 50p each and the Company issued, by way of rights, 403,272 new "A" Ordinary Shares of 50p each at par on the basis of 2 new "A" Ordinary Shares for every 5 Participating Preference Shares and 2 new "A" Ordinary Shares for every 5 Ordinary Shares of £1 each held, in each case, on 1st May, 1985. Following such increase and issue, the authorised and issued share capital was as follows:—

Authorised £		Issued and fully paid £
59,741	4.2 per cent. Cumulative Preference Shares of £1 each	59,741
336,060	10 per cent. Cumulative Convertible Redeemable Participating Preference Shares of £1 each	336,060
940,259	Ordinary Shares of £1 each	672,120
444,666	"A" Ordinary Shares of 50p each	201,636
1,780,726		1,269,557

(d) On 9th April, 1986, options were granted under the Company's Executive Share Option Scheme in respect of an aggregate of 140,000 "A" Ordinary Shares of 50p each (equivalent to 560,000 Ordinary Shares of 25p each after the reorganisation of share capital) at a price of £1 per share. The options are exercisable, except as provided in the Scheme Rules, between the third and tenth anniversaries of the date of grant.

(e) On 16th May, 1986:—

(1) one of every two issued Participating Preference Shares held by each holder was sub-divided and converted into 2 "A" Ordinary Shares of 50p each ranking *pari passu* in all respects with the existing "A" Ordinary Shares of 50p each;

(2) the Company was empowered to redeem all of the remaining Participating Preference Shares on or before 14th June, 1986 at par together with a premium of 20p per share. All such Participating Preference Shares were redeemed on 28th May, 1986;

(3) the Directors were authorised and instructed to allot 739,332 "A" Ordinary Shares of 50p each credited as fully paid, by way of capitalisation of reserves, to the holders of the existing 739,332 "A" Ordinary Shares of 50p;

(4) each of the "A" Ordinary Shares of 50p was sub-divided and converted into 2 Ordinary Shares of 25p each;

(5) each of the Ordinary Shares of £1 was sub-divided into 4 Ordinary Shares of 25p each;

(6) the authorised share capital of the Company was increased to £3,000,000 by the creation of 4,877,096 ordinary shares of 25p each ranking *pari passu* in all respects with the existing Ordinary Shares of 25p each;

(7) the Directors were authorised to allot 880,000 ordinary shares credited as fully paid in consideration for the acquisition of the share capital of Cloudknoll not already owned;

(8) the Directors were empowered, pursuant to Section 80 of the Companies act, 1985 ("the Act") generally and unconditionally until 16th May, 1991 to allot relevant securities (within the meaning of such Section) up to a maximum nominal amount equal to the authorised but unissued share capital of the Company as at 16th May, 1986;

(9) the Directors were empowered (pursuant to Section 95 of the Act and to the powers given as outlined in (8) above) until the date of the next Annual General Meeting of the Company to allot equity securities (within the meaning of Section 94 of the Act) as if sub-section (1) of Section 89 of the Act did not apply to any such allotment provided that such power is limited to:—

(a) the allotment of such equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them; and

(b) the allotment of equity securities of up to an aggregate nominal value of £1,000,000 pursuant to the placing; and

(c) the allotment (otherwise than pursuant to (a) and (b) above) of such equity securities up to an aggregate nominal value equal to 5 per cent. of the Company's authorised share capital.

The Special Resolutions effecting the matters referred to in sub-paragraphs (1) to (9) above are subject to the condition that in the event that by 3.30 p.m. on 14th June, 1986 permission shall not have been granted by the Council of The Stock Exchange to deal in the ordinary shares in the Unlisted Securities Market, each of such Special Resolutions shall be void and have no effect whatsoever. In that event any redemption moneys paid to the holders of the Participating Preference Shares are to be repaid to the Company on 14th June, 1986.

(f) Save as disclosed above there has been no alteration in the share capital of the Company within the two years immediately preceding the publication of this document.

2. Share Capital

(a) The authorised and issued share capital as at the date of this document is shown on page 1 of this document.

(b) Following the placing of 2,436,000 new ordinary shares and the issue of 880,000 ordinary shares on completion of the acquisition of Cloudknoll, 2,127,108 ordinary shares representing 19.18 per cent. of the authorised ordinary share capital will remain unissued. Of these 560,000 ordinary shares are reserved for issue under the Company's Executive Share Option Scheme. Save as aforesaid and except with the prior approval of the Company in general meeting:—

(i) no issue of shares which would effectively alter the control of the Company or the nature of its business will be made; and

(ii) no material issue of shares (other than to shareholders pro rata to their existing holdings) will be made within one year from the date of this document.

(c) Save as disclosed in paragraph 1 above, in the two years immediately preceding the date of this document, no share or loan capital of the Company or (except for the issue of shares, of Cloudknoll referred to in paragraph G.11 of Part III) any of its subsidiaries has been issued, agreed to be issued, or, save in connection with the placing, is now proposed to be issued, fully or partly paid, either for cash or for other consideration and, save as disclosed in paragraphs 4(b) and 17(c) below, no commissions, discounts, brokerages or other special terms have been granted by the Company or any subsidiary in connection with the issue or sale of any such capital.

(d) Save as disclosed in paragraph 1 above (and in paragraphs 5(b) and 9 below) no share or loan capital of the Company or of any subsidiary is under option or is agreed conditionally or unconditionally to be put under option.

3. The Subsidiaries

The names of the trading subsidiaries and associated companies of the Company, their issued and fully paid share capitals, dates and places of incorporation and principal activities are set out below. All trading subsidiaries and associated companies are private companies incorporated with limited liability.

Name	Issued and fully paid share capital	Date and place of incorporation	Principal activity	Percentage owned by the Company
Eadie Bros. & Co. Limited	£1,000,000	22nd November, 1966 Scotland	Manufacture and sale of textile machinery accessories	100%
Winterbottom (Wiredrawers) Limited	£10,000	4th October, 1948 England	Drawing of wire	100%
Alloy Wire Co. Limited	£11,110	13th June, 1946 England	Drawing of wire	100%
Pentwyn Precision Limited	£40,400	29th March, 1972 England	Manufacture and sale of textile machinery accessories	100%
*Cloudknoll Limited	£150	12th January, 1982 England	Holding company	20%
*The Stainless Steel Wire Co. Limited	£9,080	14th February, 1939 England	Drawing of wire	20%
Textile Mouldings Limited	£160,000	1st May, 1951 England	Precision moulding of plastics	25%

*The Stainless Steel Wire Co. Limited is a wholly owned subsidiary of Cloudknoll of which the Company presently owns 20 per cent. of the issued share capital. Under the agreement referred to in paragraph 17(d) below, the Company has agreed, conditional upon entry to the Unlisted Securities Market, to acquire all the issued share capital of Cloudknoll which it does not already own.

4. Placing Arrangements

(a) Pursuant to an agreement dated 27th May, 1986 ("the Placing Agreement") Parsons & Co. Limited have agreed, subject, *inter alia*, to permission being granted by the Council of The Stock Exchange on or before 30th May, 1986 for the ordinary shares of the Company to be dealt in in the Unlisted Securities Market, to procure subscribers for or to subscribe for 2,436,000 new ordinary shares at 39p per share.

(b) The Placing Agreement provides, *inter alia*, for the Company to pay all the costs of, and incidental to the application for grant of permission to deal in the ordinary shares of the Company in the Unlisted Securities Market, printing and advertising costs, a commission of 1½ per cent. of the gross proceeds of the issue of the new ordinary shares and a fee to Parsons & Co. Limited.

The total expenses of the placing payable by the Company, excluding Capital Duty of £9,501, are estimated to amount to £150,000 (exclusive of Value Added Tax).

(c) The Directors have given a covenant in the Placing Agreement in respect of all the ordinary shares which they will own in the enlarged share capital of the Company not to sell any of such shares until after the publication of the interim results of the enlarged Group for the six months ending 30th June, 1986 without the prior consent of Parsons & Co. Limited.

(d) In the Placing Agreement the Company has given general warranties and indemnities to Parsons & Co. Limited (including warranties concerning the accuracy of the information contained in this document).

(e) Scottish Development Agency has entered into an agreement dated 27th May, 1986 with Parsons & Co. Limited whereby Parsons & Co. Limited will use its reasonable endeavours to procure purchasers for the 894,140 ordinary shares held by Scottish Development Agency at 39p per share.

5. Directors and Other Interests

(a) The beneficial interests (as defined in the Companies Act 1985) of the Directors in the share capital of the Company (i) immediately prior to the placing and the acquisition of Cloudknoll and (ii) immediately following the placing and such acquisition are set out below:—

(i) immediately prior to the placing and such acquisition:—

Director	ordinary shares	preference shares	% of voting rights
R. C. Mather	623,896	—	10.93
P. J. M. Eadie	29,616	1,363	0.54
G. R. Smith	—	—	—
W. Graham	—	—	—

(ii) immediately following the placing and such acquisition:—

Director	ordinary shares	preference shares	% of voting rights
R. C. Mather	733,896	—	8.13
P. J. M. Eadie	29,616	1,363	0.34
G. R. Smith	110,000	—	1.22
W. Graham	2,000	—	0.02

(iii) in addition:—

(a) both immediately prior to, and immediately following, the placing and such acquisition, Mr. R. C. Mather held, and will hold, non-beneficial interests in 214,460 ordinary shares and 6,463 preference shares, having in aggregate 3.87 per cent. of the voting rights immediately prior to the placing and such acquisition, and 2.45 per cent. immediately thereafter;

(b) both immediately prior to, and immediately following, the placing and such acquisition I. H. Rickitt & Partners Limited and its subsidiary, I H.R. Associates Limited, held and will hold in aggregate 101,692 ordinary shares; Mr. G. R. Smith is a director of and shareholder in I. H. Rickitt & Partners Limited and a director of I.H.R. Associates Limited.

(b) On 9th April, 1986, the following Directors were granted options under the provisions of the Company's Executive Share Option Scheme. The options were granted in respect of 'A' Ordinary shares of 50p each at an option price of £1 (equivalent to 25p per ordinary share of 25p), and are exerciseable, except as provided in the Scheme Rules, between the third and tenth anniversaries of the date of grant:—

Director	ordinary shares
P. J. M. Eadie	120,000
G. R. Smith	140,000
W. Graham	120,000

(c) The Directors have been notified of the following interests other than Directors' interests which carry 5 per cent. or more of the voting rights attached to share capital in the Company:—

Name	ordinary shares	preference shares	% of voting rights
Camellia Investments PLC	441,664	6,259	7.85
Midland Bank Trust Co. Limited	447,068	—	7.84
Scottish Development Agency	894,140	—	15.67
Mrs. A. J. Eadie and others	360,960	7,876	6.46

(d) Save as set out in sub-paragraphs (a), (b) and (c) of this paragraph, the Directors are not aware of any shareholding which represents 5 per cent. or more of the issued share capital of the Company.

(e) Messrs. R. C. Mather and G. R. Smith are both directors of and interested in the share capital of Cloudknoll. Mrs G. E. Mather, the wife of Mr. R. C. Mather, and Mr G. R. Smith each hold fifteen ordinary shares in the capital of Cloudknoll, and under the terms of the acquisition agreement referred to in paragraph 17(d) below will, on completion of the acquisition, each receive 110,000 fully paid ordinary shares of the Company as consideration for the sale of their shares in Cloudknoll.

(f) Save as disclosed in paragraph 5(e) above, none of the Directors has, or had, any direct or indirect interest in the promotion of or in any assets which during the two years immediately preceding the date of this document have been acquired or disposed of by, or leased to any member of the enlarged Group or any of its subsidiaries or are proposed to be acquired or disposed of by, or leased to, any member of the enlarged Group.

(g) Save as disclosed in paragraph 5(e) above, none of the Directors has any material interest in any contract or arrangement subsisting at the date hereof which is significant in relation to the business of the enlarged Group taken as a whole.

(h) The aggregate emoluments of the Directors in respect of the Company's financial year ended 31st December, 1985 were £97,766 (including pension contributions). The aggr[illegible] emoluments of the Directors in respect of the current financial year of the Company ending on 31st December, 1986 are estimated, under the arrangements in force at the date of this document, to be approximately £142,000 (inclusive of pension contributions).

(i) I. H. Rickitt & Partners Limited, of which Mr. G. R. Smith is a director and shareholder, will receive a fee of £5,000 (exclusive of V.A.T.) in connection with the placing.

(j) Parsons & Co. Limited have agreed to remit to Illingworth & Henriques (Stockbrokers) Limited, of which Mr. R. C. Mather is Chairman and a shareholder, a commission of 1½ per cent. in respect of places procured by them as agents of Parsons & Co. Limited.

6. Directors' Service Agreements

(a) Each of the Directors has entered into a service agreement with the Company, dated 27th May, 1986, for a period of three years from 1st June, 1986, terminable on or after 31st May, 1989 by either party giving to the other not less than 12 months notice expiring on or after 31st May, 1989. Each of the Directors, other than Mr. R. C. Mather is obliged to devote his whole time and attention to his duties with the Company. Mr. R. C. Mather is part-time executive chairman and, as such, is required to devote such time and attention to the business of the Company as shall permit him, properly and effectively, to carry out his duties. The current annual salaries of the Directors under these agreements (all of which are subject to review) are, Mr. R. C. Mather £22,000, Mr. P. J. M. Eadie £35,500, Mr. G. R. Smith £40,000 and Mr. W. Graham £30,000. The Company provides each of the Directors with a motor car.

(b) Save as aforesaid, there are no existing or proposed service or consultancy agreements between the Directors and the Company or any of its subsidiaries which do not expire, or are not determinable by the employing company, without payment of compensation (other than statutory compensation) within one year.

7. **Premises**

The Group operates from the following premises:—

Company	Premises	Use	Tenure	Rent per annum	Expiry Date	Square ft (approx.)
1. Eadie Bros.	Victoria Works Violet Street Paisley	Works and Offices	Feudal	—	—	95,000
2. Eadie Bros.	Hillside Brook Street Knutsford	Offices	Leasehold	£8,125	30th November, 1989	3,000
3. Winterbottom	Oxspring Mill Oxspring Nr. Sheffield	Works and Offices	Freehold	—	—	36,500
4. Alloy	Cradley Road Cradley Heath West Midlands	Works and Offices	Freehold	—	—	34,500
5. Pentwyn	Pontnewynydd Industrial Estate Pontypool, Gwent	Works and Offices	Freehold	—	—	[illegible],000
6. SSW	Hillsborough Works Estate	Works and Offices	Leasehold	£6,000	24th March, 2059	36,000

8. **Articles**

The Articles of Association of the Company contain provisions, *inter alia*, to the following effect:—

(a) Rights of holders of ordinary shares and preference shares

(i) Dividends

The preference shares are entitled to a net cash dividend of 4.2 per cent. per annum of the amount paid up or credited as paid up thereon. The preference dividends rank in priority to all dividends payable on the ordinary shares and are payable half yearly in arrears by equal payments on 30th June and 31st December in each year.

Subject thereto, and to any special rights which may be attached to any class of shares, the balance of the profits of the Company available for dividend and resolved to be distributed shall be distributed amongst the holders of the ordinary shares according to the amounts credited as paid up on the ordinary shares held by them respectively.

(ii) Capital

On a return of capital on a winding up of the Company or otherwise, the assets of the Company available for distribution to the members of the Company shall be applied, first in paying to the holders of the preference shares the amounts paid up on such shares together with all arrears of dividend and dividend accrued from the last date of payment thereof to the date of winding up, such payments of capital and dividend ranking in priority to any repayment of capital to any other class of shareholder and subject to payment to the holders of the ordinary shares of the capital paid up or credited as paid up thereon, in paying to the holders of the preference shares a premium of £1.50 per share. Thereafter any balance of assets shall belong and be distributed amongst the holders of the ordinary shares according to the amounts paid up or credited as paid up on the ordinary shares held by them respectively.

(iii) Voting

Subject to disenfranchisement in the event of non-compliance with a statutory notice requiring disclosure as to beneficial ownership, and subject to any special terms as to voting on which any share may be held (no shares having been issued subject to special terms) every member present in person shall on a show of hands have one vote and every member present in person or by proxy shall on a poll have one vote for every share of the Company held by him.

(b) Variation of Rights

All or any of the rights or privileges attached to any class of share may, subject to the Companies Act 1985, be varied or abrogated either with the consent in writing of the holders of at least three-fourths of the nominal amount 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 issued shares of that class but not otherwise.

(c) Directors:—

(i) A Director shall not, save as provided in (ii) below, vote in respect of any contract or arrangement or any other proposal whatsoever in which he has a material interest otherwise than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company. A Director shall not be counted in the quorum at a meeting in relation to any resolutions on which he is debarred from voting.

(ii) A Director shall (in the absence of some material interest other than is indicated below) be entitled to vote (and be counted in a quorum) in respect of any resolution concerning any of the following matters, namely:—

1 the giving of any security or indemnity to him in respect of money lent or obligations incurred by him at the request of and for the benefit of the Company or any of its subsidiaries;

2 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 giving of security;

3 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;

4 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 is not the holder of or beneficially interested in one per cent. or more of any class of the equity share capital of such company (or of a 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 to be a material interest in all circumstances);

5 any proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefit 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 tax purposes.

(iii) In addition to any salary or other remuneration which may be paid to the Directors under or pursuant to (v) below, the remuneration of the Directors, as such, shall be such sum as may, from time to time, be determined by the Company in General Meeting.

(iv) The Company may repay to any Director all such reasonable expenses as he may incur 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.

(v) Any Director who is appointed to any executive office 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 entitled under the Articles of Association to such remuneration by way of salary or otherwise as the Directors may determine.

(vi) The Directors on behalf of the Company may give and award pensions, annuities, gratuities and superannuation or other allowances or benefits to any Director or to his wife, widow other relatives or dependants and may make any contributions to any fund and pay premiums for the purchase or provision of any such pension, annuity, gratuity, commission and superannuation or other allowance.

(vii) Directors shall not be capable of being appointed or be re-elected a Director after having attained the age of 70 and are required to retire by reason of their having attained that age.

(viii) A Director shall not require a share qualification.

(d) Borrowing Powers

The Directors may exercise all the powers of the Company to raise or borrow money and to mortgage or charge its undertaking, property and assets, both present, and future (including uncalled capital), and to issue debentures or other securities whether outright or as collateral security for any debt, liability or obligation of the Company or any third party. The aggregate amount at any one time owing by the Company and all its subsidiaries in respect of monies borrowed by the Company or any of its subsidiaries other than from any other of such companies) shall not at any time without the previous sanction of the shareholders in General Meeting exceed the sum equivalent to one and one-half times the aggregate of the nominal capital of the Company for the time being issued and paid up and the amounts standing to the credit of the consolidated capital and revenue reserves (including share premium account, capital redemption reserve fund, profit and loss account and debenture stock sinking fund) of the Company and each of its subsidiary companies and the amounts standing to the credit of government grants, deferred revenue account or other accounts of a similar nature of the Company and its subsidiaries, after adjustment as specified in the relevant articles.

9. Executive Share Option Scheme

The Company has, with the authority of an Ordinary Resolution passed on 7th June, 1985, adopted an Executive Share Option Scheme ("the Scheme"), the Rules of which have been approved by the Inland Revenue under the provisions of the Finance Act, 1984. The Scheme was adopted prior to the capital reconstruction and, accordingly, throughout refers to "A" Ordinary Shares rather than ordinary shares. The following is a summary of the principal terms of the Scheme which proceeds on the basis that options are granted in respect of ordinary shares of 25p each:—

1. Under the Scheme, the Board may grant options to acquire ordinary shares in the Company to any full-time Director or qualifying employee of the Company or of a subsidiary to which the Scheme may have been extended (the Company and each such subsidiary being hereinafter called "a Participating Company"). For the purposes of the Scheme, a person is regarded as a full-time Director of a company if he is obliged to devote to the performance of the duties of his office or employment with the company (or with the company and any other Participating Company) not less than 25 hours per week. A qualifying employee, in relation, to a company for the purposes of the Scheme, is an employee of the company (other than one who is a Director of a Participating Company) who is required, under the terms of his employment, to work for the company (or for the company and any other Participating Company) for at least 20 hours per week.

2. The price at which any ordinary share may be acquired by the exercise of an option granted to any person under the Scheme is to be determined by the Board before the grant thereof and, subject to the following provisos, will normally be the highest of:— (i) 30p; and (ii) one-third of the equity net tangible asset value per share; and (iii) eight times the adjusted equity earnings per share; both in the case of (ii) and (iii) above as derived from the audited consolidated published Accounts of the Company and each Participating Company in respect of the last completed accounting period immediately preceding the Grant Date;

Provided always that notwithstanding the foregoing:—

(a) if at the relevant time the ordinary shares are listed in The Stock Exchange Daily Official List, the price is to be not be less than the middle-market quotation of an ordinary share (as derived from that List) on a dealing day falling within the period of 30 days ending with the Grant Date;

(b) if paragraph (a) above does not apply, the price is to be not less than the market value (within the meaning of Part VIII of the Capital Gains Tax Act 1979) of an "A" ordinary share, as agreed for the purposes of the Scheme with the Shares Valuation Division of the Inland Revenue, on a day falling within the period of 30 days ending with the Grant Date; and

(c) the price shall not be less than the nominal value of an "A" ordinary share.

3. The number of ordinary shares issued pursuant to options granted under the Scheme may not exceed 600,000 ordinary shares (subject to adjustment in the event of certain variations of the Company's capital) or 10 per cent. of the issued ordinary share capital of the Company from time to time. The amount for which ordinary shares may be subscribed under any option granted to any participant under the Scheme and under any other Scheme approved under Schedule 10 to the Finance Act 1984, may not exceed the limits imposed by the Finance Act, 1984, which are broadly 4 times the higher of his PAYE earnings for the current or preceding year, or £100,000 whichever is the greater.

4. All ordinary shares issued under the Scheme will rank *pari passu* in all respects with the ordinary shares in the Company for the time being in issue save as regards any rights attaching thereto by reference to a record date prior to the date of issue.

5. An option, under the Scheme, may not, except in the circumstances mentioned below, be exercised earlier than 3 years from the date on which it was granted and thereafter may, unless it has lapsed, be exercised during the period ending 10 years from such date.

6. On the death of an option holder, a subsisting option may, unless it lapses in the circumstances set out in sub-paragraphs 8 or 10 below, be exercised by his personal representatives during the period ending one year from his death, after which it will lapse.

7. An option holder who ceases to be employed by the Company on normal retirement (including early retirement at the Board's discretion) may exercise his options during the period of 18 months from the date of his retirement.

8. An option holder who ceases to be employed by the Company by reason of injury, disability or redundancy, may exercise his options during the period of 6 months from the date of his cessation of employment or, if later, during the period of three years from the date on which the option was granted.

9. If an option holder ceases to be employed by the Company in other circumstances, all his options will lapse.

10. If, before the exercise of an option, the company with which the option holder is employed ceases to be a Participating Company, the option may be exercised and, subject to 6 above, must, if at all be exercised within the period of six months following such cessation or 36 months after the date of grant of the option, whichever is the later.

11. If, as a result of an offer to acquire shares of the Company, control of the Company is obtained by any person (or persons acting in concert) the Directors are bound, within 7 days of becoming aware of the same, to notify every participant in the Scheme and (subject to 6 to 10 inclusive above) an option may be exercised during the period of one month (or such longer period as the Directors may permit) of such notification.

12. If:—

(a) any person becomes bound or entitled to acquire shares under Sections 428 to 430 of the Companies Act, 1985; or

(b) the Court sanctions a compromise or arrangement in connection with a scheme for reconstruction or amalgamation of the Company with any other company or companies; or

(c) if the Company passes a Resolution for or an order is made for the compulsory winding-up of the Company,

the Board is bound to notify every participant and any subsisting option may, subject to 5, 6, 7, 8 and 10 above, be exercised within one month of such notification and to the extent that it is not exercised within that period, the option shall thereupon lapse.

13. The Board shall have power at any time to terminate, alter or add to all or any of the provisions of the Scheme or the terms of any option granted under the Scheme in any respect (subject to Inland Revenue approval) except that no such alteration or addition shall be made without prior approval of the Company in general meeting which operates to the advantage of any participant and relates to:—

(a) eligibility of participation;

(b) the number of shares available for the Scheme and for individual participants;

(c) the basis of subscription including the share price;

(d) the voting, dividend, transfer or other rights including those arising in liquidation; and

(e) the requirement to submit any such above changes for the prior approval of the Company in General Meeting.

14. At the date of this document, options in respect of total of 560,000 ordinary shares have been granted under the Scheme.

10. Working Capital

The Directors consider that, taking into account the bank facilities available to the enlarged Group and the estimated net proceeds of the placing of the new ordinary shares, the enlarged Group has sufficient working capital for its present requirements.

11. Material Changes

Save as disclosed herein, there have been no material changes in the trading or financial position of the enlarged Group since 31st December, 1985, the date to which the last audited accounts were made up.

12. Taxation

Clearance has been obtained under section 464 of the Income and Corporation Taxes Act 1970 in respect of the reorganisation of the share capital of the Company prior to the placing.

13. Minimum Subscription

The minimum amount which, in the opinion of the Directors, will require to be raised by the placing of new ordinary shares for the purposes mentioned in paragraph 2(a) of Part I to the Third Schedule to the Companies Act 1985 is, in respect of sub-paragraph (i), nil; sub-paragraph (ii) £14,250; sub-paragraph (iii) nil; and sub-paragraph (iv) nil.

14. Application Lists

The application lists will open at 9.00 a.m. on 2nd June, 1986 and may close at any time thereafter.

15. Litigation

The Directors are not aware of any litigation or claims of material importance pending or threatened against any member of the enlarged Group.

16. Consents

(a) Arthur Young have given and have not withdrawn their written consent to the issue of this document with the inclusion herein of their reports, their letter relating to the profit forecast and their name and with the references thereto in the form and context in which they respectively appear.

(b) Parsons & Co. Limited has given and has not withdrawn its written consent to the issue of this document with the inclusion of its letter relating to the profit forecast and its name and with the references thereto in the form and context in which they respectively appear.

(c) Jackson and Son have given and have not withdrawn their written consent to the issue of this document with the inclusion therein of the reference to their valuation in the form and context in which it appears.

17. Material Contracts

The following contracts are the only contracts entered into by the Group, otherwise than in the ordinary course of business, during the two years preceding the date of this document which are, or may be considered, material:—

(a) an agreement dated 28th June, 1984 between Eadie Bros. and Campbell Dean Boadle and others for the acquisition by Eadie Bros. of the whole of the issued share capital of Pentwyn for a consideration of £40,000;

(b) an agreement dated 28th June, 1984 between Pentwyn, Campbell Dean Boadle and Eadie Bros. under which Pentwyn undertook to pay to Mr Boadle a royalty for a period of 12 years of 7 per cent. of the net sales value of the products manufactured by Pentwyn;

(c) an agreement dated 16th May, 1985 between the Company and Illingworth & Henriques, Stockbrokers, whereby Illingworth & Henriques agreed to underwrite the issue of 307,472 new 'A' Ordinary Shares of 50p each at par in exchange for a total commission of 1¾ per cent. (plus VAT) of the gross proceeds;

(d) an agreement dated 23rd April, 1986 between the Company and Lewis Smith and others for the acquisition by the Company of the share capital of Cloudknoll not already held by the Company, the consideration being the issue of 880,000 ordinary shares of the Company; and

(e) the Placing Agreement dated 27th May, 1986 between the Company, the Directors and Parsons & Co. Limited as described in paragraph 4 above.

18. General

The financial information concerning the enlarged Group contained in this document does not amount to full accounts within the meaning of Section 254 of the Companies Act 1985. Full accounts relating to each financial period up to 31st December, 1985 have been delivered to the Registrar of Companies. The Auditors have made a report under Section 236 of the Companies Act 1985 in respect of each such set of Accounts and each such report was an unqualified report.

19. Registration

A copy of this document has been delivered to the Registrar of Companies for registration, having attached to it a copy of the placing letter with attached Form of Application to be issued by Parsons & Co. Limited, the consents mentioned in paragraph 16 above and each of the material contracts mentioned in paragraph 17 above, and the statement of adjustments referred to in paragraph 20(e) below.

20. Documents for Inspection

Copies of the following documents may be inspected at the offices of MacRoberts, 91 West George Street, Glasgow G2 1PA and Parsons & Co. Limited, 84/86 Warnford Court, Throgmorton Street, London, EC2N 2AT during usual business hours on weekdays (except Saturdays and public holidays) for the period of fourteen days from the date of publication of this document:—

(a) the Memorandum and Articles of Association of the Company;

(b) the audited consolidated accounts of the Group for each of the three years ended 31st December, 1985;

(c) the audited accounts of SSW for the period ended 30th September, 1983 and the audited consolidated accounts of Cloudknoll and its subsidiary for the two periods ended 31st December, 1985;

(d) the Accountants' Reports on the Group and on the Cloudknoll Group;

(e) the statement of adjustments to the Accountants' Report on the Cloudknoll Group;

(f) the service agreements referred to in paragraph 6 above;

(g) the material contracts referred to in paragraph 17 above;

(h) the written consents referred to in paragraph 16 above;

(i) the profit forecast letters set out in Part V above; and

(j) the terms and conditions of the Company's Executive Share Option Scheme referred to in paragraph 9 above.

Dated 28th May, 1986