

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice from an independent professional adviser authorised pursuant to the Financial Services Act 1986 immediately.

If you have sold through the London Stock Exchange all or part of your holding of Existing Ordinary Shares prior to the ex entitlement date, you should complete Box 6 of the enclosed Application Form and deliver the Application Form, together with this document, to the stockbroker or other agent through whom the sale was effected, who will arrange for the Application Form to be split or transmitted to the purchaser(s). However in either case such document should not be forwarded or transmitted in or into the United States, Canada or Australia.

Qualifying Holders who are CREST Sponsored Members should refer to their CREST Sponsors regarding the action to be taken in connection with this document.

Copies of this document, which comprises a prospectus relating to Flare prepared in accordance with the Listing Rules made under Part IV of the Financial Services Act 1986, have been delivered to the Registrar of Companies in England and Wales for registration in accordance with Section 149 of that Act. ✓

Application has been made to the London Stock Exchange for the admission of the New Ordinary Shares to the Official List. It is expected that such admission will become effective and that dealings in the New Ordinary Shares will commence on 5 September 1997. No application has been made, or is contemplated, for the New Ordinary Shares to be listed on any other stock exchange. The New Ordinary Shares have not been and will not be registered under the United States Securities Act 1933, as amended, or under the securities laws of any state in the United States or province or territory of Canada and may not, subject to certain exceptions, be offered or sold within the United States, Canada or Australia.

FLARE GROUP plc ✓

(Registered in England No. 244974) ✓

Acquisitions of Elmeceram and C H Rathbone & Son
Placing of 1,855,833 New Ordinary Shares at 120p per share
and
Open Offer
of 5,080,914 New Ordinary Shares
at 120p per share
by
Collins Stewart Limited



Collins Stewart, which is a member of and regulated by The Securities and Futures Authority Limited, is acting as financial adviser and as sponsor to Flare and no-one else in connection with the Placing and the Open Offer and the admission to the Official List of the New Ordinary Shares. Collins Stewart will not regard any other person as its customer or be responsible to any other person for providing the protections afforded to the customers of Collins Stewart nor for providing advice in relation to the arrangements described in this document.

Qualifying Holders are advised to consult their independent professional advisers before deciding whether to apply for their entitlement to Offer Shares under the Open Offer. Applications under the Open Offer may only be made on the Application Form which is enclosed and which is personal to the shareholder(s) named therein and may not be assigned or transferred, except to satisfy bona fide market claims.

Qualifying Holders who wish to apply for Offer Shares under the Open Offer should complete the enclosed Application Form in accordance with the instructions printed thereon and return it, together with the appropriate remittance, by hand or by post in the enclosed reply-paid envelope to IRG plc, New Issues Department, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ, so as to arrive no later than 3.00 pm on 2 September 1997.

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TIMETABLE OF PRINCIPAL EVENTS

Record Date for the Open Offer	1 August 1997
Latest time and date for splitting of Application Forms (to satisfy bona fide market claims only)	3.00 pm on Friday 29 August 1997
Latest time and date for receipt of Application Forms and payment in full	3.00 pm on Tuesday 2 September 1997
Dealings expected to commence in the New Ordinary Shares	5 September 1997
Expected despatch of definitive share certificates or allocation to relevant CREST account (as the case may be)	by 17 September 1997

DEFINITIONS

In this document, the following expressions shall (unless the context requires otherwise) have the following meanings:

"Acquisition Agreements"	the C H Rathbone Acquisition Agreement and the Elmeceram Acquisition Agreement
"Acquisitions"	the proposed acquisitions by Flare of Elmeceram and C H Rathbone & Son
"Act"	the Companies Act 1985, as amended
"Admission" or "Listing"	admission of the New Ordinary Shares to trading on the Official List becoming effective pursuant to the listing rules
"Application Form"	the application form accompanying this document for use by Qualifying Holders in relation to the Open Offer
"Bricesco"	Bricesco Limited, a subsidiary of the Company
"Cerinov"	Cerinov Holding SA
"Certificated" or "in Certificated Form"	a share which is not in Uncertificated Form
"C H Rathbone & Son"	C H Rathbone & Son, a partnership
"C H Rathbone & Son Acquisition Agreement"	the agreement between the Rathbone Vendors (1) and the Company (2) relating to the acquisition of the business and certain of the assets of C H Rathbone & Son further details of which are summarised in paragraph 8(ii) of Part IV of this document
"CMS"	CMS Colours Limited, a subsidiary of the Company
"Collins Stewart"	Collins Stewart Limited
"CREST"	the relevant system (as defined in the Regulations) in respect of which CRESTCo is the Operator (as defined in the Regulations)
"CRESTCo"	CRESTCo Limited
"Directors" or "Board"	the directors of the Company listed on page 5 of this document
"Elmeceram"	Cerinov, Elmeceram SA and Elmeceram UK Limited
"Elmeceram Acquisition Agreement"	the agreement between Data Investments Limited (1), Ceram Holdings SA (2), the Company (3) and Philippe Blandinières (4) relating to the acquisition of Elmeceram further details of which are summarised in paragraph 8(i) of Part IV of this document
"Elmeceram Vendors"	Data Investments Limited and Ceram Holdings SA
"Elmeceram Vendor Consideration Shares"	the 1,821,759 New Ordinary Shares to be issued pursuant to the Elmeceram Acquisition Agreement
"Enlarged Group"	the Group as enlarged by the Acquisitions
"ex entitlement date"	11 August 1997
"Existing Ordinary Shares"	the 21,566,073 existing Ordinary Shares in issue at the date of this document
"FF"	French Francs
"Flare" or "the Company"	Flare Group plc
"Flare Share Option Scheme"	the Flare Group plc Executive Share Option Scheme
"Group" or "Flare Group"	the Company and its subsidiaries at the date of this document
"listing rules"	the listing rules of the London Stock Exchange
"London Stock Exchange"	London Stock Exchange Limited

"New Ordinary Shares"	the 7,862,673 new Ordinary Shares to be issued pursuant to the Open Offer, the Rathbone Vendor Consideration Shares and the Elmeceram Vendor Consideration Shares
"Offer Shares"	the 5,080,914 New Ordinary Shares to be offered pursuant to the Open Offer
"Official List"	the Official List of the London Stock Exchange
"Open Offer"	the invitation by Collins Stewart on behalf of the Company to Qualifying Holders to subscribe for the Offer Shares on the terms and conditions set out in Part II of this document and the Application Form
"Ordinary Shares"	ordinary shares of 25p each in the share capital of the Company
"Overseas Holders"	Overseas Shareholders and Overseas Warrantholders
"Overseas Shareholders"	Shareholders who are resident in, or citizens of, countries other than the United Kingdom of Great Britain and Northern Ireland
"Overseas Warrantholders"	Warrantholders who are resident in, or citizens of, countries other than the United Kingdom of Great Britain and Northern Ireland
"Placing"	the placing by Collins Stewart of 1,855,833 New Ordinary Shares pursuant to the Placing Agreement
"Placing Agreement"	the conditional agreement dated 8 August 1997 between Flare (1), the Directors (2) and Collins Stewart (3) relating to the Placing and the Open Offer, details of which are contained in paragraph 8(iii) of Part IV of this document
"Placing Price"	120p per New Ordinary Share
"Preference Shares"	existing issued 10 per cent. cumulative preference shares of £1 each in the share capital of the Company
"Preference Shareholders"	holders of Preference Shares
"Proposed Director"	Philippe Blandinières
"Qualifying Holders"	Qualifying Shareholders and Qualifying Warrantholders
"Qualifying Shareholders"	holders of Ordinary Shares on the register of members of the Company at the close of business on the Record Date, excluding certain Overseas Shareholders
"Qualifying Warrantholders"	holders of Warrants at the close of business on the Record Date, excluding certain Overseas Warrantholders
"Rathbone Vendors"	Christopher Charles Rathbone, Sheila Margaret Rathbone and Pauline Rathbone
"Rathbone Vendor Consideration Shares"	the 960,000 New Ordinary Shares to be issued pursuant to the C H Rathbone & Son Acquisition Agreement
"Record Date"	1 August 1997
"Regulations"	the Uncertificated Securities Regulations 1995 (SI 1995 No. 95/3272)
"Shareholders"	holders of Ordinary Shares
"Thermic"	Thermic Designs Limited, a subsidiary of the Company
"uncertificated" or "in Uncertificated Form"	recorded on the relevant register of the share concerned as being held in uncertificated form in CREST, entitlement to which, by virtue of the Regulations, may be transferred by means of CREST
"Vendors"	the Rathbone Vendors and the Elmeceram Vendors
"Warrantholders"	holders of Warrants
"Warrants"	the existing warrants to subscribe for Ordinary Shares

DIRECTORS AND ADVISERS

Directors	D G Heynes (<i>Non-Executive Chairman</i>) I R Gowrie-Smith (<i>Non-Executive Deputy Chairman</i>) D J Lees (<i>Chief Executive</i>) S P Thornhill (<i>Finance Director</i>) P Cartwright (<i>Executive Director</i>) S J Redford (<i>Executive Director</i>)
Proposed Director	P Blandinières (<i>Non-Executive</i>)
Secretary and Registered Office	David Smith 105 Piccadilly London W1V 9FN
Financial Adviser, Sponsor and Stockbroker	Collins Stewart Limited 21 New Street Bishopsgate London EC2M 4HR
Solicitors to the Company	Stringer Saul Marcol House 293 Regent Street London W1R 7PD
Reporting Accountants and Auditors to the Company	Grant Thornton Grant Thornton House Melton Street Euston Square London NW1 2EP
Solicitors to Collins Stewart and to the Placing and the Open Offer	Simmons & Simmons 21 Wilson Street London EC2M 2TX
Principal Bankers	Barclays Bank PLC Festival Way Festival Park Stoke-on-Trent ST1 5TN
Registrars and Receiving Agents	IRG plc Balfour House 390/398 High Road Ilford Essex IG1 1NQ

PART I

FLARE GROUP plc

(Registered in England No 244974)

Directors:

David Gordon Heynes (*Non-Executive Chairman*)
Ian Roderick Gowrie-Smith (*Non-Executive Deputy Chairman*)
David John Lees (*Chief Executive*)
Stephen Paul Thornhill (*Finance Director*)
Peter Cartwright (*Executive Director*)
Stuart James Redford (*Executive Director*)

Registered and Head Office:

105 Piccadilly
London
W1V 9FN

8 August 1997

To Shareholders and Warrantholders and, for information only, to Preference Shareholders and holders of options under the Flare Share Option Scheme

Dear Sir or Madam,

1. Introduction

The purpose of this document is to provide Shareholders and Warrantholders with details of the Acquisitions and the Placing and the Open Offer which Flare announced today.

The Company has today entered into conditional agreements to acquire:

- (a) Elmecceram which consists of Cerinov, its operating subsidiary Elmecceram S.A., based near Limoges, France and its associated company, Elmecceram U.K. Limited, based in Stoke-on-Trent, England; and
- (b) the business and certain assets of C H Rathbone & Son (including the freehold premises from which C H Rathbone & Son operates), also based in Stoke-on-Trent, England.

The consideration for the acquisition of Elmecceram is £2.325 million which is to be satisfied by the issue of 1,821,759 New Ordinary Shares of which 895,833 are to be placed so as to raise £1.075 million for the Elmecceram Vendors.

The consideration for the acquisition of the business and certain assets of C H Rathbone & Son (together with the freehold premises from which C H Rathbone & Son operates) is to be satisfied by the issue of 960,000 New Ordinary Shares which are to be placed to raise £1.152 million for the Rathbone Vendors.

In conjunction with the Placing, it is proposed to raise a further £5.547 million, after expenses, by the issue of 5,080,914 New Ordinary Shares by way of an open offer to Qualifying Holders. The proceeds of the Open Offer will be utilised to re-pay short term financing related to the Company's acquisition of Thermic, certain deferred payments relating to earlier acquisitions by the Company, the reduction of debt and to provide additional working capital for the Enlarged Group.

The Placing and the Open Offer, which are both being underwritten by Collins Stewart, are being made at 120p per share.

Further details about the Acquisitions and the Placing and the Open Offer are set out below.

2. Information on Elmeceram

Elmeceram is a supplier of capital equipment and related consumables to the ceramics industry. Its sales profile and product range is focused on tableware manufacturers, and approximately 80% of its turnover is generated from the manufacture and sale of casting, drying and decorating machinery. The sale of moulds, both for use in pressing and casting applications, together with raw materials for customers' own manufacturing of such products, accounts for the remaining turnover.

Elmeceram's customer base is complementary to that of other companies within the Group. In 1996, just under 80% of turnover was generated with continental European customers, with another 14% coming from the UK and USA. This customer spread contrasts substantially with existing Group companies, which generate large revenues outside Elmeceram's traditional market place.

Elmeceram's philosophy is to work in close co-operation with potential customers in research and development projects to produce saleable products. The Directors believe that Elmeceram's porous mould technology, developed some time ago within the company, is ranked amongst the best in the world and has extended the range of products and services available to its tableware customers.

Elmeceram operates from a manufacturing facility near Limoges and also has a small UK sales and manufacturing operation in Stoke-on-Trent for porous moulds.

Until 1996, Elmeceram's French business was operated as a division of Elmetherm SA, also a wholly owned subsidiary of Cerinov. The trading operations were transferred to Elmeceram on 7 June 1996, although Elmetherm SA has continued to manufacture for Elmeceram as Elmeceram's subcontractor. It is a term of the sale that the Elmeceram Vendors will procure the establishment of Elmeceram in separate premises, as a stand-alone operation, without any further reliance on Elmetherm SA. To that end, a total of 31 Elmetherm SA employees are to be transferred to Elmeceram. The transfer is expected to be concluded by 30 September 1997; until then Elmetherm SA will continue to act as subcontracted manufacturer.

Elmeceram's audited sales figures for the year ended 31 December 1996 were FF37.108 million (£4.642 million), producing a profit of FF658,000 (£82,000). At 31 December 1996, Elmeceram's net assets were FF3,671 million (£413,000).

3. Information on C H Rathbone & Son

C H Rathbone & Son is a family business which was established in Stoke-on-Trent in 1952 supplying screen printed transfers, principally to manufacturers of ceramic plaques and mugs. The business produces transfers using a four colour printing process and these transfers are supplied to a relatively small number of well-known tableware manufacturers in the UK. The Directors believe that these transfers are produced to high quality and efficiency levels. Product quality and customer service are fundamental to the success of the business as evidenced by C H Rathbone's long standing relationships with its major customers.

The Directors believe that C H Rathbone & Son, in common with other businesses already in the Group, has an innovative approach to the application of processes within the industry. It is, for example, a significant force in the industry for the supply of heat release transfers. Transfers in this form represent approximately 80% of its turnover.

The business operates from freehold premises in Stoke on Trent and benefits from recent investment in new equipment and technology. Substantial spare capacity is available to increase output, both as a result of recent capital investment and by expanding from the current single production shift.

In the year to 12 April 1997, C H Rathbone & Son's partnership accounts showed unaudited sales were £1.886 million with unaudited pre-tax profits of £357,000. As at 12 April 1997, C H Rathbone & Son's unaudited net assets were £621,000.

4. Reasons for the Acquisitions

The Board's stated objective is to establish Flare as the leading international supplier to the international ceramics market. To achieve this Flare must be able to meet substantially all the requirements of its customer base, in whatever geographic location, for the supply of goods, both capital equipment and consumables.

Elmeceram further expands Flare's ability to support turnkey solutions to tableware customers. The Group has been able to offer a turnkey product to the marketplace for some time, but always with parts of the total supply being manufactured externally. Elmeceram brings with it casting, drying and decorating machinery specifically for tableware, thereby ensuring that virtually the entire manufacturing process can be completed within the Group.

With the acquisition of Elmeceram, Flare also gains greater access to tableware customers in continental Europe, especially France, for the Group's other capital equipment. Elmeceram has established close business relationships with customers in these areas, on which the Group can develop further selling opportunities. Conversely, the geographical spread of customers for all Group companies, and in particular for Bricesco and Thermic, and the strength of their brands in the sanitaryware industry, will significantly extend Elmeceram's potential customer base.

The Directors also believe that Elmeceram's access to mainly tableware customers should provide a platform for CMS and C H Rathbone & Son further to expand their export business in transfer, media and colour sales.

The Directors believe that the acquisition of C H Rathbone & Son will complement the Group's existing transfer business operated by CMS. C H Rathbone & Son is a specialist volume provider principally of four colour transfers while CMS provides generally more complex designs, usually in smaller volumes. The Directors believe there will be opportunities to expand this business through the Group's international customer base and to grow export volumes significantly through greater marketing overseas. The Directors believe that the ultra violet drying technology which is being developed by CMS will improve C H Rathbone & Son's production techniques.

5. Terms of the Acquisitions

The Company has agreed conditionally to acquire the whole of the issued share capital of Cerinov SA, Elmeceram SA and Elmeceram UK Limited for £2.325 million which is to be satisfied by the issue of 1,821,759 New Ordinary Shares, 895,833 of which are to be placed to raise £1.075 million for the Elmeceram Vendors.

The consideration for the acquisition of the business and certain assets of C H Rathbone & Son (including the freehold premises) is estimated to be £1.152 million, subject to adjustment at completion, to be satisfied by the issue of 960,000 New Ordinary Shares which are to be placed to raise £1.152 million for the Rathbone Vendors.

The Acquisition Agreements are conditional, *inter alia*, upon:

- (a) the Placing Agreement becoming unconditional in all respects, except in respect of conditions which relate to the Elmeceram and C H Rathbone & Son Acquisition Agreements or their completion; and
- (b) Admission.

A summary of the principal contents of the Elmeceram and C H Rathbone & Son Acquisition Agreements is set out in paragraph 8 of Part IV of this document.

6. Current Trading

The markets in which the Group operates remain competitive particularly as a result of the strength of sterling. Nonetheless, the Directors believe that the efficient production processes within the Group, which the Group continues to improve, have enabled it to remain price competitive. The Board is satisfied with the progress that the Group has achieved to date this year and views the Group's future trading performance with confidence.

7. New Management Structure

The Group is composed of a considerable number of individual companies. Following completion of the Acquisitions, the Group will be re-organised to create three separate divisions, reflecting the breadth of its various activities. The three divisions will be Industrial Ceramics, Capital Goods and Surface Decoration. They will be headed respectively by Stuart Redford, Brian Brown and Peter Cartwright. The Directors believe that, following the Acquisitions, the Group will have put in place a more effective structure which will enable it to take full advantage of available market opportunities.

John Sinclair, Managing Director of Hewitt Refractories, has resigned from the Board. He will remain as Managing Director of Hewitt Refractories until 31 August 1997. He is leaving at his own request to pursue a business opportunity in the engineering sector which is not in competition with any of the Group's existing operations. On behalf of the Board, I would like to take this opportunity to thank John for all his work in helping the Group to its present position and to wish him every success in his new venture.

8. The Placing and the Open Offer

In order to finance the Acquisitions, Flare proposes to issue 2,781,759 New Ordinary Shares (representing approximately 9.45 per cent. of its enlarged issued share capital). Collins Stewart has agreed to place 1,855,833 of these shares with institutional investors to provide cash for the Vendors.

Additionally Flare proposes to issue a further 5,080,914 New Ordinary Shares ("the Offer Shares") (representing approximately 17.27 per cent. of the enlarged issued share capital) by way of an open offer.

On behalf of the Company, Collins Stewart has agreed to place these Offer Shares conditionally with institutional investors at 120p per share subject to recall to satisfy valid applications by Qualifying Holders under the Open Offer.

In order to provide Qualifying Holders with an opportunity to acquire Offer Shares, Collins Stewart has agreed on behalf of the Company to invite applications from Qualifying Holders to subscribe for Offer Shares at 120p per share. Qualifying Holders are being offered the opportunity to participate on the following basis:

14 Offer Shares for every 65 Ordinary Shares

14 Offer Shares for every 65 Warrants

held by them at the close of business on the Record Date rounded down to the nearest whole share. In accordance with the terms and conditions of the Warrants, the Open Offer is being made to Qualifying Warrantholders as if the issued Warrants had been exercised in full prior to the Record Date.

Qualifying Holders may apply for any number of Offer Shares up to their maximum *pro rata* allocation as set out on their Application Form. Valid applications will be satisfied in full. To be valid, completed Application Forms and payment in full must be received by 3.00 pm on 2 September August 1997. Any Offer Shares not taken up under the Open Offer will be subscribed for under the terms of the Placing Agreement.

The Offer Shares will, when fully paid, rank *pari passu* in all respects with the Existing Ordinary Shares.

The Placing and the Open Offer are conditional, *inter alia*, on the Placing Agreement becoming unconditional and not being terminated and on the London Stock Exchange admitting the New Ordinary Shares to the Official List such admission becoming effective not later than 8.30 am on 5 September 1997 (or such later date as Collins Stewart may agree).

9. Action to be taken in respect of the Open Offer

If you wish to take up any or all of your entitlement to Offer Shares, you should complete and return the enclosed Application Form in accordance with the procedure for application set out in this document (and on the Application Form) and return it together with the appropriate payment by post or by hand to IRG plc, New Issues Department, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ so as to arrive as soon as possible and in any event no later than 3.00 pm on Tuesday 2 September 1997. A pre-paid envelope is enclosed for your convenience.

Further details relating to the Open Offer are set out in the letter from Collins Stewart in Part II of this document.

10. Directors' Intentions

The Directors and persons connected with them have irrevocably undertaken not to take up their entitlements under the Open Offer to subscribe for an aggregate of 948,209 Offer Shares. These Offer Shares have been placed firm by Collins Stewart.

11. Board Appointment

Following completion of the acquisition of Elmeceram, Philippe Blandinières, the Managing Director and ultimate beneficial owner of Elmeceram, will join the board of Flare as a non-executive director.

12. CREST

On 26 October 1996, CRESTCo granted permission for the Ordinary Shares to be admitted to CREST and from such date holders of Ordinary Shares have been able to hold their shares either in certificated or Uncertificated Form. As the Company's Existing Ordinary Shares are already admitted to CREST no further application for admission to CREST is required for the New Ordinary Shares; all of such shares, when issued and fully paid, may be held and transferred by means of CREST. Details of the arrangements for the settlement of entitlements to Offer Shares for Shareholders who hold their Ordinary Shares either in Certificated Form or in Uncertificated Form are set out in the letter from Collins Stewart in Part II of this document.

13. Further Information

Your attention is drawn to the further information set out in Parts III and IV of this document.

Yours faithfully,

D. G. Heynes
Chairman

PART II

LETTER FROM COLLINS STEWART

Collins ♦ Stewart Limited

(Regulated by The Securities and Futures Authority Limited)

21 New Street
Bishopsgate
London EC2M 4HR

8 August 1997

To Qualifying Holders

Dear Qualifying Holder

Proposed Open Offer

Your Chairman has explained in his letter set out in Part I of this document details of the proposals to raise £5.547 million (after expenses) by way of an open offer of New Ordinary Shares in order to re-pay short term financing related to the acquisition of Thermic, certain deferred payments relating to earlier acquisitions by the Company and further to reduce debt and to provide additional working capital for the Enlarged Group.

Collins Stewart has conditionally agreed to procure placees for the Offer Shares to be issued pursuant to the Open Offer at 120p per share, such persons being institutional and other investors, subject to these Offer Shares being available for clawback to satisfy valid applications by Qualifying Holders under the Open Offer. All of these Offer Shares have been underwritten by Collins Stewart.

The Terms of the Proposed Open Offer

Subject to the terms and conditions set out in this letter and in the Application Form, Collins Stewart, as agent for the Company, hereby invites applications from Qualifying Holders to take up to 5,080,914 Offer Shares at a price of 120p per share payable in full in cash on application, free from all commissions and expenses. Qualifying Holders may apply for Offer Shares calculated on the following basis:

14 Offer Share for every 65 Ordinary Shares

14 Offer Shares for every 65 Warrants

held on the Record Date and so in proportion for any other number of Ordinary Shares or Warrants then held. Holdings of Ordinary Shares in Certificated and Uncertificated Form will be treated as separate holdings for the purpose of calculating entitlements under the Open Offer. Entitlements of Qualifying Holders will be rounded down to the nearest whole number of Offer Shares. Fractional entitlements that would otherwise have arisen will be aggregated and sold for the benefit of the Company under the terms of the Placing Agreement. Qualifying Holders may apply for any whole number of Offer Shares up to their maximum entitlement. No application in excess of the maximum entitlement will be met and any Qualifying Holder so applying will be deemed to have applied only for his maximum entitlement.

You should be aware that the Open Offer is not a rights issue and that Offer Shares not applied for under the Open Offer will not be sold in the market for the benefit of those who do not apply for them under the Open Offer and that rights of Qualifying Holders to apply to take up Offer Shares will lapse if they are not taken up. Any Offer Shares not taken up pursuant to the Open Offer will be allocated to placees procured by Collins Stewart pursuant to the terms of the Placing Agreement. The Application Form is not a document of title and cannot be traded.

The Open Offer is subject to the satisfaction of, *inter alia*, all of the following conditions by not later than 5 September 1997 or such later date, as Collins Stewart may agree:

- (a) the Placing Agreement having become unconditional and not having been terminated in accordance with its terms; and
- (b) Admission.

Details of the Placing Agreement are set out in paragraph 10 of Part IV of this document.

The Offer Shares will, when allotted, be fully paid, and will rank *pari passu* with the Existing Ordinary Shares.

Procedure for Application

The enclosed Application Form shows the number of Ordinary Shares and/or Warrants registered in your name on the Record Date and also shows the maximum number of Offer Shares for which you may apply. The Application Form is personal to the shareholder(s) named therein and may not be split, assigned or transferred other than to satisfy *bona fide* market claims in relation to purchases through the market prior to the date on which the existing Ordinary Shares are marked "ex" the entitlement to the Open Offer.

Qualifying Holders who have sold all or part of their holding of Ordinary Shares or Warrants through the London Stock Exchange prior to the ex entitlement date should consult their stockbroker or other agent through whom the sale or transfer was effected as soon as possible, as the invitation to apply to take up Offer Shares under the Open Offer may represent a benefit which may be claimed from them by the purchaser under the Rules of the London Stock Exchange.

If you wish to take up your entitlement under the Open Offer, in whole or in part, your Application Form must be completed and returned in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, by hand or by post to IRG plc, New Issues Department, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ so as to arrive as soon as possible but in any event not later than 3.00 pm on 2 September, 1997. A reply-paid envelope is enclosed. Please allow at least two working days for delivery.

Applications once made will be irrevocable. Collins Stewart (on behalf of the Company) may (at its sole discretion) treat an Application Form as valid and binding on the person(s) by whom or on whose behalf it is lodged even if it is not completed in accordance with the relevant instructions or not accompanied by a power of attorney when required or which otherwise does not strictly comply with the terms and conditions of application.

The Company and Collins Stewart reserve the right (but shall not be obliged) to accept applications in respect of which remittances are received prior to 3.00 pm on 2 September 1997 from an authorised person (as defined in the Financial Services Act 1986) specifying the Offer Shares concerned and undertaking to lodge the relevant Application Form in due course.

If you do not wish to apply for any of the Offer Shares you should not complete or return your Application Form.

Procedure for Payment

All payments must be made by cheque or bankers draft in pounds sterling. Cheques or bankers' drafts should be made payable to "IRG plc - a/c Flare Group plc" and crossed "Account Payee" and must be drawn on a bank or building society in the United Kingdom, the Channel Islands or the Isle of Man which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or a member of the committees of the Scottish or Belfast Clearing Houses or which has arranged for its cheques or bankers' drafts to be presented for payment through the clearing facilities provided for any such members and must bear the appropriate sort code number in the top right hand corner and be for the full amount payable on application. The Company reserves the right to reject applications unless these requirements are fulfilled.

The right is reserved to present cheques and bankers' drafts on receipt. If cheques or bankers' drafts are presented for payment before the closing date of the Open Offer, the application monies will be kept in a separate bank account and any interest earned will be retained for the benefit of the Company. Qualifying Holders should note that applications will be irrevocable and that it is a term of the Open Offer that applicants warrant that cheques and bankers' drafts shall be honoured on first presentation. The Company may elect to treat as invalid any application in respect of which that warranty, or the warranty and undertaking in relation to the (the Money Laundering Regulations (SI 1993 No. 1933) "Money Laundering Regulations") referred to below, is or appears to have been breached.

In the event that the Open Offer has not become unconditional by [5] September 1997 (or such later date as Collins Stewart may agree) all monies will (subject to the Money Laundering Regulations) be returned (without payment of interest) to applicants at their risk as soon as practicable thereafter and in any event within 14 days of the date on which the Open Offer lapses.

If you are in any doubt about the action you take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser authorised under the Financial Services Act 1986 immediately.

Money Laundering Regulations

The Money Laundering Regulations may require the Registrars to establish the identity of the person by whom, or on whose behalf, an Application Form is lodged (which requirements are referred to below as the "verification of identity requirements"). A person (the "acceptor") who, by lodging an Application Form as described above, applies for Offer Shares and any agent lodging such an Application Form on his behalf shall thereby be deemed as a term of the Open Offer to agree to provide the Registrars and/or the Company with such information and other evidence as they may require in their absolute discretion to satisfy the verification of identity requirements. Return of an Application Form with the appropriate remittance will constitute a warranty from the applicant that the Money Laundering Regulations will not be breached by the acceptance of the remittance and an undertaking from the applicant to provide verification of identity reasonably satisfactory to the Registrars so requested.

If the Registrars determine in their absolute discretion that the verification of identity requirements apply to any acceptance of an application and that the verification of identity requirements have not been satisfied by 3 pm on 1 September 1997, the Company may, in its absolute discretion, treat the acceptance as invalid or may allot the relevant Offer Shares to the acceptor but (notwithstanding any other term of the Open Offer) such shares will not be issued to him or registered in his name until the verification of identity requirements have been satisfied (which the Registrars shall in their absolute discretion determine). If the acceptance is not treated as invalid and the verification of identity requirements are not satisfied within such period, not being less than twenty-one days after a request for evidence of identity is despatched to the acceptor, as the Company may in its absolute discretion allow, the Company will be entitled to make arrangements (in its absolute discretion as to manner, timing and terms) to sell the relevant Offer Shares and for that purpose the Company will be expressly authorised to act as agent of the acceptor. Any proceeds of sale of the relevant Offer Shares (net of expenses of sale) which shall be issued to or registered in the name of the purchaser(s) will be held by the Company on trust for the acceptor, subject to the requirements of the Money Laundering Regulations.

The Registrars are entitled in their absolute discretion to determine whether the verification of identity requirements apply to any acceptor and whether such requirements have been satisfied and neither the Registrars nor the Company will be liable to any person for any loss suffered or incurred as a result of the exercise of such discretion or as a result of any sale of such Offer Shares.

If the verification of identity requirements apply, failure to provide the necessary evidence of identity may result in your application being treated as invalid or in delays in the despatch of a share certificate or the crediting of the appropriate stock accounts within CREST.

The verification of identity requirements will not usually apply:

- (a) if the acceptor is an organisation required to comply with the Money Laundering Regulations or the Money Laundering Directive the Council Directive 91/308/EEC on prevention of the use of the financial system for the purpose of money laundering;
- (b) if the acceptor (not being an acceptor who delivers his acceptance in person) makes payment by way of a cheque drawn on an account held with an EU credit institution in the name of such acceptor; or

- (c) if the aggregate subscription price for the relevant Offer Shares is less than £10,000.

Where the verification of identity requirements apply, satisfaction of such requirements may be facilitated in the following ways:

- (i) if payment is made by bank or building society cheque (not being a cheque drawn on an account of the acceptor) or a bankers' draft, the acceptor should request the bank or building society to endorse on the cheque or draft the acceptor's name and the number of an account held in the acceptor's name at such bank or building society. Such endorsement must be validated by a stamp and an authorised signature;
- (ii) if payment is made by cheque drawn on an account in the name of the acceptor, the acceptor should enclose with his Application Form evidence of his name and address from an appropriate third party, for example, a recent bill from a gas, electricity or telephone company or a bank statement, in each case bearing the acceptor's name and address. Originals of such documents (not copies) are required and such documents will be returned in due course; or
- (iii) if the Application Form is lodged with payment by an agent which is an organisation of the kind referred to in (a) above or which is subject to anti-money laundering regulation in a country which is a member of the Financial Action Task Force (the non-European Union members of which are Australia, Canada, Hong Kong, Iceland, Japan, New Zealand, Norway, Singapore, Switzerland, Turkey and the United States of America), the agent should provide written confirmation that it has that status, and written assurance that it has obtained and recorded evidence of the identity of the persons for whom it acts and that it will on demand make such evidence available to the Registrars or the relevant authority.

In order to confirm the acceptability of any written assurance referred to in (iii) above or in any other case, the acceptor should contact the Registrars.

If an Application Form is delivered by hand by the acceptor in person, he should ensure that he has with him evidence of identity bearing his photograph (for example a full valid passport) and evidence of his address.

Overseas Holders

The making of the Open Offer to persons who are resident in, or citizens of, countries other than the United Kingdom may be affected by the laws or regulatory requirements of the relevant jurisdiction. Such persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any applicable legal requirements to enable them to take up the Offer Shares under the Open Offer. It is the responsibility of all Overseas Holders receiving this document and/or an Application Form and wishing to apply for the Offer Shares under the Open Offer to satisfy themselves as to full observance of the laws of the relevant territory, including obtaining all necessary governmental or other consents which may be required, and observing all other formalities which need to be observed and paying any issue, transfer or other taxes due in such territory.

No person receiving a copy of this document and/or an Application Form in any territory other than the United Kingdom may treat the same as constituting an offer or invitation to him, nor should he in any event use an Application Form, unless he is in a territory where such an offer or invitation can lawfully be made to him, or the Application Form can lawfully be used, without compliance with any registration or other legal requirement. In circumstances where receipt of this document and the Application Form may not constitute an offer or invitation, they will be deemed to have been sent for information only. The Company reserves the right in its absolute discretion to treat an application represented by an Application Form as invalid if it believes that acceptance of such application may violate applicable legal or regulatory requirements. All payments under the Open Offer must be made in pounds sterling.

In particular, Overseas Holders should note the following:

(a) United States and Canada

The Offer Shares:

- (i) have not been and will not be registered under the United States Securities Act of 1933, as amended, or under the securities laws of any state of the United States, and the relevant clearances have not been and will not be obtained from the securities commission of any province or territory of Canada; and
- (ii) may not be offered, sold, accepted or otherwise delivered, directly or indirectly, within the United States or Canada.

Application Forms are not being sent to any Shareholder or Warrantholder with a registered address in the United States or Canada who has not given the Company an address for service of notices in the United Kingdom, except where proof satisfactory to the Company has been provided to the Company that such a transaction would be pursuant to an exemption from, or is a transaction not subject to, the registration requirements of the United States Securities Act of 1933, as amended, or the relevant Canadian legislation. Accordingly this document is being sent to Shareholders and Warrantholders with a registered address in the United States or Canada for information only.

No person should forward or transmit this document or any Application Form, or make copies of this document or any Application Form for transmission to or delivery in or into, the United States or Canada.

In this document and in the Application Form, "United States" means the United States of America, its territories and possessions, any state of the United States of America and the District of Colombia and any other areas subject to its jurisdiction and "Canada" means Canada, its territories and possessions and all other areas subject to its jurisdiction.

The Company reserves the right to reject any application for the Offer Shares comprised in an Application Form that appears to the Company to have been sent from or postmarked in the United States or Canada or which provides an address in the United States or Canada for delivery of definitive share certificates for the Offer Shares.

(b) Australia

No circular in relation to the Offer Shares has been lodged with, or registered by, the Australian Securities Commission. Accordingly, a person may not:

- (i) directly or indirectly offer for subscription or purchase, or issue an invitation to subscribe for or buy or sell, Offer Shares; or
- (ii) distribute any draft or definitive document in relation to any such offer, invitation or sale,

in the Commonwealth of Australia, its territories or possessions ("Australia") or to any resident of Australia (including corporations and other entities organised under the laws of Australia but not including a permanent establishment of such corporation or entity located outside Australia).

No offer of Offer Shares is being made in Australia under this document and an Application Form is not being sent to any Shareholder or Warrantholder with a registered address in Australia who has not given the Company an address in the United Kingdom for the service of notices. Accordingly this document is being sent to such Shareholders and Warrantholders for information only.

No person should forward or transmit this document or any Application Form to, or make copies of this document or any Application Form for transmission to or delivery in or into, Australia.

The Company reserves the right to reject any application for Offer Shares comprised in an Application Form that appears to the Company to have been sent from or postmarked in Australia or which provides an address in Australia for delivery of definitive share certificates for the Offer Shares.

Taxation

The summary below is intended as a general guide to certain aspects of current United Kingdom ("UK") legislation and Inland Revenue practice. Parts of the summary may not apply to certain classes of Shareholders or Warrantholders such as dealers in securities or to Shareholders or Warrantholders who are not absolute beneficial owners of Ordinary Shares or Warrants.

Any Shareholder or Warrantholder who is in any doubt as to his tax position or who may be subject to tax in any jurisdiction other than the UK should consult an appropriate professional adviser without delay.

(a) Capital gains taxation

For the purposes of UK taxation of chargeable gains, any Offer Shares taken up pursuant to the Open Offer will be treated as the same asset as the Qualifying Shareholders' existing holding of Ordinary Shares and as if acquired at the same time as the existing holding was acquired. The price paid for such Offer Shares will be added to the base cost of the original holding (although, for the purpose of calculating indexation allowance on a subsequent disposal, consideration for such Offer Shares will be treated as having been paid at the time when the subscription monies are paid or are liable to be paid). Accordingly, no UK tax on chargeable gains should arise if a Qualifying Shareholder takes up his entitlement to Offer Shares.

A subsequent disposal of the Offer Shares may, depending upon the individual circumstances of the Qualifying Shareholder, give rise either to a liability to UK taxation on chargeable gains or to an allowable loss.

Although the position is not entirely free from doubt, it is understood that the Warrants should be treated, for the purposes of UK taxation of chargeable gains, as the shares which could be acquired by exercising those Warrants. On that basis, the treatment of Qualifying Warrantholders should be similar to that set out for Qualifying Shareholders above save that, on any subsequent disposal of Warrants or the Offer Shares issued in respect of them, the consideration given will be allocated between the Offer Shares and the Warrants by reference to the market value of those Offer Shares on the first day of dealing.

(b) Taxation of dividends

- (i) Under current UK taxation legislation, no tax is withheld at source from dividend payments by the Company. However, when paying a dividend, the Company has to account to the Inland Revenue for an amount of advance corporation tax ("ACT") currently equal to one quarter of the amount of the dividend (except in the case of a corporate shareholder, to the extent the dividend is covered by franked investment income the company has received).
- (ii) For individual Shareholders resident in the UK, the ACT paid gives rise to a tax credit equal to one quarter of the amount of the dividend which may be set off against their tax liability on their total income. An individual who is liable to the higher (currently 40 per cent) rate of income tax will be liable to tax at the higher rate on the total of the dividend and the tax credit, and the tax credit will satisfy that liability as to 20 per cent. Basic or lower rate taxpayers will not be liable to additional income tax on dividends received. In appropriate cases the tax credit may be reclaimed in cash from the Inland Revenue. Under proposals contained in the Finance (No. 2) Bill 1997 this will remain the position until 5 April 1999, after which time it is proposed that the tax credit will be reduced to 10 per cent. but with a compensating reduction in the higher rate of tax on dividend income to 32.5 per cent. and the tax credit will no longer be payable.
- (iii) Where a dividend is paid on or after 2 July 1997, pension funds and most UK corporate shareholders (including authorised unit trusts and open-ended investment companies) will no longer be entitled to payment of tax credits. Tax credits will, however, continue to be payable to charitable companies and to some others which are entitled to special exemptions and relief.
- (iv) Whether Shareholders who are resident in countries other than the UK are liable to UK tax on dividends received or are entitled to a payment from the Inland Revenue of a proportion of the tax credit in respect of dividends on their Ordinary Shares depends in general upon the provisions of any double tax agreement between such countries and the UK. In addition, individual Shareholders who are resident in countries other than the UK but who are either Commonwealth citizens or nationals, other than of the United Kingdom, of the European Economic Area or certain other classes of person may be entitled to the entire tax credit which may be set against their total UK income tax liability or reclaimed to the same extent as if they were resident in the UK. Persons who are not resident in the UK should consult their own tax advisers on the possible applicability of such provisions, the procedure for claiming payment and what relief or credit may be claimed in the jurisdiction in which they are resident. Under proposals contained in the Finance

(No. 2) Bill 1997 it is proposed this will remain the position until 5 April 1999 after which time is proposed the tax credit to be reduced to 10 per cent. and the right to payment of the tax credit, other than under a double tax agreement, will terminate.

(c) Stamp duty and stamp duty reserve tax

No UK stamp duty or stamp duty reserve tax ("SDRT") will be payable on the issue of New Ordinary Shares.

The transfer or sale of Offer Shares will generally be subject to *ad valorem* stamp duty or, if an unconditional agreement to transfer such shares is not completed by a duly stamped transfer, that agreement will generally be subject to SDRT, normally at the rate of 50p for every £100 or part of £100 of the consideration paid in the case of stamp duty, and 0.5 per cent. of the consideration in the case of SDRT.

Settlement and dealings

Application has been made to the London Stock Exchange for the Offer Shares to be admitted to the Official List. Subject to the satisfaction of the conditions in the Placing Agreement, it is expected that dealings will commence in the Offer Shares on 5 September 1997. In the case of Qualifying Holders who elect to hold their Offer Shares in Certificated Form definitive share certificates in respect of the Offer Shares are expected to be sent by first class post to such Qualifying Holders who have made valid applications no later than 17 September 1997. No temporary documents of title will be issued and, pending the issue of definitive certificates, transfers will be certified against the register.

In the case of Qualifying Holders who elect to hold their Offer Shares in Uncertificated Form it is expected, subject to the satisfaction of the conditions in the Placing Agreement and the provision of the appropriate information on the Application Form, that Offer Shares to which they are entitled will be issued in Uncertificated Form by 17 September 1997. IRG plc will instruct CRESTCo to credit the appropriate stock accounts of such persons with such persons entitlements to Offer Shares with effect from the next business day (expected to be 8 September 1997).

Notwithstanding any other provision of this document, the Company reserves the right to allot and/or issue any Offer Shares in Certificated Form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST), or on the part of the facilities and/or systems operated by IRG plc in connection with CREST. This right may also be exercised if the correct details (such as Participant ID and Member Account ID) are not provided as requested on the Application Form, where these are required.

All documents or remittances sent by or to a Qualifying Holder, or as he or she may otherwise direct, will be sent through the post at each persons risk.

Any instructions with regard to payments or notices which have been recorded by the Company or its Registrars in respect of Ordinary Shares held by a Qualifying Holder will apply to any Offer Shares subscribed by such holders under the Open Offer.

Yours faithfully
for and on behalf of

COLLINS STEWART LIMITED

Michael Whitaker
Director

PART III

FINANCIAL INFORMATION RELATING TO FLARE GROUP

Set out below is financial information relating to Flare Group, extracted from the audited accounts for the three years ended 31 December 1996 without material adjustment. The financial information contained in this Part III does not constitute statutory accounts within the meaning of section 240 of the Act. Statutory accounts relating to each financial year to which the financial information relates have been delivered to the Registrar of Companies. The auditors have made a report under section 235 of the Act on each set of accounts for the three years ended 31 December 1996. Each such report was unqualified and did not contain a statement under section 237(2) or (3) of the Act.

PROFIT AND LOSS ACCOUNTS

The audited consolidated profit and loss accounts of the Group for the three financial years ended 31 December 1996 were as follows:

		Financial year ended 31 December		
	Note	1994 £'000	1995 £'000	1996 £'000
Turnover				
Continuing operations		8,016	8,082	14,650
Acquisitions		—	3,465	22,418
		<hr/>	<hr/>	<hr/>
		8,016	11,547	37,068
Discontinued operations		1,040	—	—
	1	<hr/>	<hr/>	<hr/>
		9,056	11,547	37,068
Operating (loss)/profit				
Continuing operations		(413)	422	902
Acquisitions		—	307	3,008
		<hr/>	<hr/>	<hr/>
		(413)	729	3,910
Discontinued operations		(439)	—	—
		<hr/>	<hr/>	<hr/>
Total operating (loss)/profit	2	(852)	729	3,910
<i>Continuing operations:</i>				
Profit on sale of fixed asset investment		37	—	—
Share of net (loss)/profit before tax of associated company		(492)	212	(60)
<i>Discontinued operations:</i>				
(Loss)/profit on termination of operations		(4,600)	494	—
		<hr/>	<hr/>	<hr/>
(Loss)/profit on ordinary activities before interest	2	(5,907)	1,435	3,850
Net interest payable	5	(392)	(129)	(546)
		<hr/>	<hr/>	<hr/>
(Loss)/profit on ordinary activities before taxation		(6,299)	1,306	3,304
Tax credit/(charge) on ordinary activities	6	282	216	(1,133)
		<hr/>	<hr/>	<hr/>
(Loss)/profit on ordinary activities after taxation		(6,017)	1,522	2,171
Proposed non-equity preference dividends	7	(49)	(49)	(49)
		<hr/>	<hr/>	<hr/>
(Loss)/profit attributable to ordinary shareholders		(6,066)	1,473	2,122
Proposed equity dividends	7	—	—	(215)
		<hr/>	<hr/>	<hr/>
(Loss)/profit retained		(6,066)	1,473	1,907
		<hr/>	<hr/>	<hr/>
(Loss)/earnings per ordinary share	8	(117.9p)	12.5p	11.6p
Fully diluted earnings per share	8	—	11.0p	11.0p
Dividend per ordinary share	7	0.0p	0.0p	1.0p
		<hr/>	<hr/>	<hr/>

BALANCE SHEETS

The audited consolidated balance sheets of the Group for the three financial years ended at 31 December 1996 were as follows:

	Note	1994 £'000	1995 £'000	1996 £'000
Fixed assets				
Intangible assets	9	—	—	89
Tangible assets	10	4,763	5,911	11,470
Investments (1995 as restated)	11	1,142	1,220	962
		<u>5,905</u>	<u>7,131</u>	<u>12,521</u>
Current assets				
Property held for resale		—	—	422
Stocks	12	1,314	2,789	7,104
Debtors: amounts falling due after more than one year	13	72	72	1,616
Debtors: amounts falling due within one year	13	2,061	3,265	10,361
Cash at bank		33	375	77
		<u>3,480</u>	<u>6,501</u>	<u>19,580</u>
Creditors: amounts falling due within one year	14	<u>(7,220)</u>	<u>(5,485)</u>	<u>(20,497)</u>
Net current (liabilities)/assets		<u>(3,740)</u>	<u>1,016</u>	<u>(917)</u>
Total assets less current liabilities		2,165	8,147	11,604
Creditors: amounts falling due after more than one year	15	(1,879)	(2,737)	(6,581)
Provision for liabilities and charges	17	(10)	—	(372)
Net assets		<u>276</u>	<u>5,410</u>	<u>4,651</u>
Called up share capital	18	1,333	3,696	5,877
Share premium account	19	15	2,395	9,309
Revaluation reserve	20	1,559	1,559	1,559
Other reserves	21	(624)	(1,643)	(13,355)
Profit and loss account	22	(2,007)	(597)	1,261
Total shareholders' funds	23	<u>276</u>	<u>5,410</u>	<u>4,651</u>
Equity shareholders' funds		(209)	4,876	4,166
Non equity shareholders' funds		<u>485</u>	<u>534</u>	<u>485</u>
		<u>276</u>	<u>5,410</u>	<u>4,651</u>

CASH FLOW STATEMENTS

The audited consolidated cash flow statements of the Group for the three financial years ended 31 December 1996 were as follows:

	Note	Financial year ended 31 December		
		1994 £'000	1995 £'000	1996 £'000
Net cash inflow/(outflow) from operating activities	24	394	(463)	(207)
Returns on investments and servicing of finance				
Interest received		—	61	17
Interest paid		(409)	(236)	(524)
Dividends paid		(108)	—	—
Finance lease interest paid		—	—	(15)
Net cash outflow from returns on investments and servicing of finance		(517)	(175)	(522)
Taxation				
UK taxation (paid)/received		(53)	(232)	180
Overseas taxation paid		—	—	(41)
		(53)	(232)	139
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets		(643)	(1,144)	(2,243)
Proceeds on sale of tangible fixed assets		151	75	183
Purchase of subsidiary undertakings		—	(1,266)	(11,447)
Proceeds on sale of fixed asset investment		226	—	—
Net cash outflow from capital expenditure and financial investment		(266)	(2,335)	(13,507)
Financing				
Proceeds of share issue		—	4,615	8,876
Share issue costs		—	(538)	(470)
Loans received		—	1,391	3,584
Loans repaid		—	(937)	(1,169)
Currency movements		66	—	(106)
		66	4,531	10,715
Decrease in cash	26	(376)	1,326	(3,382)

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the three financial years ended 31 December 1996

	Financial year ended 31 December		
	1994	1995	1996
	£'000	£'000	£'000
(Loss)/profit for the financial year attributable to shareholders	(6,017)	1,522	2,171
Currency differences on foreign currency net investments	119	106	(207)
	<u>(5,898)</u>	<u>1,628</u>	<u>1,964</u>
Total recognised gains and losses for the year	(5,898)	1,628	1,964
Prior year adjustment relating to 1994 (see note 11)	—	(112)	(112)
	<u>(5,898)</u>	<u>1,516</u>	<u>1,852</u>
Total gains and losses recognised since last annual report	<u>(5,898)</u>	<u>1,516</u>	<u>1,852</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES

For the three financial years ended 31 December 1996

	Financial year ended 31 December		
	1994	1995	1996
	£'000	£'000	£'000
Reported (loss)/profit on ordinary activities before taxation	(6,299)	1,306	3,304
Difference between an historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	(6)	(6)	(4)
	<u>(6,305)</u>	<u>1,300</u>	<u>3,300</u>
Historical cost (loss)/profit on ordinary activities before taxation	(6,305)	1,300	3,300
	<u>(6,305)</u>	<u>1,300</u>	<u>3,300</u>
Historical cost (loss)/profit for the year (sustained)/retained after taxation and dividends	<u>(6,072)</u>	<u>1,467</u>	<u>1,903</u>

PRINCIPAL ACCOUNTING POLICIES

The financial information has been prepared under the historical cost convention as modified by the revaluation of land and buildings and in accordance with applicable accounting standards which have been consistently applied throughout the period under review.

The principal accounting policies of the Group are set out below.

Basis of consolidation

The Group financial statements consolidate those of the Company and of its subsidiary undertakings ("subsidiaries") and include the Group's share of the results and post-acquisition reserves of its associated undertaking ("associate"), details of which are set out in note 11. The results of subsidiary undertakings acquired during the period under review have been included from the effective date of acquisition. On its acquisition, the subsidiary undertaking's assets and liabilities which exist at the date of acquisition are recorded at their fair values reflecting their condition as at that date. Details of subsidiary undertakings acquired during the year are included at note 21 and have been consolidated on the acquisition basis. Profits or losses on intra-group transactions are eliminated in full.

The Company is entitled to the merger relief offered by section 131 of the Companies Act 1985 in respect of the consideration received in excess of the nominal value of the equity shares issued in connection with the acquisitions of Bricesco Limited, CMS Colours Limited and Thermic Designs Limited.

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of subsidiary and associated undertakings is written off immediately against reserves.

Turnover

Except for the recording of long term contracts, turnover, which excludes inter-company trading, represents the invoiced value of goods sold and excludes value added tax, trade discounts and delivery charges. For long term contracts, turnover represents the sales value of work done.

Depreciation

Depreciation is provided on cost or valuation of all tangible fixed assets (except freehold land) so as to write off those assets to their estimated residual values, as follows:

Freehold buildings	- 2% per annum straight line basis
Plant and equipment	- 6%-33% per annum reducing balance basis
Motor vehicles	- 25% per annum reducing balance basis.

Fixed assets investments

Investments in Group companies are stated at cost less amounts written off where there has been a permanent diminution in value.

Associated undertakings

Undertakings, other than subsidiary undertakings, in which the Group has an investment representing at least 20% of the voting rights and over which it exerts significant influence, are treated as associated undertakings.

The Group's share of the profits less losses and other recognised gains and losses of the associated undertaking is included in the Group profit and loss account, and statement of total recognised gains and losses, respectively.

The Group balance sheet includes the investment in the associated undertaking at the Group's share of net assets.

The Company balance sheet shows the investment in the associated undertaking at cost less amounts written off.

Stock

Stocks of raw materials, stores and products are valued at the lower of cost and estimated net realisable value. Cost for stock valuation purposes comprises factory variable cost and related production overheads.

Contracts

Amounts recovered on contracts (other than for short term contracts) are valued at the sales value of work done, based on an estimate of the percentage of completion of such contracts. To the extent that the estimated net sales value of a contract exceeds total estimated contract cost (including contingencies), then the sales value of work done will include an appropriate element of the profit attributable to the contract. Future contract losses are provided for once anticipated.

Short term contracts are valued at the lower of cost plus attributable overheads and net sales value. Profits are recognised only when such contracts are substantially complete.

Cash received on account of contracts is deducted from amounts recoverable on contracts. Where cash received exceeds amounts recoverable, the excess is included in creditors.

Research and development

Research expenditure is written off to the profit and loss account as incurred. Development costs incurred on specific projects are capitalised when recoverability can be assessed with reasonable certainty and amortised in line with the anticipated sales arising from the projects. All other development costs are written off in the year of expenditure.

Deferred taxation

Deferred tax is provided for using the tax rates estimated to apply when timing differences reverse and is accounted for to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred tax is disclosed as a contingent liability as set out in note 17.

Leases

Assets held under finance leases and hire purchase contracts are included within owned tangible fixed assets and the obligations relating thereto, excluding finance charges, are included in creditors. Depreciation of such assets is provided in accordance with the Group's normal depreciation policy. Payments against such contracts are treated as consisting of capital and finance charge elements and the finance charge is expensed to the profit and loss account on an actuarial basis. All other leases are operating leases and the rentals are charged to the profit and loss account on a straight line basis over the lease term.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. The financial statements of foreign subsidiary and associated undertakings are translated at the rate of exchange ruling at the balance sheet date. Exchange differences arising from the retranslation of the opening net investment in subsidiary and associated undertakings are taken directly to reserves. Where exchange differences result from the translation of foreign currently borrowings raised to acquire foreign equity investments they are taken to reserves and offset against the differences arising from the translation of those assets. All other exchange differences are dealt with through the profit and loss account.

NOTES TO THE FINANCIAL INFORMATION

The following notes are based on the notes incorporated in the financial statements of the Group for the three financial years ended 31 December 1996.

1. Turnover

Following the growth of the Group's operations during 1996, the Directors are now of the opinion that the Group undertakes two major classes of business; namely that of manufacture and sale of refractory and other consumables and that of manufacture and sale of capital goods to the ceramics industries.

The Group's turnover may be analysed by class of business as follows:

	Financial year ended 31 December		
	1994 £'000	1995 £'000	1996 £'000
Refractories and other consumables	9,056	11,547	22,577
Capital goods	—	—	14,491
	<u>9,056</u>	<u>11,547</u>	<u>37,068</u>

Included in the turnover of £22,577 million in 1996 is an amount of £7,927 million related to acquisitions made during the year. All the turnover classified as capital goods relates to acquisitions made during the year ended 31 December 1996.

Turnover may be analysed by geographical area as follows:

	By Origin			By Destination		
	Financial year ended 31 December			Financial year ended 31 December		
	1994 £'000	1995 £'000	1996 £'000	1994 £'000	1995 £'000	1996 £'000
United Kingdom	4,634	11,482	36,535	8,016	5,731	13,647
Rest of Europe	2,933	—	—	1,040	2,964	8,896
Rest of the World	1,489	65	533	—	2,852	14,525
	<u>9,056</u>	<u>11,547</u>	<u>37,068</u>	<u>9,056</u>	<u>11,547</u>	<u>37,068</u>

2. Operating profit

Operating profit is stated after charging/(crediting):

	Financial year ended 31 December		
	1994 £'000	1995 £'000	1996 £'000
Change in stocks of finished goods and work in progress	(49)	(383)	2,752
Raw materials and consumables	3,469	4,390	13,238
Other external charges	6,599	6,874	17,179
Rental and sundry income	(844)	(100)	(118)
Loss/(profit) on sale of fixed assets	1	(71)	(47)
Permanent diminution in value of fixed assets	641	—	—
Operating lease rentals – plant and machinery	91	102	184
– property	—	6	—
Net foreign currency gains	—	—	(30)
	<u>9,908</u>	<u>10,818</u>	<u>33,158</u>

Other external charges include:

	Financial year ended 31 December		
	1994	1995	1996
	£'000	£'000	£'000
Depreciation	742	408	684
Audit fee	55	38	93
	<u>797</u>	<u>446</u>	<u>777</u>

3. Segmental and geographical analysis

Profit before tax analysed by major class of business is:

	Refractories and Consumables			Capital Goods			Group		
	1994	1995	1996	1994	1995	1996	1994	1995	1996
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Operating (loss)/profit	(413)	729	1,879	—	—	2,031	(413)	729	3,910
Share of net (loss)/profit before taxation of associate	(492)	212	(60)	—	—	—	(492)	212	(60)
(Loss)/profit on termination of operations	(4,600)	494	—	—	—	—	(4,600)	494	—
	<u>(5,505)</u>	<u>1,435</u>	<u>1,819</u>	<u>—</u>	<u>—</u>	<u>2,031</u>	<u>5,505</u>	<u>1,435</u>	<u>3,850</u>
Net interest payable							(392)	(129)	(546)
Profit before taxation							<u>5,113</u>	<u>1,306</u>	<u>3,304</u>
Net assets									
Group net operating assets	(866)	4,190	3,795	—	—	(106)	(866)	4,190	3,689
Share of net assets of associate	1,142	1,220	962	—	—	—	1,142	1,220	962
	<u>276</u>	<u>5,410</u>	<u>4,757</u>	<u>—</u>	<u>—</u>	<u>(106)</u>	<u>276</u>	<u>5,410</u>	<u>4,651</u>

4. Employees and Directors

The average number of employees employed during each year, including executive directors, was as follows:

	Financial year ended 31 December		
	1994	1995	1996
	Number	Number	Number
Production	162	196	471
Management, sales and administration	58	48	134
	<u>220</u>	<u>244</u>	<u>605</u>

Employee costs, including executive directors, during each year were as follows:

	Financial year ended 31 December		
	1994	1995	1996
	£'000	£'000	£'000
Wages and salaries	2,705	2,843	9,175
Social security costs	284	262	904
Other pension costs – to a defined contribution scheme	63	83	183
– to a defined benefit scheme	–	–	62
	<u>3,052</u>	<u>3,188</u>	<u>10,324</u>

	Financial year ended 31 December		
	1994	1995	1996
	£'000	£'000	£'000
<i>Remuneration in respect of directors</i>			
Management remuneration	137	103	499
Directors' fees – payable for services as Directors of the Company	35	52	72
Compensation for loss of office	127	–	–
Pension contributions	10	15	–
Pension to former director	1	–	–
	<u>310</u>	<u>170</u>	<u>571</u>

Gross emoluments, excluding pension contributions and compensation payments, of the Directors fell within the following ranges:

	Financial year ended 31 December		
	1994	1995	1996
	Number	Number	Number
£1 – £5,000	–	5	–
£5,001 – £10,000	2	–	–
£10,001 – £15,000	–	2	–
£15,001 – £20,000	1	1	–
£20,001 – £25,000	–	–	2
£25,001 – £30,000	–	–	1
£45,001 – £50,000	–	–	1
£50,001 – £55,000	1	–	1
£80,001 – £85,000	1	–	–
£85,001 – £90,000	–	–	1
£100,001 – £105,000	–	1	–
£110,001 – £115,000	–	–	1
£125,001 – £130,000	–	–	1
	<u>–</u>	<u>–</u>	<u>1</u>

The emoluments, excluding pension contributions, of the Chairman and highest paid Director are as follows:

	Financial year ended 31 December		
	1994	1995	1996
	£'000	£'000	£'000
Chairman	20	19	29
Highest paid Director	81	103	126
	<u>–</u>	<u>–</u>	<u>–</u>

The following table shows an analysis of Directors' remuneration by individual:

	Total 1994 £'000	Total 1995 £'000	Basic salary £'000	Benefits in kind £'000	Pension cost £'000	Total 1996 £'000
Executives						
D J Lees	—	118	120	6	18	144
S P Thornhill	—	—	48	6	8	62
J E L Sinclair	—	—	44	5	5	54
P Cartwright	—	—	79	7	23	109
J K Sykes	—	—	100	15	15	130
P H Green	194	—	—	—	—	—
C P Nurse	81	—	—	—	—	—
	<u>275</u>	<u>118</u>	<u>391</u>	<u>39</u>	<u>69</u>	<u>499</u>
Non-executives						
D G Heynes	20	19	29	—	—	29
I R Gowrie-Smith	—	15	21	—	—	21
S J Redford	—	13	22	—	—	22
A W Hodgart	—	5	—	—	—	—
A R Styles	8	—	—	—	—	—
C Whalley	7	—	—	—	—	—
	<u>35</u>	<u>52</u>	<u>72</u>	<u>—</u>	<u>—</u>	<u>72</u>
Total	<u>310</u>	<u>170</u>	<u>463</u>	<u>39</u>	<u>69</u>	<u>571</u>

Options

	Number of shares under option 1 January 1996 (or date of appointment if later)	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares under option 31 December 1996	Exercise price	First date of Exercise	Expiry date
D J Lees	2,002,532*	375,000	—	—	577,532	87.6-159.5p	1998	2006
S P Thornhill	—	212,500	—	—	212,500	143.1-159.5p	1999	2006
J E L Sinclair (resigned 7 August 1997)	20,253*	212,500	—	—	232,753	89.0p-159.5p	1998	2006
P Cartwright	—	212,500	—	—	212,500	143.1-159.5p	1999	2006
J K Sykes (resigned 26 March 1997)	—	100,000	—	—	100,000	159.5p	1997	1998

* Opening balances adjusted for the one for four rights issue in May 1996.

An option granted under the Flare Share Option Scheme may not in normal circumstances be exercised earlier than three years after the date on which it was granted. In any event, an option may only be exercised if, over a consecutive three year period commencing no earlier than the date of grant, the growth in the Group's earnings per Ordinary Share exceeds the growth in the Retail Prices Index over the same period.

In addition to ordinary options, the Directors have granted "super options" which may only be exercised provided that, broadly, the Group's growth in earnings per share over at least a five year period is such as would place the Group in the top quartile of FTSE 100 companies by reference to growth in earnings per share over such five year period.

The Company's share price on 31 December 1996 was 132½p and during the year then ended varied between high and low prices of 179p and 121p respectively.

Pensions

The Group operates a number of pension schemes.

The main schemes, which cover the majority of the Group's UK employees, are defined benefit schemes, the assets of which are held separately from the Group's assets. The other schemes are small in size and are defined contribution schemes.

The latest valuations of the two main schemes were carried out by SBJ Actuaries and Consultants, consulting actuaries.

The Flare Group plc Pension Scheme was last valued as at 1 February 1995 using the projected unit credit method. The principal assumptions on which the scheme was valued were that the investment return would be 1.5% greater than general salary increases and 4% greater than increases in future pension payments. The valuation showed that the scheme has assets of approximately £1.7 million (based on discounted income flows) and was 157% funded. The market value of the scheme assets as at the valuation date was approximately £1.7 million. Using the percentage of salaries amortisation method, the surplus is to be spread over the average remaining service lives of the scheme members.

The Gibbons Refractories Pension Scheme was last valued as at 1 September 1996 using the projected unit credit method. The principal assumptions on which the scheme was valued were that the investment return would be 2% greater than general salary increases and 4% greater than increases in future pension payments. The valuation showed that the scheme has assets of approximately £3.9 million (based on discounted income flows) and was 122% funded. The market value of the scheme assets as at the valuation date was approximately £4.3 million. Using the percentage of salaries amortisation method, the surplus is to be spread over the average remaining service lives of the scheme members.

The Group's total pension costs for the year was £245,000 (1995: £83,000). Of this amount, £183,000 was paid in respect of defined contribution schemes (1995: £83,000; 1994: £63,000) and £62,000 was paid in respect of defined benefit schemes (1995: £Nil; 1994: £Nil). At 31 December 1996, included within the consolidated balance sheet was a prepayment in respect of pension contributions (representing the net present value of the surpluses in the two defined benefit schemes) of £980,000.

5. Net interest payable

	Financial year ended 31 December		
	1994	1995	1996
	£'000	£'000	£'000
Bank loans and overdrafts and other loans repayable within five years by instalments	126	26	394
Bank loans and overdrafts and other loans repayable within five years not by instalments	266	164	147
Finance charges in respect of finance leases	—	—	15
	392	190	556
Interest receivable	—	(61)	(10)
	392	129	546

6. Taxation

	Financial year ended 31 December		
	1994	1995	1996
	£'000	£'000	£'000
Overseas Corporation tax at 36% (1995: 36%; 1994: Nil)	—	4	17
UK Corporation tax at 33% (1995: 33%; 1994: 33%)	—	114	1,043
Adjustments in respect of prior year	(67)	(452)	(4)
Deferred taxation	(33)	(10)	81
	(100)	(344)	1,137
Associated undertaking (credit)/charge	(182)	128	(4)
	(282)	(216)	1,133

7. Dividends

	Financial year ended 31 December		
	1994 £'000	1995 £'000	1996 £'000
Proposed dividends on non-equity preference shares			
Interim of 5.0p per share	24	24	24
Final of 5.0p per share	25	25	25
	<hr/>	<hr/>	<hr/>
	49	49	49
Proposed final dividend on equity shares of 1.0p per share	—	—	215
	<hr/>	<hr/>	<hr/>
	49	49	264
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The 1995 and 1996 cumulative preference dividend could not be declared due to the accumulated losses of the Company.

For the period from 1 January 1995 to 31 December 1996, the payment of the dividends due on the non-equity shares was not possible due to accumulated retained losses in the Company. However, the announcement of the results included in the Company's 1996 annual report and accounts enabled the Company to pay the arrears and to resume dividend payments on the non-equity shares. Consequently, the arrears were brought up to date with a payment of £97,000 on 16 April 1997.

8. Earnings per ordinary share

	Financial year ended 31 December		
	1994 £'000	1995 £'000	1996 £'000
(Loss)/profit after tax for the year	(6,017)	1,522	2,171
Preference dividend	(49)	(49)	(49)
	<hr/>	<hr/>	<hr/>
(Loss)/earnings – before the effects of dilution	(6,066)	1,473	2,122
Additional notional earnings relating to notional exercise of options and warrants	—	51	254
	<hr/>	<hr/>	<hr/>
(Loss)/earnings for calculating diluted earnings per share	(6,066)	1,524	2,376
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	1994 £'000	1995 £'000	1996 £'000
(Loss)/earnings per share	(117.9)	12.5*	11.6
Fully diluted (loss)/earnings per share	—	11.0*	11.0
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

* Adjusted to reflect the bonus element of the rights issue in May 1996.

9. Intangible fixed assets

	Development Costs At 31 December		
	1994 £'000	1995 £'000	1996 £'000
As at 1 January	—	—	—
Additions	—	—	89
	<hr/>	<hr/>	<hr/>
As at 31 December	—	—	89
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

10. Tangible fixed assets

	Freehold land and buildings £'000	Plant, equipment and vehicles £'000	Total £'000
Cost/valuation			
At 1 January 1994	6,781	7,333	14,114
Additions	—	643	643
Disposals	—	(503)	(503)
Acquired with subsidiary undertakings	(3,450)	—	(3,450)
Write down on closure	—	(2,988)	(2,988)
Exchange adjustment	108	105	213
At 31 December 1994	3,439	4,590	8,029
Additions	122	1,022	1,144
Disposals	—	(345)	(345)
Acquired with subsidiary undertakings	—	2,117	2,117
At 31 December 1995	3,561	7,384	10,945
Additions	469	1,685	2,154
Disposals	(13)	(293)	(306)
Transfer to current assets	(596)	—	(596)
Acquired with subsidiary undertakings	3,227	3,285	6,512
At 31 December 1996	6,648	12,061	18,709
Depreciation			
At 1 January 1994	682	3,336	4,018
Charge for year	176	566	742
Disposals	—	(350)	(350)
Permanent diminution	—	641	641
Write down on closure	(613)	(1,220)	(1,833)
Exchange adjustments	15	33	48
At 31 December 1994	260	3,006	3,266
Charge for year	46	362	408
Disposals	—	(341)	(341)
Acquired with subsidiary undertakings	—	1,701	1,701
At 31 December 1995	306	4,728	5,034
Charge for year	77	607	684
Disposals	(8)	(162)	(170)
Transfer to current assets	(174)	—	(174)
Acquired with subsidiary undertakings	209	1,656	1,865
At 31 December 1996	410	6,829	7,239
Net book value			
At 31 December 1994	3,179	1,584	4,763
At 31 December 1995	3,255	2,656	5,911
At 31 December 1996	6,238	5,232	11,470

Freehold land and buildings includes land valued at £2,839,000 (1995: £1,839,000; 1994: £1,839,000) which is not depreciated.

The land and buildings at Victoria Road, Stoke on Trent, are included in the above balance at an open market, existing use valuation performed by an independent professional valuer in 1990. The net book value of such property at 31 December 1996 was £3.2 million. All other property is included at cost to the Group which approximates open market existing use valuation, based on valuations prepared in connection with the acquisitions of the subsidiary undertakings which own these properties.

The original cost of land and buildings at 31 December 1996 was £4,911,000 (1995: £1,921,000; 1994: £1,799,000); the notional net book value on that basis would have been £4,056,000 (1995: £1,075,000; 1994: £1,005,000).

At 31 December 1996, a property owned by a subsidiary undertaking had been marketed for sale. Consequently, the net book value of £422,000, which approximated to the open market existing use value, based on a valuation prepared in connection with the acquisition of this subsidiary, was transferred to current assets.

The amounts stated above include assets held under finance leases as follows:

	At 31 December		
	1994	1995	1996
	£'000	£'000	£'000
Plant and machinery	10,000	6,000	—

11. Fixed asset investments

	At 31 December		
	1994	1995	1996
	£'000	£'000	£'000
Share of associated undertaking Sphinx Technical Ceramics BV ("STC") at 1 January 1996, as previously reported	1,142	1,332	1,332
Adjustment to the carrying value as at 31 December 1994 relating to a change in stock valuation methodology	—	(112)	(112)
As restated	1,142	1,220	1,220
Share of loss for the year, net of tax credit	—	—	(56)
Adjustment relating to retranslation of opening share of net assets at year end rates of exchange	—	—	(202)
As at 31 December 1996	1,142	1,220	962

At 31 December 1996, the stocks of finished goods held by STC were revalued to take account of the more prudent overhead absorption policy utilised by other Group companies, and in particular Hewitt Refractories Limited. Consequently, the share of STC's results for 1996 has decreased by £280,000. In addition, a further reduction in stock values as at 31 December 1994 would have reduced the Group's share of STC's result for the year then ended. The change in the absorption policy has had no material effect on the results for the year ended 31 December 1995. Consequently, the change relating to 1994 and prior has been shown as a restatement to the opening net investment in associated undertakings and, correspondingly, as a movement in the opening consolidated reserves (see note 22).

Shares in subsidiaries, all of which are 100 per cent. owned, are stated at cost.

STC, which is 50 per cent. owned, is stated at the Group's share of net tangible assets, and at cost of the investment in relation to the Company.

All companies have a 31 December year-end. Purtrain Limited and Gibbons Refractories Limited, which were acquired during the year ended 31 December 1996, have changed their financial year ends from 31 March to 31 December after their acquisition by the Company and consequently had a short accounting period for that year only. Thermic Designs Limited similarly changed its financial year end from 30 September to 31 December after being acquired and consequently has a long accounting period for 1996 only.

The principal subsidiaries and associated undertaking of the Group are:

Company	Notes	Type of shares	Issued and fully paid share capital	Percentage held	Principal activity
British Ceramic Service Company Limited	1	Ordinary	75,000 shares of £1 each	100 per cent.	Kiln manufacturer
Bricesco International Export Limited	1,2	Ordinary	100 shares of £1 each	100 per cent.	Export Company
CMS Colours Limited		Ordinary	24,000 shares of £1 each 24,000 shares of US\$0.005 each	100 per cent.	Ceramic transfers
Gibbons Refractories Limited	1	Ordinary	100,000 shares of £1 each	100 per cent.	Manufacturer of refractory products
Hewitt Refractories Limited		Ordinary	2,000,000 shares of £1 each	100 per cent.	Ceramics
Hewitt Technical Ceramics Inc	3	Ordinary	100 shares of \$0.01 each	100 per cent.	Ceramic distribution
Keith Ceramic Materials Limited		Ordinary	100,000 shares of £1 each	100 per cent.	Ceramics
Refractory & Ceramic Supplies Pty Limited	4	Ordinary	301 shares of A\$1 each	100 per cent.	Ceramic distribution
Thermic Designs Limited		Ordinary	5,400 A shares of £1 each 1,305 B shares of £1 each	100 per cent.	Manufacturer of dryers
Sphinx Technical Ceramics BV	5	Ordinary	2,100 shares of NFL 1,000 each	50 per cent.	Ceramics

Notes:

1. Owned indirectly by the Company.
2. Incorporated in Scotland and operating in England.
3. Incorporated in Pennsylvania and operating in the United States of America.
4. Incorporated and operating in Australia.
5. Associated undertaking incorporated and operating in the Netherlands.
6. With the exceptions of those companies noted above, all the Company's subsidiary undertakings are incorporated in England and Wales and operating in England.

The Company has a number of other subsidiary undertakings, all of which are either non-trading intermediate holding or dormant companies. Details of these subsidiary undertakings have not been included above since, in the opinion of the Directors, this would result in a note of excessive length.

12. Stocks

	At 31 December		
	1994 £'000	1995 £'000	1996 £'000
Raw materials and consumables	404	638	1,616
Work in progress	299	527	6,009
Payments received on account of contract work in progress	—	—	(3,137)
Finished goods and goods for re-sale	611	1,624	2,616
	<u>1,314</u>	<u>2,789</u>	<u>7,104</u>

13. Debtors

	At 31 December		
	1994	1995	1996
	£'000	£'000	£'000
<i>Due within one year:</i>			
Trade debtors	1,532	2,772	8,984
Amount owed by subsidiary undertakings	—	—	—
Pension contributions – defined benefit scheme	—	—	100
Social security and other taxes	—	113	316
Prepayments and accrued income	39	68	681
Deferred expenses	490	—	—
Corporation tax	—	312	280
	<u>2,061</u>	<u>3,265</u>	<u>10,361</u>
<i>Due after more than one year:</i>			
Advance corporation tax recoverable	72	72	106
Trade debtors	—	—	630
Pension contributions – defined benefit scheme	—	—	880
	<u>72</u>	<u>72</u>	<u>1,616</u>

14. Creditors: amounts falling due within one year

	At 31 December		
	1994	1995	1996
	£'000	£'000	£'000
Bank overdrafts (secured)	2,139	1,155	4,239
Bank loans (secured)	1,666	1,347	2,699
Payments received on account	—	—	1,473
Trade creditors	669	2,295	6,926
Corporation tax	147	185	1,226
Social security and other taxes	91	121	553
Proposed ordinary dividend	—	—	215
Proposed preference dividends	—	—	98
Other creditors	2,504	310	1,629
Amounts due under finance leases	4	4	89
Deferred consideration on acquisition	—	68	1,350
	<u>7,220</u>	<u>5,485</u>	<u>20,497</u>

As at 31 December 1996 there were no material repayments due on finance leases after more than two years.

The bank overdraft is secured by a first legal charge on all property owned by the Company and its subsidiary undertakings and by cross guarantees and debentures between the Company and its subsidiary undertakings.

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

	At 31 December		
	1994	1995	1996
	£'000	£'000	£'000
Bank loans (secured)	1,875	2,652	6,519
Trade creditors	—	85	—
Finance lease obligations	4	—	62
	<u>1,879</u>	<u>2,737</u>	<u>6,581</u>

16. Borrowings

Borrowings are repayable as follows:

	At 31 December		
	1994	1995	1996
	£'000	£'000	£'000
Within one year	1,666	1,347	2,699
After one and within two years	250	1,304	1,184
After two and within five years	750	1,098	2,159
After five years	875	250	3,176
	<u>3,541</u>	<u>3,999</u>	<u>9,218</u>

Security and terms:

	1996
	£'000
Bank loan (note 1)	7,500
Bank loan (note 2)	1,006
Bank loan (note 3)	712
	<u>9,218</u>

Notes:

1. The £7.5 million loan provided by Barclays Bank plc is secured by a first legal mortgage on all property owned by the Company and its subsidiary undertakings and by cross guarantees and debentures between the Company and its subsidiary undertakings. £1.5 million of this loan is repayable on the receipt of monies from the Placing and the Open Offer. The balance of £6 million is repayable in 34 quarterly instalments of £176,470 commencing 1 January 1998. Interest is payable on this loan at the rate of 1 per cent. over London Inter Bank Offered Rate per annum.
2. The loan provided to the Company by the Hamburgische Landesbank is unsecured.
3. The Group loans with Barclays Mercantile are secured on the assets financed by the loans.

17. Provisions for liabilities and charges

	Deferred taxation £'000
At 1 January 1994	43
Credit for year (accelerated capital allowances)	(33)
At 31 December 1994	10
Credit for year (accelerated capital allowances)	(10)
At 31 December 1995	—
Charge for the year (accelerated capital allowances)	81
Deferred tax purchased with subsidiary undertaking acquisitions	291
	<u>372</u>
Represented by:	
Accelerated capital allowances	180
Short-term timing differences	192
	<u>372</u>

18. Called up share capital

	At 31 December			At 31 December		
	1994	1995	1996	1994	1995	1996
	Number of shares '000			£'000	£'000	£'000
<i>Authorised:</i>						
Ordinary shares of 25p each	5,160	20,000	34,000	1,290	5,000	8,500
10% Cumulative Preference Shares of £1 each	<u>710</u>	<u>710</u>	<u>710</u>	<u>710</u>	<u>710</u>	<u>710</u>
				<u>2,000</u>	<u>5,710</u>	<u>9,210</u>
<i>Allotted, issued and fully paid:</i>						
Ordinary shares of 25p each	3,393	12,843	21,566	848	3,211	5,392
10% Cumulative Preference Shares of £1 each	<u>485</u>	<u>485</u>	<u>485</u>	<u>485</u>	<u>485</u>	<u>485</u>
				<u>1,333</u>	<u>3,696</u>	<u>5,877</u>

Ordinary shares issued during the three financial years ended 31 December 1996:

	Number of shares £'000	Nominal value £'000
At 1 January 1994 and at 31 December 1994	3,393	848
Rights issue in February 1995	3,393	848
Subscription in February 1995	3,393	849
For acquisition of Keith Ceramic Materials Limited ("KCM") in July 1995	2,663	666
Warrants exercised	1	—
Issue costs	—	—
At 31 December 1995	<u>12,843</u>	<u>3,211</u>
Rights issue in May 1996	3,746	937
Shares issued to Vendors of Bricesco Limited in April 1996	1,589	397
Shares issued to Vendors of CMS Colours Limited in April 1996	666	167
Placing and open offer in July 1996	2,099	525
Shares issued to Vendors of Thermic Designs Limited in October 1996	500	125
Exercise of options	112	28
Warrants exercised	11	2
	<u>21,566</u>	<u>5,392</u>

The rights issue in May 1996 raised part of the consideration for the acquisitions of Bricesco Limited and CMS Colours Limited. The July 1996 placing and open offer was undertaken to fund part of the consideration the acquisition of Purtrain Limited and its subsidiary, Gibbons Refractories Limited.

Preference Shares

The rights allotted to the non-equity Preference Shares are:

Dividends

The Preference Shares entitle the holders thereof to receive, in priority to the payment of dividends on the ordinary shares, a fixed cumulative preferential dividend at the rate of 10 per cent. per annum on the amount paid up on the Preference Shares.

Winding up

On a winding up or other return of capital, the surplus assets of the Company are to be applied, in priority to the Ordinary Shares, in payment to the holders of the Preference Shares of a sum equal to any arrears or deficiency of the fixed dividend thereon together with the nominal amount paid up or credited as paid up on the Preference Shares.

Voting rights

The Preference Shares shall not entitle the holders to receive notices of or to attend or vote at any General Meeting of the Company unless either:

- (1) at the date of the Notice of the meeting the dividends are at least six months overdue; or
- (2) if the business of the meeting includes a resolution to wind up the Company or any resolution modifying or abrogating the special rights attached to such shares as a separate class.

In the case of (1) above provided that the said dividend remains unpaid at the date of the meeting and in the case of (2) above the holder of such shares is always entitled to vote.

Warrants

Warrants to subscribe for 2,035,785 ordinary shares of 25p at an exercise price of 68p per share were issued on 27 February 1995. At 31 December 1996, 2,023,888 Warrants remained unexercised. The Warrants, which are transferable, can be exercised between 27 August 1995 and 26 February 2002. Any Warrant outstanding thereafter will lapse.

Warrant holders will be entitled to receive all dividends paid after the date of the exercise of the Warrants except for dividends declared, made or paid on or after the date of issue in respect of a financial year or other accounting reference period ending on or before the date of issue of the relevant Ordinary Shares. If the Company goes into voluntary liquidation the Warrantheolders will be entitled to receive any surplus over and above the exercise price *pari passu* with holders of Ordinary Shares as if they had exercised their Warrants immediately prior to liquidation. Warrantheolders are not entitled to attend and vote at general meetings of the Company.

If a change of control of the Company occurs as a result of a general offer to acquire Ordinary Shares or as the result of a court approved arrangement pursuant to Section 425 of the Act, the Board are required to notify Warrantheolders of that fact who may within three months following receipt of such notice exercise the Warrants in accordance with their terms. Failure to exercise the Warrants within such period will result in them lapsing.

The terms of a warrant instrument can, in certain limited circumstances, be amended without the approval of the Warrantheolders and the warrant instruments contain provisions related to the holding of the meetings of the Warrantheolders.

Options

At 31 December 1996 options have been granted to allow the purchase of up to 1,979,126 Ordinary Shares (1995: 488,284) at prices of between 87.6p and 159.5p per share (1995: 88.7p and 151.7p per share) subject to the rules of the Executive Share Option Scheme. The options may be exercised between 1997 and 2006.

19. Share premium account

	£'000
At 1 January 1994	15
Premium on shares issued	—
	<hr/>
At 31 December 1994	15
Premium arising on shares issued	2,918
Issue costs	(538)
	<hr/>
At 31 December 1995	2,395
Premium arising on shares issued	7,383
Issue costs	(469)
	<hr/>
At 31 December 1996	9,309
	<hr/>

20. Revaluation reserve

The balance on the revaluation reserve at 31 December 1996 amounted to £1,559 (1995: £1,559; 1994: £1,559).

21. Other reserves

	Goodwill £'000	Merger Reserve £'000	Other £'000	Total £'000
At 1 January 1994	(457)	—	133	(324)
Capital reserve credited to profit and loss account on closure of operations	(419)	—	—	(419)
Currency movements	—	—	119	119
At 31 December 1994	(876)	—	252	(624)
Merger reserve arising on issue of shares for acquisition of KCM	—	1,334	—	1,334
Goodwill on acquisition of subsidiary undertakings	(2,459)	—	—	(2,459)
Goodwill written off to merger reserve	1,334	(1,334)	—	—
Currency movements	—	—	106	106
At 31 December 1995	(2,001)	—	358	(1,643)
Merger reserve arising on the issue of shares for acquisitions	—	3,444	—	3,444
Goodwill on acquisition of subsidiary undertakings	(14,949)	—	—	(14,949)
Goodwill written off to merger reserve	3,444	(3,444)	—	—
Currency movements	—	—	(207)	(207)
At 31 December 1996	(13,506)	—	151	(13,355)

22. Profit and loss account

	£'000
At 1 January 1994	4,059
Profit/(loss) for the year retained	(6,066)
At 31 December 1994	(2,007)
Profit for the year retained	1,473
Cumulative dividend not yet declared	49
At 31 December 1995	(485)
Adjustment to the carrying value of associated undertaking as at 31 December 1994 relating to a change in stock valuing methodology	(112)
Restated	(597)
Profit for the year retained	1,907
Arrears of cumulative preference dividend	(49)
At 31 December 1996	1,261

23. Reconciliation of movements on shareholders' funds

	Financial year ended 31 December		
	1994	1995	1996
	£'000	£'000	£'000
At 1 January	6,642	276	5,410
Adjustment to the carrying value of the associated undertaking as at 31 December 1994	—	(112)	—
Restated	6,642	164	5,410
Total recognised gains and losses for the year	(5,898)	1,628	1,964
Dividends	(49)	—	(313)
Share issues	—	4,743	9,095
Capital reserve transferred to profit and loss account on closure of operations	(419)	—	—
Goodwill written off on business acquired	—	(1,125)	(11,505)
At 31 December	276	5,410	4,651

24. Net cash inflow/(outflow) from operating activities

	Financial year ended 31 December		
	1994	1995	1996
	£'000	£'000	£'000
Operating (loss)/profit	(852)	729	3,910
Depreciation	742	408	684
Permanent diminution in value of fixed assets	641	—	—
Loss/(profit) on disposal of tangible fixed assets	1	(71)	(47)
Decrease/(increase) in stocks	344	(539)	(1,388)
Decrease/(increase) in debtors	46	318	(2,524)
Decrease in creditors	(424)	(1,308)	(842)
Currency movements	(104)	—	—
Net cash inflow/(outflow) from operating activities	394	(463)	(207)

25. Reconciliation of net cash flow to movement in net debt

	Financial year ended 31 December		
	1994	1995	1996
	£'000	£'000	£'000
(Increase)/decrease in cash in the year	(376)	1,326	(3,382)
Net repayment/(advance) of short term bank loans	(1,666)	319	(1,352)
Net repayment/(advance) of long term bank loans	1,600	(777)	(3,867)
Cash to pay finance lease and hire purchase contracts	4	4	56
	(438)	872	(8,545)
New current year finance leases and hire purchase contracts	—	—	(203)
Movement in net debt in the year	(438)	872	(8,748)
Net debt at 1 January 1996	(5,217)	(5,655)	(4,783)
Net debt at 31 December 1996	(5,655)	(4,783)	(13,531)

26. Analysis of changes in net debt

	At 1 January 1995 £	Cash flows £	Other non-cash changes £	At 31 December 1995 £
Cash in hand and at bank	33	342	—	375
Bank overdrafts	(2,139)	984	—	(1,155)
	(2,106)	1,326	—	(780)
Debt due within one year	(1,666)	319	—	(1,347)
Debt due after one year	(1,875)	(777)	—	(2,652)
Finance lease and hire purchase contracts	(8)	4	—	(4)
Total	(5,655)	872	—	(4,783)

	At 1 January 1996 £	Cash flows £	Other non-cash changes £	At 31 December 1996 £
Cash in hand and at bank	375	(298)	—	77
Bank overdrafts	(1,155)	(3,084)	—	(4,239)
	(780)	(3,382)	—	(4,162)
Debt due within one year	(1,347)	(1,352)	—	(2,699)
Debt due after one year	(2,652)	(3,867)	—	(6,519)
Finance lease and hire purchase contracts	(4)	56	(203)	(151)
Total	(4,783)	(8,545)	(203)	(13,531)

27. Capital commitments

	As at 31 December		
	1994 £'000	1995 £'000	1996 £'000
<i>Commitments for capital expenditure:</i>			
Contracted for but not provided in the financial statements	302	185	718
Authorised but not contracted for	55	—	—
	357	185	718
<i>Annual commitments under plant and machinery operating leases which expire:</i>			
In second to fifth year inclusive	94	120	120

28. Contingent liabilities

As at 31 December 1996, the Company had contingent liabilities in respect of:

- guarantee of indebtedness of wholly owned UK subsidiaries amounting to £1,751,000 net of certain cash balances (1995: £1,446,000; 1994: £486,000) in respect of Group banking arrangements
- liability for value added tax payable to HM Customs & Excise by a subsidiary Company under the Group registration
- on 8 April 1997, the Company received a copy of proceedings issued against it in the Gera Regional Court in Germany. The plaintiff is the administrator in the proceedings against the Company's insolvent subsidiary undertaking, Hewitt Industriekeramik GmbH (now in liquidation). The proceedings claim DM508,957.65 plus interest, under German laws relating to "substitute equity capital". The Company is contesting the claim vigorously and the Directors do not currently consider it appropriate to make a provision in respect of this matter.

As at 31 December 1996, the Group had contingent liabilities in respect of:

- bank bonds and guarantees of £957,000

29. Discontinued activities

Hewitt Industriekeramik GmbH was placed in liquidation in March 1995. As such, the Group lost its effective control over Hewitt Industriekeramik GmbH and consequently its assets and liabilities are not included within the Group's balance sheet at 31 December 1994, 1995 or 1996. An overprovision of closure costs of £494,000 was recognised in the 1995 profit and loss account.

PART IV

ADDITIONAL INFORMATION

1. Responsibility

The Directors, whose names appear on page 5 and whose business address is 105 Piccadilly, London W1V 9FN, and the Proposed Director, whose business address is Saint Auvent, 87310 Saint Laurent sur Gorre, France, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Proposed Director (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. The Company

The Company was incorporated in England and Wales on 9 January 1930 as a limited company under the Companies Act 1929 with the number 244974 and the name J Hewitt & Co. (Fenton) Limited. The Company was re-registered as a public limited company on 25 September 1981 with the name J Hewitt & Son (Fenton) PLC. The name of the Company was changed to Hewitt Group plc on 22 October 1991 and to Flare Group plc on 10 November 1995.

The principal legislation under which the Company operates is the Act and regulations made thereunder as a public company limited by shares. The registered office and principal place of business of the Company is located at 105 Piccadilly, London W1V 9FN. The principal places of business of the Group are set out in paragraph 3 below.

The principal objects of the Company set out in clause 3 of the Memorandum of Association of the Company are to act as an investment holding company and to co-ordinate the affairs of any companies in which the Company is interested. The principal activities of the Group are the manufacture and sale of industrial ceramics, ceramic decals and colours, and capital goods to the ceramics industries.

3. Subsidiaries and associated company

The subsidiaries of the Group and its associated company are:

Company	Type of share	Issued and fully paid share capital	Percentage held	Principal activity
Hewitt Refractories Limited	Ordinary	2,000,000 shares of £1 each	100 per cent	Ceramics
Keith Ceramic Materials Limited	Ordinary	100,000 shares of £1 each	100 per cent	Ceramics
Sphinx Technical Ceramics B.V.	Ordinary	2,110 shares of NFL 1,000 each	50 per cent	Ceramics
Refractory & Ceramic Supplies Pty Limited	Ordinary	301 shares of A\$1 each	100 per cent	Ceramics distribution
C.M.S. Colours Limited	Ordinary	24,000 shares of £1 each	100 per cent	Ceramics transfers
		24,000 shares of US\$0.005 each	100 per cent	
Bricesco Limited	Ordinary	4,000,000 shares of US\$0.005 each	100 per cent	Holding company
		4,000,000 shares of £0.05 each	100 per cent	
	Preference	3,650,000 shares of US\$0.01 each	100 per cent	
		3,650,000 shares of £1 each	100 per cent	

Company	Type of share	Issued and fully paid share capital	Percentage held	Principal activity
Hewitt Technical Ceramics Inc	Ordinary	100 shares of \$0.01	100 per cent	Ceramics distribution
Purtain Limited	Redeemable Preference	196,667 shares of £1 each	100 per cent	Holding company
	Redeemable Preferred	19,047 shares of £1 each	100 per cent	
	'B' Redeemable Preference	2,850,080 'B' shares of £1 each	100 per cent	
	Convertible Preferred	34,286 shares of £1 each	100 per cent	
	'A' Ordinary	19,360 shares of £1 each	100 per cent	
	'B' Ordinary	60,640 shares of £1 each	100 per cent	
Thermic Designs Limited	Ordinary	6,705 shares of £1 each	100 per cent	Drying systems for ceramics industry
British Ceramic Service Company Limited	Ordinary	75,000 shares of £1 each	100 per cent	Kiln manufacturer
*Dorcasia Limited	Ordinary	809 shares of £1 each	100 per cent	Dormant
*Gibbons Refractories Limited	Ordinary	100,000 shares of £1 each	100 per cent	Ceramics
*Bricesco International Export Limited	Ordinary	100 shares of £1 each	100 per cent	Export company
*Bricesco Engineering Co. Limited	Ordinary	900 shares of £1 each	100 per cent	Dormant
*Bricesco Combustion Systems Limited	Ordinary	100 shares of £1 each	100 per cent	Dormant
*Porous Ceramics Limited	Ordinary	100 shares of £1 each	100 per cent	Dormant

** Owned indirectly by the Company*

Hewitt Refractories Limited, Keith Ceramic Materials Limited, C.M.S. Colours Limited, Bricesco Limited, British Ceramic Service Co. Limited, Thermic Designs Limited, Purtain Limited, Gibbons Refractories Limited and Porous Ceramics Limited are registered in England and Wales. Bricesco International Export Limited, Bricesco Engineering Co. Limited, Dorcasia Limited and Bricesco Combustion Systems Limited are registered in Scotland. Refractory & Ceramics Supplies Pty Limited is registered in Australia, Sphinx Technical Ceramics B.V. is registered in The Netherlands and Hewitt Technical Ceramics Inc. is registered in the state of Pennsylvania, United States of America.

The registered office of Hewitt Refractories Limited is Victoria Road, Fenton, Stock-on-Trent, Staffordshire ST4 2HR, Keith Ceramic Materials Limited is at Fishers Way, Belvedere, Kent DA17 6BN, C.M.S. Colours Limited is at Sneyd Street, Sneyd Green, Stoke-on-Trent ST6 2NP, Bricesco Limited, British Ceramic Service Company Limited and Porous Ceramics Limited are at Rowhurst Industrial Estate, Rowhurst Close, Chesterton, Newcastle under Lyme, Staffordshire ST5 6BH, Thermic Designs Limited is at Fenton Industrial Estate, Spedding Road, Fenton, Stoke-on-Trent ST4 2SP, Purtain Limited and Gibbons Refractories Limited are at Coopers Bank Works, Coopers Bank Road, Pensnett, Brierley Hill, West Midlands DYS 4TY and Bricesco International Export Limited, Bricesco Engineering Company Limited, Dorcasia Limited and Bricesco Combustion Systems Limited one at 24 Blythswood Square, Glasgow G2 4QS. The registered office of Refractory & Ceramic Supplies Pty Limited is at 50 Geddes Street, Mulgrave, Victoria, Australia. The registered office of Sphinx Technical Ceramics B.V. is at Schoenerweg 36, 6222 NX Maastricht and Hewitt Technical Ceramics Inc. is at 10 South Commerce Way, Bethlehem, Pennsylvania, PA 18017.

The Group operates from the following principal premises:

Operating Company	Location	Description	Approx area sq ft	Tenure
Hewitt Refractories Limited	Victoria Road, Fenton, Stoke-on-Trent	Factory and offices	97,000	Leasehold (Freehold owned by Flare Group plc)
Sphinx Technical Ceramics B.V.	Schoenerweg 36, 6222 NX Maastricht, The Netherlands	Factory and offices	42,000	Freehold
Keith Ceramic Materials Limited	Fisher's Way, Belvedere, Kent	Factory and offices	20,000	Leasehold
British Ceramic Service Company Limited	Rowhurst Industrial Estate, Rowhurst Close, Chesterton, Newcastle under Lyme, Staffordshire	Factory and offices	50,000	Freehold
C.M.S. Colours Limited	Sneyd Street, Sneyd Green, Stoke-on-Trent	Factory and offices	17,500	Freehold
Gibbons Refractories Limited	Coopers Bank Works, Coopers Bank Road, Pensnett, Brierley Hill, West Midlands	Factory and offices	16,200	Freehold

4. Share Capital

- (a) The following table summarises the current authorised share capital of the Company and the issued share capital and warrants of the Company and as it will be following completion of the Acquisitions, the Placing and the Open Offer.

Authorised

	Present	
	£	Number
Ordinary Shares	8,500,000	34,000,000
Preference Shares	710,000	710,000
	Following completion of the Acquisitions and the Placing and the Open Offer	
	£	Number
Ordinary Shares	8,500,000	34,000,000
Preference Shares	710,000	710,000

Issued and fully paid

	Present	
	£	Number
Ordinary Shares	5,391,518.25	21,566,073
Preference Shares	485,000	485,000
Warrants	N/A	2,023,888
Following completion of the Acquisitions and the Placing and the Open Offer		
	£	Number
Ordinary Shares	7,357,186.50	29,428,746
Preference Shares	485,000	485,000
Warrants	N/A	2,023,888

The New Ordinary Shares will rank *pari passu* in all respects with the Existing Ordinary Shares.

(b) The following changes in the share capital of the Company have been made in the three years preceding the date of this document:

- (i) Options over 1,979,126 Ordinary Shares have been granted to employees or directors exercisable at prices between 87.6p and 159.5p per Ordinary Share subject to the rules of the Flare Share Option Scheme and remain outstanding. The options may be exercised between 1997 and 2006.
- (ii) On 2 February 1995, 3,393,000 Ordinary Shares were issued at 68p per share and 1,017,900 Warrants were issued to the subscribers for such Ordinary Shares on the basis of three Warrants for every 10 Ordinary Shares subscribed.
- (iii) On 3 February 1995, 2,375,100 Ordinary Shares and 712,530 Warrants were issued to Summervale Limited (a company which is controlled by trustees of a trust whose beneficiaries are certain members of Ian Gowrie-Smith's family) and 1,017,900 Ordinary Shares and 305,370 Warrants were issued to Deep Water Holdings Limited (a company controlled by the trustees of a trust whose beneficiaries are David Lees and certain members of his family). The shares were issued at 68p per Ordinary Share and the Warrants on the basis of three Warrants for every ten Ordinary Shares subscribed.
- (iv) On 7 July 1995, 2,663,116 Ordinary Shares were issued at 75p per share as part of the consideration for the sale to the Company of the entire issued share capital of Keith Ceramic Materials Limited.
- (v) On 15 April 1996, 666,666 Ordinary Shares were issued at 150p per share as part of the consideration for the sale to the Company of the entire issued share capital of C.M.S Colours Limited.
- (vi) On 15 April 1996, 1,588,679 Ordinary Shares were issued at 150p per share as part of the consideration for the sale to the Company of the entire issued share capital of Bricesco Limited.
- (vii) On 8 May 1996, 3,746,303 Ordinary Shares were issued at 150p per share to subscribers for such Ordinary Shares pursuant to a rights issue announced on 21 March 1996.
- (viii) On 29 July 1996, 2,098,686 Ordinary Shares were issued at 150p per share to subscribers for such shares pursuant to a placing and open offer announced on 4 July 1996.
- (ix) On 30 September 1996, 500,000 Ordinary Shares were issued at 150p per share as part of the consideration for the sale to the Company of the entire issued share capital of Thermic Designs Limited.

- (x) The following Ordinary Shares have been issued for cash at 68p per share pursuant to the exercise of Warrants:

Date	Number of Ordinary Shares Issued
8 September 1995	30
9 September 1995	480
20 September 1995	156
12 December 1995	750
23 February 1996	562
12 March 1996	1,290
17 May 1996	6,780
27 September 1996	1,594
5 November 1996	135
27 February 1997	120

- (xi) The following Ordinary Shares have been issued for cash pursuant to the exercise of options granted under the Flare Share Option Scheme:

Date	Number of Ordinary Shares	Exercise Price
5 March 1996	107,311	89.833p
18 October 1996	4,415	88.81p

(c) Authorities:

- (i) The Directors currently have authority pursuant to an ordinary resolution passed on 13 May 1997 pursuant to Section 80 of the Act to allot relevant securities (as defined in Section 80(2) of the Act) up to a maximum nominal value of £1,965,824 until 13 May 2002. During this period, the Company may make an offer or agreement which would or might require relevant securities to be allotted after such period in pursuance of such offer or agreement as if the authority conferred thereby had not expired.
 - (ii) Pursuant to a special resolution of the Company passed on 13 May 1997, the Directors are empowered to allot equity securities (within the meaning of Section 94(1) of the Act) for cash provided that such allotment is made in connection with a rights issue or open offer, to allow the Directors to make such exclusions or other arrangements as they deem necessary or desirable to enable such issue or offer to be made to Warrantholders, to deal with fractional entitlements or legal or practical problems under the laws of or the requirements of any regulatory body or any stock exchange in any territory, or otherwise up to a maximum nominal amount of £269,600. This authority will expire fifteen months after the passing of the special resolution or at the conclusion of the next Annual General Meeting to be held in 1998.
 - (iii) The provisions of Section 89(1) of the Act (which, to the extent not disapplied pursuant to Section 95 of the Act, confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to the current authorised but unissued share capital of the Company save to the extent that such provisions are disapplied as referred to in paragraph (ii) above.
 - (iv) The Offer Shares will be issued at 120p per share, payable in cash, representing a premium to the nominal value of 95 per share.
- (d) The Existing Ordinary Shares, Preference Shares and Warrants are listed on the London Stock Exchange and on no other stock exchange.
- (e) The Existing Ordinary Shares, Preference Shares and Warrants are issued and the New Ordinary Shares will be issued in registered form and will be transferable by duly completed and stamped instruments of transfer lodged at the office of the Company's registrar. The Existing Ordinary

Shares have been admitted to CREST and the holders of Existing Ordinary Shares and New Ordinary Shares may elect to hold them in Uncertificated Form within the CREST system, and any transfer will be subject to the rules of that system.

5. Articles of Association

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

(a) General (excluding special rights and restrictions attaching to the Preference Shares).

(i) *Voting Rights*

Subject to any rights or restrictions attached to any shares, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative who is not himself a member entitled to vote shall have one vote and on a poll every member shall have one vote for every Ordinary Share of which he is the holder. On a poll, votes may be given either personally or by proxy or (in the case of a corporate member) by a duly authorised representative. A proxy need not be a member of the Company.

(ii) *Restrictions on Ordinary Shares*

If a member or any other person appearing to be interested in shares in the Company fails to comply within the relevant period with any statutory notice in respect of those shares, the Company may serve on such member or on any such person a further notice (a "Restriction Notice") in respect of those shares ("Restricted Shares") directing that the member or any transferee shall not be entitled to attend or to vote, either in person or by proxy, at any general meeting or class meeting of the Company. Where the Restricted Shares represent at least 0.25 per cent. (in number or in nominal value) of the issued shares of the same class, the Restriction Notice may in addition direct that any dividend or other money which would otherwise be payable on such Restricted Shares shall be withheld by the Company and no transfer of any Restricted Shares (other than pursuant to an arm's length sale) held by the member in certificated form shall be registered. The relevant period referred to above means 14 days from the date of service of the statutory notice.

(iii) *Dividends and Other distributions*

Subject to any special rights attached to any shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid. A general meeting declaring a dividend may, upon the recommendation of the directors, direct that it shall be satisfied wholly or partly by the distribution of assets. Any dividend which remains unclaimed after a period of twelve years from the date of declaration shall, if the directors so resolve, be forfeited and cease to remain owing by the Company.

(iv) *Rights on Liquidation*

On any winding-up of the Company, the liquidator may, with the authority of an extraordinary resolution of the Company and any other sanction required by law, divide amongst the members *in specie* the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members.

(v) *Variation of Rights*

Subject to the provisions of the Act and other relevant statutes, if at any time the capital of the Company is divided into different classes of shares, the rights attached to any class may be varied, in such manner (if any) as may be provided by those rights or with the consent in writing of the holders of three-quarters 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 shares of that class. To every such separate meeting, the provisions of the Articles relating to general meetings shall apply, except that the necessary quorum at such meeting other than an adjourned meeting shall be two persons together holding or representing by proxy at least one-third of the nominal value of the issued shares of the class in question.

Unless otherwise expressly provided by the rights attached to any shares those rights shall not be deemed to be varied or abrogated by the creation or issue of shares ranking *pari passu* with or subsequent to them.

(vi) *Alteration of Capital*

The Company may subject to the provisions of the Articles by ordinary resolution:

- (1) increase its share capital by new shares of such amount as the resolution prescribes;
- (2) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;
- (3) sub-divide its shares or any of them into shares of smaller amount;
- (4) determine that as between the shares resulting from such a subdivision any of them may have any preference or advantage compared with the others; and
- (5) cancel shares which at the end of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

Subject to the provisions of the Act and other relevant statutes the Company may, by special resolution, reduce its authorised and issued share capital, and any capital redemption reserve and any share premium account in any way.

(vii) *Transfer of Shares*

- (1) An share in Uncertificated Form may be transferred in such a manner provided for, and subject as provided, in the Regulations and the rules of any relevant system (as defined in the Regulations).
- (2) Subject to the provision of the Articles a member may transfer shares by an instrument of transfer in writing in any usual form or in any other form which the directors approve and such instrument shall be executed by or on behalf of the transferor and, where the share is not fully paid, by or on behalf of the transferee. The transferor shall be deemed to remain the holder of such share until the name of the transferee is entered in the register in respect of it.

Subject to the provisions of the Articles the board may, in their absolute discretion, and without giving any reason, refuse to register the transfer of a share which is not fully paid. They may refuse to recognise any instrument of transfer unless the instrument is in respect of only one class of share and is duly stamped and is lodged at the transfer office, accompanied by the relevant share certificate and such other evidence as the board may reasonably require to show the title of the transferor to make the transfer and, if executed by some other person on his behalf, the authority to do so. In the case of a transfer by a Stock Exchange Nominee the lodgement of the share certificates will only be necessary if and to the extent that certificates have been issued in respect of the shares in question.

(viii) *Borrowing Powers*

The directors shall restrict the borrowings of the Company and exercise all powers of control exercisable by the Company in relation to its subsidiary undertakings so as to secure (as regards subsidiary undertakings so far as by such exercise they can secure) the aggregate amount for the time being outstanding of all monies borrowed by the Group excluding amounts borrowed by any member of the Group from any other member of the Group shall not at any time, save with the previous sanction of an ordinary resolution of the Company and such consent or sanction on the part of the holders of the Preference Shares as is required for a variation of the special rights attached to such Preference Shares, exceed three times the aggregate of (i) the amount paid up on the share capital of the company and (ii) the total of the capital and revenue reserves of the Group, including any share premium accounts, capital redemption reserve and credit balance of the profit and loss accounts, all as shown in the then latest audited consolidated balance sheet and profit and loss account of the Group, but subject to deductions and adjusted as specified in the relevant article.

(b) Special rights and restrictions attaching to the Preference Shares.

Save where inconsistent with or varied by the rights attached to the Preference Shares as summarised below, the general provisions of the Articles of Association, as summarised above, shall apply to the Preference Shares.

(i) *Dividends*

The Preference Shares entitle the holders thereof to receive, in priority to the payment of dividends on the Ordinary Shares, a fixed cumulative preferential dividend at the rate of 10 per cent. per annum on the amount paid up on the Preference Shares.

(ii) *Winding-Up*

On a winding-up or other return of capital, the surplus assets of the Company are to be applied, in priority to the Ordinary Shares, in payment to the holders of the Preference Shares of a sum equal to any arrears or deficiency of the fixed dividend thereon, together with the nominal amount paid up or credited as paid up on the Preference Shares.

(iii) *Voting Rights*

The Preference Shares shall not entitle the holders to receive notices of or to attend or vote at any General Meeting of the Company unless either:

- (1) at the date of the Notice of the meeting the dividends are at least six months overdue; or
- (2) if the business of the meeting includes a resolution to wind up the Company or any resolution modifying or abrogating the special rights attached to such shares as a separate class.

In the case of (1) above provided that the said dividend remains unpaid at the date of the meeting and in the case of (2) above the holder of such shares is always entitled to vote.

At any meeting at which holders of Preference Shares are entitled to vote, as aforesaid, every such holder who (being an individual) is present in person or (being a corporation) is present by a representative or proxy who is not himself a member shall have one vote and on a poll shall have one vote for every Preference Share of which he is the holder.

6. The Flare Group Executive Incentive Schemes

A. The Flare Group plc Executive Share Option Scheme

(a) *General*

The Flare Group plc Executive Share Option Scheme ("The Flare Share Option Scheme") was established on 21 April 1988 and amended on 10 October 1991, 4 July 1995 and 13 May 1997. The Flare Share Option Scheme is administered on behalf of the directors by the remuneration committee of the board, paying due regard to the requirements of the institutional investor guidelines as they apply from time to time.

(b) *Eligibility*

All full-time directors and employees of the Company or of any subsidiary ("eligible executives") are eligible to participate in the Flare Group Executive Share Option Scheme at the invitation of the directors provided that they are not within two years of pensionable age or their contractual retirement date. The term "subsidiary" extends, in relation to the "non-approved" element of the Flare Share Option Scheme, to companies in whose voting shares the Group has a 50 per cent. interest. Directors are required to devote at least twenty-five hours a week to the performance of their duties in order to be able to participate. Other employees must devote at least twenty hours a week to the performance of their duties in order to be able to participate.

(c) *Grant of Options*

Options may be granted only within certain permitted periods which are now the period of 42 days following the preliminary announcement of the results or the date of the annual general meeting of the Company in respect of any financial year or the period of 42 days following the date of the announcement of the Company's interim results.

The consideration payable for the grant of an option is the payment of £1.

(d) *Exercise of Options*

- (i) An option granted under the Flare Group Executive Share Option Scheme may not in normal circumstances be exercised earlier than three years after the date on which it was granted. Except in the case of an option to which 6A(e)(iii) below applies, exercise of an option may be dependent upon the satisfaction of terms specified by the directors and agreed in advance with the Inland Revenue. In any event an option may only be exercised (except in the circumstances set out in 6A(d)(ii) below, other than on retirement of the employee) if, over a consecutive three-year period commencing no earlier than the date of grant, the growth in the earnings per share of the Ordinary Shares exceeds the growth in the Retail Price Index over the same period.
- (ii) If an optionholder dies whilst in the employment of the Company or any other participating company, his personal representative may exercise his option during the following twelve months. If an optionholder ceases to be an eligible employee by reason of retirement or by reason of injury, disability or redundancy or by reason of the Company or business employing the optionholder ceasing to form part of the Group or (at the discretion of the Directors) in certain other circumstances, he may exercise his option within twelve months of such cessation or forty-two months after the date of grant, or six months after exercise of a previously approved option, whichever is the later. Special provisions also apply in the exceptional circumstances of a reconstruction, change of control or liquidation of the Company. In either case, optionholders may be permitted to exercise options early (within certain specified periods) even if the relevant performance targets are not at that time satisfied. In the event that another company acquires control of the Company, an optionholder may, with the consent of the acquiring company, release his option in exchange for the grant of an equivalent option over shares in the acquiring company or another permitted company. No option may be exercised more than ten years after the date on which it was granted.

(e) *Limits on the Flare Share Option Scheme*

The Flare Share Option Scheme is subject to the following limits:

- (i) The number of new Ordinary Shares which may be issued on the exercise of options granted under the Flare Group Executive Share Option Scheme or any other share option scheme when aggregated with the number of shares issued or issuable under any other employees' share scheme (in either case where the scheme is established for the purpose of enabling employees and directors of any Group company to acquire shares) may not exceed:
 - (1) where the date of grant falls within the first five years of the Flare Share Option Scheme, in any five-year period 5 per cent. of the issued share capital of the Company nor, excluding any shares issued or issuable under any approved profit sharing scheme or options granted under an approved savings related share option scheme in that five year period, 3 per cent. of the issued share capital of the Company; or
 - (2) in any three-year period 3 per cent. of the issued share capital of the Company provided that this limit may be disregarded where the limit in paragraph 6A(e)(i)(1) above has not been exceeded in the first five years of the Flare Group Executive Share Option Scheme.
- (ii) The number of Ordinary Shares which may be issued on the exercise of options granted under the Flare Share Options Scheme or any other scheme when aggregated with the number of shares issued or issuable under any employees' share scheme (in either case where the scheme is established for the purpose of enabling employees and directors of any group company to acquire shares) in any ten-year period may not exceed 10 per cent. of the issued ordinary share capital of the Company from time to time nor, after excluding shares issued or issuable under any approved profit sharing or approved savings related scheme and disregarding any option to which paragraph 6A(e)(iii) applies 5 per cent. of the issued share capital of the Company from time to time.
- (iii) The directors may grant options which may only be exercised provided that, broadly, the Company's growth in earnings per share over at least a five-year period is such as would place

the Company in the top quartile of FTSE 100 companies by reference to growth in earnings per share over such five-year period. This performance condition need not be satisfied in the circumstances described in paragraph 6A(d)(ii) (except in the case of retirement as therein mentioned). In the case of such an option the limits applicable to the Flare Group Option Scheme are relaxed as mentioned in paragraphs 6A(e)(ii) above and 6A(e)(iv) below.

- (iv) No person shall be granted options which, at the time they are granted, would cause the market value (measured at the date of grant) of the Ordinary Shares which he may acquire in pursuance of options granted to him under the Scheme or any other scheme (other than under an approved savings-related share option scheme or an approved profit sharing scheme) established by the Company or any associated company to exceed four times his basic earnings for the current or preceding tax year, whichever is the greater, except in the case of an option to which paragraph 6A(e)(iii) applies in which case the relevant limit is eight times his basic earnings unless that would exceed Inland Revenue limits.

(f) *Rights attaching to Shares*

Shares issued pursuant to the exercise of an option rank *pari passu* in all respects with fully paid Ordinary Shares except in relation to a dividend the record date for which falls before the date of exercise.

(g) *Variation of Capital*

In the event of a variation in share capital by way of a rights issue, capitalisation, consolidation, sub-division or reduction, the number of shares comprised in each option and the price payable on exercise shall be adjusted by the directors in such manner as the auditors of the Company certify as fair and reasonable, provided that there is no material increase to the aggregate option exercise price and subject to Inland Revenue approval.

(h) *Amendment of the Flare Share Option Scheme*

The directors may at any time amend the Flare Share Option Scheme provided:

- (i) the approval of the Inland Revenue is obtained of the Flare Share Option Scheme if at that time it is approved under the Income and Corporation Taxes Act 1988 (unless the directors otherwise resolve);
- (ii) the prior approval of the Company in general meeting is obtained in the case of any alteration to the provisions concerning the persons eligible to participate in the Flare Share Option Scheme or any alteration to the advantage of optionholders to the provisions concerning the periods during which options may be granted and exercised, the consideration payable for the grant of an option, the transferability of options, the determination of the price payable on the exercise of options, the limits on the Flare Share Option Scheme, the rights attaching to new Ordinary Shares issued pursuant to options, the provisions relating to variation of capital, take-over, reconstruction and winding-up and alteration of the Flare Share Option Scheme; and
- (iii) no alteration may adversely affect subsisting rights of optionholders, except with their consent as specified in the Flare Group Executive Share Option Scheme rules.

Provisos (ii) and (iii) above will not apply if it is necessary or desirable to alter or add to the Flare Group Executive Share Option Scheme in order to obtain or maintain Inland Revenue approval, to comply with or take account of any statutory provision or to maintain favourable tax treatment, provided that the alteration or addition does not affect basic principles of the Flare Share Option Scheme.

(i) *Unapproved Options*

The Flare Share Option Scheme rules also allow for unapproved options to be granted on the same basis as approved options, the principal differences being that the individual participation limit is eight times the higher of total remuneration (excluding benefits in kind) per annum and total remuneration paid in the previous 12 months. If options to which paragraph 6A(e)(iii) applies are disregarded, the eight times limit becomes a four times limit.

B. *The Flare Group plc Long Term Incentive Share Plan*

(a) *General*

The Flare Group plc Long Term Incentive Share Plan ("the Plan") was adopted on 13th May 1997 and is administered by The Flare Employee Share Ownership Trust which has as its trustee Flare Employees Trustees Limited ("the Trustee"), a subsidiary of the Company. The purpose of the Trust is to purchase and hold Ordinary Shares, subject to the terms of the Trust, with financial assistance provided by the Company and/or its subsidiaries and distribute such shares to employees upon the terms of the Plan and any other future employee share scheme or arrangement operated by it.

(b) *Eligibility*

Employees of the Company and any of its subsidiaries are eligible to participate in the Plan by the recommendation and with the consent of the remuneration committee of the board ("the Committee") whereupon the Trustee may make awards of options to such employees ("the Participants").

(c) *Awards*

The Plan provides notional awards of Ordinary Shares to be granted annually to Participants at the beginning of the three year Performance Period (as defined in the Plan) such notional award will not confer upon a Participant any legal right or entitlement as against the Company or any of its subsidiaries or the Trustee. At the end of the relevant Performance Period non assignable options may be granted by the Trustee. The number of Ordinary Shares for which any such options are granted, if any, will be determined by the extent that the Trustee is satisfied that the Company has achieved pre-set targets over a three year Performance Period which begins at the start of the financial year in which such notional awards are made. The Ordinary Shares will be available for transfer from the Trust to the relevant Participant by exercising the relevant option granted at any time within seven years of the date of the original grant of the option. Options will be exercisable by a Participant for the nominal sum of £1.

(d) *Limitation of Number of Ordinary Shares which the Trust may subscribe for*

The Committee cannot issue Ordinary Shares to the Trust at a price below the middle market quotation for an Ordinary Share on the dealing day before the date of issue. In addition, the following limits apply to the issue of Ordinary Shares under the Plan:

- (i) in any ten year period, the number of Ordinary Shares which may be issued under the Plan may not exceed 5 per cent. of the issued ordinary share capital of the Company; and
- (ii) in any ten year period, the aggregate number of Ordinary Shares which may be issued under the Plan and under any other employees' share scheme may not exceed 10 per cent. of the issued share capital of the Company.

Except in the case of the first award under the Plan, the value of the Ordinary Shares awarded under the Plan in any financial year to any Participant may not exceed 100 per cent. of the higher of total remuneration excluding benefits in kind (expressed as an annual rate) payable to the Participant at that time and such total remuneration paid to the Participant in any period of twelve months ending within the preceding three years.

(e) *Variation of Notional Award*

If after a notional award of Ordinary Shares has first been made to a Participant, the Trustee may, upon the recommendation of and with the consent of the Committee, amend the performance condition applicable in any Performance Period. However, no such amendments may be made unless the Committee confirms in writing to the Trustee that circumstances have changed such that the Committee reasonably considers, having due regard to the interest of shareholders, that the new criteria for the measuring of the Company's performance over the Performance Period will be a fair measure of such performance or that any amended performance condition will afford more incentives to Participants.

(f) *Exercise of Option*

If a Participant ceases to be employed by the Group at any time before he exercises any option granted, then, if his cessation of employment is by reason of redundancy, injury, disability or retirement on or after the end of the Performance Period the Participant may exercise the option within six months of such cessation, to the extent that the performance condition is satisfied. If a Participant ceases to be employed by the Group by reason of death on or after the end of the Performance Period, the Participant's personal representatives may exercise their option within twelve months of the date of death. In the case of cessation of employment due to death, injury, disability or retirement during the Performance Period, a Participant (or, in the case of death, his personal representatives) will be granted an option over the proportion of such Ordinary Shares notionally awarded to him which such period of service during the Performance Period bears to the Performance Period as a whole and be eligible to exercise such option in the six month period following the end of the Performance Period. If a Participant voluntarily ceases to be employed by the Group during the Performance Period, the Trustee shall have the discretion to award an option over the proportion of such Ordinary Shares notionally awarded to him which such period of service during the Performance Period bears to the Performance Period as a whole.

(g) *Variation of Capital*

In the event of an increase or variation or consolidation of the Company's share capital, the Trustee (upon the recommendation and with the approval of the Committee) may make such adjustments as it considers appropriate to the number of Ordinary Shares in respect of which any option may be exercised.

(h) *Amendment of the Plan*

The Trustee may (upon the recommendation and with the approval of the Committee) at any time alter or add to the Rules of the Plan or the terms of any option granted under it in any respect save that the prior approval of the Company in general meeting will be required for amendments to the Plan to the advantage of Participants relating to: the persons to whom or for whom options and/or Ordinary Shares are provided under the Plan; the limitation on the number or amount of options and/or Ordinary Shares subject to the Plan; the maximum entitlement of any one Participant under the Plan; and, the basis of determining a Participant's entitlement to and the terms of options and entitlement to Ordinary Shares or the adjustment thereof in the event of a capitalisation issue, rights issue, sub division or consolidation of shares or reduction of capital or on any variation of capital. Minor amendments to benefit the administration of the Plan to take account of a change in legislation or to obtain or maintain federal taxation, exchange control or regulate treatment for the Company or its subsidiaries, the Trustee or any Participant are excepted from the requirements to obtain shareholder approval in general meeting

7. Indebtedness and contingent liabilities

(a) *Indebtedness*

At the close of business on 7 July 1997 the Group had outstanding total indebtedness of £18,526,332 comprising the individual amounts listed below:

	£
Loans and bank overdrafts (secured)	17,031,835
Loans and bank overdrafts (unsecured)	432,875
Finance Lease commitments	961,622
Total Indebtedness	<u>18,426,332</u>

(b) *Contingent liabilities*

The Group has the following contingent liability as at 7 July 1997:

On 8 April 1997, the Company received a copy of proceedings issued against it in the Gera Regional Court in Germany. The plaintiff is the administrator in the proceedings against the Company's insolvent subsidiary undertaking, Hewitt Industriekeramik GmbH (now in

liquidation). The proceedings claim DM508,957.65 plus interest, under German laws relating to "substitute equity capital". The Company is contesting the claim vigorously.

Save as aforesaid, and apart from any intra-group liabilities, at the close of business on 7 July 1997 no member of the Group had any loan capital (including term loans) created but unissued, nor any outstanding mortgages, charges, debentures or other loan capital or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments or guarantees, obligations under finance leases or other contingent liabilities.

At the close of business on 7 July 1997 the Group had cash balances at bank amounting to £1,730,831.

Cash at bank and borrowings in foreign currencies have been translated into sterling at the exchange rates ruling at 7 July 1997.

8. Material contracts

The contracts listed below, which are or may be material (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this document:

- (i) A share purchase agreement dated 7 August 1997 between Data Investments Limited and Ceram Holding S.A. (1), the Company (2) and Philippe Blandinières (3) whereby the Company has conditionally agreed to purchase the entire issued share capital of Cerinov Holding S.A., its wholly owned subsidiary Elmeceram S.A. and the entire issued share capital of Elmeceram UK Limited for the aggregate sum of £2,325,000 to be satisfied by the issue of Ordinary Shares in the Company 895,833 of which are to be placed so as to raise £1.075 million for the Elmeceram Vendors. The Elmeceram acquisition is conditional *inter alia*, on Admission. The agreement contains provisions relating to the conduct of the business of Elmeceram following completion (which is expected to be 5 September 1997). Such provisions include the placing of the cash consideration (£1,125,000) and the shares in Cerinov Holdings S.A. with an escrow agent until certain building works and machinery have taken place and been installed respectively, by the Elmeceram Vendors in Elmeceram S.A.'s factory. The Elmeceram Vendors have given certain warranties and indemnities in the Elmeceram Acquisition Agreement to the Company regarding Elmeceram and its business and assets and Mr Blandinières has guaranteed the performance of the obligations of the Vendors under the terms of the agreement.

In addition to the above primary agreement there is:

- (a) an agreement containing warranties to be given by Ceram Holdings S.A. to the Company, Philippe Blandinières and Gillian Brimelow guaranteeing the material accuracy of the warranties given by Ceram Holding S.A.; and
 - (b) a guarantee given by Elmeceram S.A. guaranteeing the performance of the obligations of the Vendors under the terms of the primary agreement.
- (ii) A business purchase agreement dated 7 August 1997 made between Mr C C Rathbone and others ("the Rathbone Vendors") (1) and the Company (2) whereby the Company has conditionally agreed to purchase the business and certain of the assets of C H Rathbone & Son to be satisfied by the issue of 960,000 New Ordinary Shares all of which are to be placed to raise £1.152 million for the Rathbone Vendors which sum will be reduced by an amount equal to the book debts and cash of the business at completion. Such book debts and cash will not be acquired under the terms of the agreement. The indebtedness of certain creditors of the business will be discharged by the Company. The C H Rathbone & Son Acquisition is conditional, *inter alia*, on the New Ordinary Shares being admitted to the Official List. The agreement contains provisions relating to the conduct of the business of C H Rathbone & Son before completion, which is expected to be 5 September 1997. The Rathbone Vendors have given warranties in the agreement with the Company regarding C H Rathbone & Son and its business and assets.

- (iii) The Placing Agreement details of which are set out in paragraph 10 below.
- (iv) A Severance Agreement in the form of a compromise agreement dated 26 March 1997 between Keith Ceramic Materials Limited and John Keith Sykes under which Mr Sykes resigned as a director of Keith Ceramic Materials Limited with effect from 26 March 1997. Mr Sykes received as compensation for loss of office, *inter alia*, payment of £90,000 (subject to certain deductions for PAYE and income tax payable on that sum to the Inland Revenue) and a payment of £13,500 into his personal pension in full and final settlement of any claims that Mr Sykes may have had against Keith Ceramic Materials Limited or any member of the Group for breach of contract or unfair dismissal.
- (v) By a share purchase agreement dated 27 September 1996 made between Mr K J Ball and others (together "the Thermic Vendors") (1) and the Company (2) whereby the Company purchased the entire issued share capital of Thermic Designs Limited for a consideration of £3 million, satisfied by the issue of 500,000 Ordinary Shares at an issue price of £1.50 per Ordinary Share, £1.5 million in cash, and a non-contingent deferred payment of £0.75 million payable on 30 September 1997. The Thermic Vendors gave certain warranties and indemnities to the Company regarding the business and assets of Thermic.
- (vi) A share purchase agreement dated 4 July 1996 made between G J Stanley and others (1) NatWest Ventures Investments Limited (2) (together "the Gibbons Vendors") and the Company (3) whereby the Company purchased the entire issued share capital of Purtain Limited (and its wholly owned subsidiary Gibbons Refractories Limited) for £5.6 million satisfied in cash. The Gibbons Vendors (other than NatWest Ventures Investments Limited) gave certain warranties and indemnities to the Company regarding Gibbons Refractories' business and assets.
- (vii) A placing agreement dated 4 July 1996 and made between the Company (1) and Greig Middleton Limited ("Greig Middleton") (2) pursuant to which Greig Middleton agreed to use reasonable endeavours to procure subscribers for, and failing which itself to subscribe, at the price of 150p per share for 2,088,502 new Ordinary Shares in respect of which valid applications were not received under the Open Offer announced by the Company on 4 July 1996. In consideration of Greig Middleton's services under the agreement the Company paid Greig Middleton (in addition to fees payable for services in connection with such Open Offer) commission amounting to £39,159 in aggregate.
- (viii) A share purchase agreement dated 21 March 1996 made between the K&S(251) Limited and others (1) and the Company (2) whereby the Company purchased the entire issued share capital of Bricesco Limited for £6 million satisfied as to £2.38 million by the issue of 1,588,679 Ordinary Shares to the vendors of Bricesco and as to £3.62 million in cash. The vendors of Bricesco Limited gave certain warranties and indemnities in the agreement to the Company regarding Bricesco Limited and its subsidiaries and their business and assets.
- (ix) A share purchase agreement dated 21 March 1996 made between P Cartwright and others (1) and the Company (2) whereby the Company purchased the entire issued share capital of C.M.S. Colours Limited for £1.6 million satisfied as to £1 million by the issue of 666,666 Ordinary Shares to the vendors of C.M.S. Colours Limited and as to £600,000 in cash. In addition, a further cash sum of £528,653 has been paid by way of deferred consideration calculated by reference to the profits of C.M.S. Colours Limited for the year ended 31 December 1996. The vendors of C.M.S Colours Limited gave certain warranties and indemnities in the agreement to the Company regarding C.M.S Colours Limited and its business and assets.
- (x) An agreement dated 21 March 1996 and made between the Company (1) and Greig Middleton (2) pursuant to which Greig Middleton underwrote the 3,746,303 new Ordinary Shares issued pursuant to the rights issue announced by the Company on 21 March 1996. In consideration of Greig Middleton's services under the agreement, the Company paid Greig Middleton (in addition to fees payable for services in connection with such rights issue) commission amounting to £122,994 in aggregate.
- (xi) An Agreement dated 24 October 1995 and made between the Company (1) and Hamburgische Landesbank ("Hamburgische") (2) under which Hamburgische agreed not to

enforce its rights as to payment of the sum of DM 4,812,217.82 under a guarantee granted by the Company in respect of its subsidiaries, Hewitt Industriekereamik GmbH and Hewitt Liegenschaftern GmbH, provided the Company pay such amount, together with interest thereon at the rate of 4.6 per cent. per annum, in 5 equal instalments between 15 December 1995 and 15 December 1997, save that the accrued interest shall be paid on 15 June 1998.

9. Directors' and Other Interests

- (a) The following table sets out the interests of the Directors (including the interest of their immediate families and persons connected with the Directors) as they have been notified by the Directors to the Company pursuant to Section 324 and 328 of the Act or are required pursuant to the provisions of Section 325 and Schedule 13 to the Act to be entered in the register of Directors' interests. All interests are beneficial save as referred to in note (4) below:

	Current			Following the Placing and the Open Offer	
	Warrants	Ordinary Shares	% holding	Ordinary Shares	% holding
David Gordon Heynes (1)	41,250	280,750	1.21	280,750	0.95
Ian Roderick Gowrie-Smith (2)	712,530	2,375,100	11.01	2,375,100	8.07
David John Lees (3), (6)	305,370	1,017,900	4.72	1,017,900	3.46
Stuart James Redford	nil	nil	nil	nil	nil
Peter Cartwright (4), (6)	nil	616,666	2.86	616,666	2.10
Stephen Paul Thornhill (5), (6)	nil	112,017	0.52	112,017	0.38

Notes:

- (1) The Shares and Warrants in which Mr Heynes is shown above as having an interest include 255,000 Ordinary Shares registered in the name of Midland Bank (Jersey) Nominees Limited, 38,250 Warrants and 5,750 Ordinary Shares registered in the name of Speyside Holdings Limited and 3,000 Warrants and 20,000 Ordinary Shares registered in the name of the Corporation of Lloyd's.
- (2) 125,000 of the Shares in which Mr Gowrie-Smith is shown above as having an interest have been transferred into the names of Mr and Mrs Gowrie-Smith as trustees of the SkyPharma Plc Directors' Pension Scheme of which Mr Gowrie-Smith is the beneficiary. The remaining Shares and all of the Warrants in which Mr Gowrie-Smith is shown above as having an interest are registered in the name of Summervale Limited. The entire issued share capital of Summervale Limited is held on behalf of The I R Gowrie-Smith Family Trust, the beneficiaries of which are certain members of Mr Gowrie-Smith's family.
- (3) The Shares and Warrants in which Mr Lees is shown above as having an interest are registered in the name of Deep Water Holdings Limited. The entire issued share capital of Deep Water Holdings Limited is held on behalf of S W Trustees Limited who are the trustees of the D J Lees Family Settlement. The beneficiaries of the D J Lees Family Settlement are Mr Lees and certain members of his family.
- (4) The Ordinary Shares in which Mr Cartwright is shown above as having an interest include 413,472 Ordinary Shares registered in the name of Peter Cartwright, Teresa Cartwright and Donovan Garner Upright as trustees of the Peter Cartwright Interest in Possession Settlement, 64,111 Ordinary Shares registered in the name of Peter Cartwright, Teresa Cartwright and Donovan Garner Upright as trustees of the Dominic and Rachel Cartwright Interest in Possession Settlement and 139,083 Ordinary Shares registered in the name of Mr Cartwright's wife, Teresa Cartwright.
- (5) The Ordinary Shares in which Mr Thornhill is shown as having an interest are registered in the name of and beneficially owned by his wife Mrs H Thornhill.
- (6) The Directors have been granted options to acquire Ordinary Shares in the Company under the Flare Group Executive Share Option Scheme as follows:

	Number of Ordinary Shares under Option		Exercise Period	Exercise Price
	Ordinary	Super		
David John Lees	327,532	250,000	1998-2006	87.6p to 159.5p
Peter Cartwright	87,500	125,000	1999-2006	143.1p to 159.5p
Stephen Paul Thornhill	87,500	125,000	1999-2006	143.1p to 159.5p

- (7) These figures take into account the irrevocable undertakings to not to take up their entitlements under the Placing and the Open Offer as described in Part I of this document.
- (8) No Directors or a connected person of a Director hold any Preference Shares. The number of Warrants held by the respective Directors will remain the same immediately after the Placing and the Open Offer.

Save as disclosed in this paragraph, no interest exists which the Company is required pursuant to Section 325 of the Act to enter in the register maintained pursuant to that section.

- (b) After completion of the Elmeceram Acquisition and the Placing and the Open Offer, Philippe Blandinières, the Proposed Director, will be deemed to have an interest (as defined above) in

925,926 New Ordinary Shares representing 3.15 per cent. of the issued share capital of the Enlarged Group. These shares will be registered in the name of Ceram Holding S.A., a Luxembourg company, of which Mr Blandinières and his wife are directors and sole shareholders.

- (c) Save for the holdings in which the Directors are interested which are referred to in sub-paragraph (a), the Directors are aware of the following interests of 3 per cent. or more in the issued ordinary share capital of the Company on 7 August 1997 (being the latest practical date prior to the publication of this document):

Substantial Shareholding	Ordinary Shares	Per cent. of Existing Ordinary Shares	Per cent. following the Placing and the Open Offer
ECI Ventures Nominees Limited	657,635	3.05	2.23
RLAM (Nominees) Limited	886,262	4.11	3.01
Lancashire County Council	*1,154,849	5.35	3.92
Nutraco Nominees Limited	1,445,024	6.70	4.91
Robert Fleming Nominees Limited	2,314,828	10.73	7.87

*These Ordinary Shares are registered in the name of Phildrew Nominees Limited.

These percentages are calculated on the basis that such Shareholders will not take up any of their entitlement under the Placing and the Open Offer.

- (d) Mr Cartwright and his wife were parties to a share purchase agreement dated 21 March 1996 which is described in paragraph 8(ix) above. Mr Thornhill was a party to a share purchase agreement dated 21 March 1996 which described in paragraph 8(viii) above. Save as disclosed in this paragraph, no Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was effected by any members of the Group during the current or immediately preceding financial year or during an earlier financial year which remains outstanding or unperformed.
- (e) In the year ended 31 December 1996 the aggregate remuneration, including benefits in kind and pension contributions, of the Directors of the Company was £499,000. Under the arrangements currently in force the aggregate remuneration of the Directors of the Company, including benefits in kind and pension contributions, is expected to be £780,000 in the year to 31 December 1997.

10. Summary of the principal terms and conditions of the Placing Agreement

The Placing Agreement, dated 8 August 1997, was entered into between the Company, the Directors and Collins Stewart. Pursuant to this agreement, Collins Stewart has agreed with the Company, subject to certain conditions, to offer the Offer Shares as agent for the Company to Qualifying Holders pursuant to the Open Offer and as agent for the Company to use its reasonable endeavours to procure persons as placees of and, to the extent that it does not so procure persons, itself to take up as principal, such of the Offer Shares as are not taken up under the Open Offer, in each case at the Placing Price. Collins Stewart has also agreed, again subject to certain conditions, that as agent for the Company it will use its reasonable endeavours to procure persons as placees of and, to the extent that it does not procure persons, itself to purchase as principal at the Placing Price, 1,855,833 New Ordinary Shares in aggregate being issued pursuant to the Acquisition Agreements.

Pursuant to the Placing Agreement, Collins Stewart will receive from the Company:

- (a) a commitment commission of 1 per cent. of a sum equal to the aggregate Placing Price in respect of all the New Ordinary Shares ("the Total Placing Value") under the Placing Agreement commencing on the date thereof;
- (b) subject to the Placing Agreement becoming unconditional, a further commission of 0.75 per cent. of a sum equal to the aggregate Placing Price in respect of all the Offer Shares;

- (c) a further commitment commission of 0.125 per cent. of a sum equal to the aggregate Placing Price in respect of all the Offer Shares other than the 948,209 Offer Shares which are subject to certain irrevocable undertakings, the Rathbone Vendor Consideration Shares and the Elmeceram Vendor Consideration Shares for each period of seven days or part thereof for the period of commitment pursuant to the Placing Agreement from and including 7 September 1997; and
- (d) an advisory fee,

together, in each case with any value added tax chargeable on those amounts. Out of such commissions received from the Company, Collins Stewart will pay commissions to the placees procured by it under the Placing and the Open Offer.

The Placing Agreement is conditional, *inter alia*, on the listing of the New Ordinary Shares on the London Stock Exchange becoming effective by 8.30 am on 5 September 1997 (or such later date as Collins Stewart may agree).

The Placing Agreement contains certain representations, warranties and indemnities given (i) by the Company to Collins Stewart relating to, *inter alia*, the accuracy of this document and the affairs of the Group and (ii) given by the Directors relating to, *inter alia*, the accuracy of this document.

In certain circumstances, Collins Stewart has the right to terminate the Placing Agreement prior to the listing of the New Ordinary Shares becoming effective, including, without limitation, in the event of a breach of warranty by the Company or the Directors.

11. Directors' service contracts

- (a) On 15 April 1996 Mr Cartwright entered into a service agreement with C.M.S. Colours Limited and became a director of the Company. Mr Cartwright is employed as Technical Director of the Group and Managing Director of C.M.S Colours Limited, or such other capacity as the Company may reasonably require, for a fixed period of two and a half years and thereafter on six months notice given by either C.M.S Colours Limited or Mr Cartwright. Mr Cartwright's salary is £106,848 per annum, subject to review.
- (b) On 15 April 1996 Mr Thornhill entered into a service agreement with the Company. Mr Thornhill is employed as Finance Director of the Group, or in such other capacity as the Company may reasonably require, for a fixed period of two and a half years and thereafter on six months notice by either the Company or Mr Thornhill. Mr Thornhill's salary is £75,000 per annum, subject to review.

None of the above agreements contain provisions for payment of compensation on early termination.

Save as aforesaid, there are no existing or proposed service agreements between the Company or any of its subsidiaries and any Director of the Company terminable on more than twelve months' notice, nor have any such contracts been entered into or amended within 6 months of the date of this document.

12. General

- (a) No member of the Group is or has been engaged in, or has pending or threatened by or against it, any legal or arbitration proceedings which may have, or have had, during the twelve months prior to the publication of this document, a significant effect on the financial position of the Group.
- (b) The Directors are of the opinion that taking into account the bank and other facilities available to the Group and following the Acquisitions and the Placing and the Open Offer the Group has sufficient working capital for its present requirements.
- (c) Collins Stewart has given and have not withdrawn its written consent to the inclusion in this document of its letter and references herein to its name in the form and context in which they are included and have authorised the contents of those parts of this document for the purposes of section 152(1)(e) of the Financial Services Act 1986.

- (d) The auditors of the Company are Grant Thornton, Chartered Accountants and Registered Auditors, of Grant Thornton House, 2 Melton Street, London NW1 2EP who audited the Company's annual accounts for the two years ended 31 December 1996 and whose reports thereon were unqualified and such reports did not contain a statement under Section 237 (2) or (3) of the Act. The previous auditors of the Company were Coopers & Lybrand, Chartered Accountants and Registered Auditors, of 20 Old Bailey, London EC4M 7BH who have audited the Company's annual accounts for the two years ended 31 December 1994 and whose reports thereon were unqualified and such reports did not contain a statement under section 237(2) or (3) of the Act.
- (e) The Company is not a close company.
- (f) The receiving agents for the Placing and the Open Offer and registrars are Independent Registrars Group Limited, Balfour House, 390 - 398 High Road, Ilford, Essex IG1 1NG.
- (g) The costs and expenses of, and incidental to, the Acquisitions and the Placing and the Open Offer which are payable by the Company (including professional fees, printing costs and commissions payable under the Placing Agreement) are estimated to amount to £550,000 (exclusive of VAT).
- (h) None of the New Ordinary Shares have been marketed or are available in whole or in part to the public in conjunction with the application for the admission of the New Ordinary Shares to the Official List of the London Stock Exchange, other than in accordance with the terms of the Placing and the Open Offer.
- (j) The following table shows the middle market closing price of an Ordinary Share as derived from the Daily Official List of the London Stock Exchange for the first day of dealings in each of the six months before the date of this document and on 7 August 1997, the latest practicable date prior to the issue of this document.

Date	Middle market price per Ordinary Share
3 March 1997	125p
1 April 1997	122½p
1 May 1997	130p
2 June 1997	135p
1 July 1997	136½p
1 August 1997	135½p
7 August 1997	125p

- (j) There has been no significant change in the trading or financial position of the Group since 31 December 1996, the date to which the last Audited Accounts of the Group were published.
- (k) The Exchange rates used in this document have been compiled on a closing rate basis for balance sheet items and on average rate for profit and loss items. The average rate for the financial year ended 31 December 1996 was 7.99405 French Francs to the pound. The closing rate at 31 December 1996 was 8.89660 French Francs to the pound.

13. Documents for Inspection

Copies of the following documents will be available for inspection at the registered offices of Flare Group plc, 105 Piccadilly, London W1V 9FN during usual business hours on any weekday (excluding Saturdays and public holidays) from the date of this document up to and including 22 August 1997.

- (a) the Memorandum and Articles of Association of the Company;
- (b) the constitutional documents of Cerinov Holding SA;
- (c) the Memorandum and Articles of Association of Elmeceram U.K. Limited;
- (d) the audited consolidated accounts of the Group for the two financial years ended 31 December 1996;

- (e) the rules of the Flare Group plc Executive Share Option Scheme and Long Term Incentive Share Plan;
- (f) the material contracts referred to in paragraph 8 above;
- (g) the consent referred to in paragraphs 12(c) above;
- (h) the service contracts referred to in paragraph 11 above; and
- (i) this document.

Dated 8 August 1997

