THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should consult an independent adviser authorised under the Financial Services Act 1986, who specialises in advising on the acquisition of shares and other securities. If you sold or otherwise transferred all or any part of your registered holding of Ordinary Shares in the Company other than 'ex' entitlement, please read and follow the instructions set out in the section of the accompanying Application Form headed "Instructions for transfer and splitting".

A copy of this document, which comprises a prospectus for the purposes of and has been drawn up in accordance with the Public Offers of Securities Regulations 1995, has been delivered to the Registrar of Companies for England and Wales for registration as required by Regulation 4(2) of those regulations.

Application will be made for the New Ordinary Shares to be admitted to trading on the Alternative Investment Market of the London Stock Exchange (AIM). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not Officially Listed.

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

The New Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933. The New Ordinary Shares may not be offered, sold or delivered within the United States (as defined herein) in connection with the Open Offer. As further provided herein, it is prohibited to use any means of United States interstate commerce (including mail, telecopy and telephone) to offer, sell or deliver the New Ordinary Shares after sale, in connection with the Open Offer. A further description of certain restrictions on the offering and sale of the New Ordinary Shares and on the distribution of this document is given in Part II of this document and in the Application Form.

It is expected that the New Ordinary Shares will be admitted to AIM and that dealings in the New Ordinary Shares will commence on 28 March 2001.

RAP Group plc

(Incorporated and registered in England and Wales under the Companies Act 1948 to 1981)
(Registered No. 2641001)

PROPOSED DISPOSAL OF HARDWARE COMPANIES
PROPOSED ACQUISITION OF K3 TECHNOLOGY
PROPOSED ACQUISITION OF K3 SOFTWARE

PROPOSED OPEN OFFER OF
25,651,682 NEW ORDINARY SHARES
OF 5P EACH AT 15P PER SHARE

BY
ROWAN DARTINGTON & CO. LIMITED

PROPOSED CHANGE OF NAME
APPLICATION FOR THE ADMISSION OF THE
NEW ORDINARY SHARES TO TRADING ON AIM

Notice of an Extraordinary General Meeting of the Company to be held on 26 March 2001 at 11.30 a.m., at which, *inter alia*, resolutions required to approve, *inter alia*, the Acquisitions, the Disposal, and the Open Offer will be put to shareholders, is set out at the end of this document. To be valid, forms of proxy for use at the meeting by holders of Existing Ordinary Shares must be completed and returned as soon as possible, and, in any event, so as to be received no later than 48 hours before the time of holding the meeting or any adjournment of such meeting.

Rowan Dartington & Co. Limited, which is regulated by The Securities and Futures Authority Limited, is acting for the Company and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Rowan Dartington & Co. Limited or for advising any other person on the transactions and arrangements proposed in this document.

The latest time for receipt of Application Forms, accompanied by the appropriate remittance in full is 3.00 p.m. on 23 March 2001.

CONTENTS

TIMETABLE OF EVENTS

Record Date for the Open Offer	27 February 2001
Ordinary Shares marked 'ex' entitlement	2 March 2001
Open Offer opens	2 March 2001
Latest time for splitting Application Forms (to satisfy *bona fide* market claims)	3 p.m., 21 March 2001
Latest time and date for receipt of Application Forms and payment in full	3 p.m., 23 March 2001
Latest time for receipt of forms of proxy for the Extraordinary General Meeting	11.30 a.m., 24 March 2001
Extraordinary General Meeting	11.30 a.m., 26 March 2001
Completion of the Acquisitions and the Disposal	28 March 2001
Admission to AIM and commencement of dealings in the New Ordinary Shares	28 March 2001
CREST member accounts credited	28 March 2001
Definitive share certificates despatched	6 April 2001

OPEN OFFER STATISTICS

Offer Price	15p
Maximum number of New Ordinary Shares to be issued	25,651,682
Minimum proceeds of the Open Offer	£188,255
Maximum number of Ordinary Shares in issue immediately following Admission	51,303,364
Market capitalisation immediately following Admission at the Offer Price, assuming all the New Ordinary Shares are issued	£7,695,505

DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise:

"1994 Executive Scheme"	the RAP Group plc Executive Share Option Scheme 1994
"2000 Executive Scheme"	the RAP Group plc 2000 Executive Share Option Scheme
"Acquisitions"	the proposed acquisitions by the Company of K3 Technology and K3 Software as described in this document
"Acquisition Agreements"	the conditional agreements dated 2 March 2001 between the Company and Silversläggan relating to the Acquisitions, the principal terms of which are summarised in Part I of this document
"Act"	the Companies Act 1985 (as amended)
"Admission"	the admission to trading on AIM of the New Ordinary Shares
"AIM"	the Alternative Investment Market of the London Stock Exchange
"AIM Rules"	the rules establishing AIM issued by the London Stock Exchange from time to time
"Application Form"	the application form in respect of entitlements to New Ordinary Shares under the Open Offer which accompanies this document
"the City Code"	the City Code on Takeovers and Mergers
"Company" or "RAP"	RAP Group plc
"Completion"	completion of the Acquisitions and the Disposals
"Completion Date"	the date upon which the Acquisitions and the Disposals are completed in accordance with the terms and conditions contained in the Acquisition Agreements and the Disposal Agreement
"Concert Party"	Silversläggan, Peter Gyllenhammar and Johan Claesson
"CREST"	the relevant system (as defined in the Uncertificated Securities Regulations 1995) for paperless settlement of share transfers and the holding of shares in uncertificated form which is administered by CRESTCo Limited
"Directors" or "Board"	the directors of the Company at the date of this document
"Disposals"	the proposed disposals by the Company of the entire issued share capitals of the Hardware Companies
"Disposal Agreement"	the conditional agreement dated 2 March 2001 between the Company and Silversläggan relating to the Disposals, the principal terms of which are summarised in Part I of this document
"Employee Placing"	188,833 of the New Ordinary Shares which have been conditionally placed with employees of the Enlarged Group
"Enlarged Group"	the Company and its subsidiaries immediately following completion of the Acquisitions and the Disposals
"Enlarged Share Capital"	the Existing Ordinary Shares and the New Ordinary Shares

"ERP"	enterprise resource planning
"Existing Ordinary Shares"	the existing 25,651,682 issued Ordinary Shares
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of the Company convened for 26 March 2001, the notice convening which is set out at the end of this document
"Form of Proxy"	the form of proxy for use by shareholders at the EGM
"Hardware Companies"	Anderson and Firmin Limited, Harwood Hardware Limited and Welpac Hardware Limited
"Independent Shareholders"	Shareholders other than the Concert Party
"K3"	K3 Technology and K3 Software
"K3 Technology"	K3 Business Technology Group Limited, a wholly owned subsidiary of Silversläggan
"K3 Software"	K3 Business Technology Software Limited, a wholly owned subsidiary of Silversläggan
"London Stock Exchange"	London Stock Exchange plc
"Minimum Proceeds"	the proceeds of £188,255 receivable by the Company pursuant to the irrevocable undertakings received from the Directors to take up their entitlements in the Open Offer and from the Employee Placing
"New Ordinary Shares"	up to 25,651,682 Ordinary Shares to be issued pursuant to the Open Offer or, to the extent they are not taken up in the Open Offer, as consideration pursuant to the Acquisition Agreement
"Offer Price"	15p per New Ordinary Share
"Open Offer"	the conditional offer of the New Ordinary Shares to Qualifying Shareholders as described in Part III of this document
"Open Offer Agreement"	the conditional agreement dated 2 March 2001 between the Company, the Directors, the Proposed Directors and Rowan Dartington, the principal terms of which are summarised in paragraph 10.1(a) of Part XI of this document
"Ordinary Shares"	ordinary shares of 5p each in the capital of the Company
"Paddico"	Paddico (226) Limited, a UK registered company, owned and controlled by Peter Gyllenhammar
"Panel"	the Panel on Takeovers and Mergers
"Proposed Directors"	P J Claesson and J R Griffith, who will be appointed to the Board as non-executive directors immediately following Completion.
"Qualifying Shareholders"	holders of Existing Ordinary Shares on the register on the Record Date (other than certain overseas shareholders as specified in Part III of this document)
"Record Date"	the close of business on 27 February 2001
"Resolutions"	the resolutions to be proposed at the Extraordinary General Meeting

"Rights Issue"	the rights issue announced by the Company on 26 June 2000
"Rowan Dartington"	Rowan Dartington & Co. Limited
"Shareholders"	holders of Ordinary Shares
"Share Option Schemes"`	the 1994 Executive Scheme and the 2000 Executive Scheme
"Silversläggan"	Silversläggan AB, a Swedish registered company, owned and controlled by Peter Gyllenhammar
"SME"	small to medium sized enterprises
"Support Agreement"	the agreement to be entered into between Paddico and the Company on completion of the Disposal Agreement in connection with the provision of accounting and support services to the Hardware Companies, the principal terms of which are summarised in paragraph entitled "Terms of the Acquisition Agreements and the Disposal Agreement" in Part I of this document
"Touchline"	Touchline Network Television Limited
"Waiver"	the proposed waiver of the obligation to make a general offer under Rule 9 of the Code, to be granted by the Panel conditional upon the approval of the Independent Shareholders to the passing of Resolution 4 at the Extraordinary General Meeting
"Warrants"	the warrants to subscribe for 18,000,000 Ordinary Shares at 20p per share granted to Silversläggan pursuant to the Acquisition Agreements

DIRECTORS, PROPOSED DIRECTORS, SECRETARY AND ADVISERS

Directors	David John Bolton *(Finance Director)* Nigel Andrew Makeham *(Marketing Director, e-Commerce)* Brian Edward Shaw *(Sales and Marketing Director)*
Proposed Directors	Per Johan Claesson *(Non-Executive)* John Robert Griffith *(Non-Executive)*
Secretary	David John Bolton
	All of:
Registered and Head Office	RAP House Harrison Street Briercliffe Burnley Lancashire BB10 2HP
Nominated Adviser and Nominated Broker	Rowan Dartington & Co. Limited Colston Tower Colston Street Bristol BS1 4RD
Reporting Accountants and Registered Auditors	Arthur Andersen Bank House 9 Charlotte Street Manchester M1 4EU
Solicitors to the Company	Eversheds Cloth Hall Court Infirmary Street Leeds LS1 2JB
Solicitors to Rowan Dartington	Osborne Clarke OWA 50 Queen Charlotte Street Bristol BS1 4HE
Principal Bankers	Royal Bank of Scotland PLC 3-4 Syer House Stafford Court Stafford Park 1 Telford Shropshire TF3 3BD
Registrars and Receiving Agent	Northern Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA

PART I

LETTER FROM THE DIRECTORS

RAP GROUP plc

(Incorporated and registered in England and Wales under the Companies Act 1948 to 1981)
(Registered No. 2641001)

Directors:
David John Bolton *(Finance Director)*
Nigel Andrew Makeham *(Marketing Director, e-Commerce)*
Brian Edward Shaw *(Sales and Marketing Director)*

Proposed Directors:
Per Johan Claesson *(Non-Executive)*
John Robert Griffith *(Non-Executive)*

Registered Office:
RAP House
Harrison Street
Briercliffe
Burnley
Lancashire BB10 2HP

2 March 2001

Dear Sir or Madam

PROPOSED DISPOSAL OF HARDWARE COMPANIES
PROPOSED ACQUISITION OF K3 TECHNOLOGY
PROPOSED ACQUISITION OF K3 SOFTWARE
PROPOSED OPEN OFFER OF 25,651,682 SHARES OF 5P EACH AT 15P PER SHARE
PROPOSED CHANGE OF NAME
APPLICATION FOR THE ADMISSION OF THE NEW ORDINARY SHARES TO TRADING ON AIM

Introduction

It was announced today that your Company has entered into conditional contracts to acquire K3 Business Technology Group Limited and K3 Business Technology Software Limited from Silversläggan, a Swedish company owned and controlled by Peter Gyllenhammar, who holds 9.3 per cent. of the Existing Ordinary Shares of RAP. In addition, the Company has entered a conditional contract to dispose of its Hardware Companies to Paddico, a UK company, owned and controlled by Peter Gyllenhammar.

K3 Technology is to be acquired for £1,162,000 to be satisfied as to £772,000 either in cash or New Ordinary Shares on Completion, with the balance of £390,000 being payable in instalments over the next 21 months. In addition, warrants to subscribe for a further six million Ordinary Shares will be granted to Silversläggan. These warrants are exercisable within three years of Completion at a price of 20p per Ordinary Share.

K3 Software is to be acquired for £2,580,000 to be satisfied either in cash or New Ordinary Shares on Completion. In addition, warrants to subscribe for a further 12 million Ordinary Shares will be granted to Silversläggan. These warrants are exercisable within three years of Completion at a price of 20p per Ordinary Share.

The aggregate consideration for the Acquisitions is £3,742,000, of which £3,352,000 is payable either in cash or New Ordinary Shares. Silversläggan is prepared to receive this consideration wholly in New Ordinary Shares. Based on a value of 15p per share, this would result in the issue of 22,346,666 New Ordinary Shares and a dilution of approximately 87 per cent. of existing shareholdings in the Company. To enable Shareholders to avoid this dilution and to allow the Company to satisfy as much as possible of the consideration in cash, the Company is proposing to undertake an open offer of 25,651,682 New Ordinary Shares at a price of 15p per share to raise up to £3,847,752. The Open Offer will be open to Qualifying Shareholders who will be entitled to apply for New Ordinary Shares at the Offer Price in proportion to their existing shareholdings in the Company. The first £495,752 of the cash proceeds will be used to fund the expenses of the proposed transactions and the working capital requirements of the Enlarged Group. Thereafter the proceeds will be applied to satisfying as much as possible of the consideration for the Acquisitions in cash with the balance of the consideration being satisfied in New Ordinary Shares.

The Hardware Companies are to be disposed of for a deferred consideration which will be determined by reference to the net proceeds of the eventual sale by Paddico of the Hardware Companies and on the assumption that such proceeds will amount to £1 million. To the extent that the eventual net proceeds are greater than £1 million RAP will receive £1 million plus 80 per cent. of such excess; if the eventual net proceeds are less than £1 million RAP will receive £1 million less 90 per cent. of such shortfall subject to a minimum of £200,000. If the proceeds are below £200,000, Paddico has undertaken to make up the difference between £200,000 and the actual sale proceeds. The Directors understand that Paddico intends to sell the Hardware Companies during the course of the next 12 to 18 months.

Details of the Acquisition Agreements and the Disposal Agreement are set out below and in paragraph 10 of Part XI of this document.

The purpose of this document is to set out the background to and reasons for the Acquisitions and the Disposals; to give details of the Open Offer; to give details of other related proposals and to seek Shareholders' approval of the Resolutions to be proposed at the Extraordinary General Meeting which are required to implement the Acquisitions, the Disposals, the Open Offer and other related proposals.

Applicable legal and regulatory requirements

As, under the AIM Rules, the Disposals are indicative of a fundamental change in the principal activities of RAP, the Disposals are subject to Shareholders' approval.

The aggregate size of the Acquisitions in comparison with the current size of the Company means that they are classified by the London Stock Exchange as a "reverse takeover" under the AIM Rules and are therefore subject to Shareholders' approval.

Under Rule 9 of the City Code, when any person who, together with persons acting in concert with him, acquires more than 30 per cent. of the voting rights conferred by shares in a company, or who holds not less than 30 per cent. but not more than 50 per cent. of the voting rights conferred by shares in a company and such person, or any person acting in concert with him, acquires additional shares which increase his percentage of the voting rights, then, except with the consent of the Panel, he, and any other person acting in concert with him, must make a general offer to other Shareholders to acquire the balance of the shares not held by him and his concert parties. For these purposes Silversläggan, in which Peter Gyllenhammar is beneficially interested, and Peter Gyllenhammar are deemed to be acting in concert. In addition, Johan Claesson, who has been closely involved with Silversläggan and Mr Gyllenhammar in arranging the Acquisitions and Disposals, is deemed to be acting in concert with Silversläggan. Following the completion of the Acquisitions, Disposals and the Open Offer, the maximum aggregate shareholdings of the Concert Party, assuming all of the consideration (except for the deferred consideration) for the Acquisitions is satisfied by way of New Ordinary Shares and that all of the New Ordinary Shares are issued, will be 67.14 per cent. of the enlarged issued share capital of RAP. In the absence of any other changes to the Company's share capital, the exercise of the Warrants to Silversläggan will result in a maximum aggregate shareholding of the Concert Party of 75.67 per cent. of the issued share capital of RAP. The Warrants must be exercised within three years of Completion, failing which they will lapse.

	Enlarged Share Capital			*Issued share capital following the exercise of the Warrants*	
	Number	*Percentage*	*Warrants*	*Number*	*Percentage*
Silversläggan/Gyllenhammar	24,729,651	48.20	18,000,000	42,729,651	61.65
P J Claesson	9,715,644	18.94	–	9,715,644	14.02
	34,445,295	67.14		52,445,295	75.67

The Panel has agreed, subject to the necessary resolution being passed on a poll by the Independent Shareholders at the EGM, to waive any obligation on the Concert Party collectively and/or individually to make a general offer under Rule 9 of the City Code.

Accordingly, a resolution will be proposed at the EGM, seeking a waiver, by a vote of Independent Shareholders on a poll, of any obligation that would otherwise arise under the City Code upon the Concert Party collectively and/or individually to make a general offer for the entire issued share capital of the Company not already owned by them and by persons connected with them.

The members of the Concert Party have confirmed to the Board that they are not at present proposing any changes to the Board beyond those described in this document and that it would be their intention that, following any acquisition of New Ordinary Shares issued to them pursuant to the Acquisition Agreements, the businesses of the Enlarged Group be continued in substantially the same manner as at present, with no major changes, and that they have no intention following any such acquisitions to make any material amendment to the existing employment rights of the Company's employees.

The Waiver is only in respect of any holding of New Ordinary Shares resulting from the Acquisition Agreements. Any acquisition of Ordinary Shares by other means will be subject to the normal provisions of the City Code. It should be noted that, following the Acquisitions and the Open Offer, the Concert Party's interests will be greater than 50 per cent. of RAP's issued share capital and they will have statutory control of the Company. With an aggregate holding in excess of 50 per cent. the Concert Party will be free to purchase further Ordinary Shares. Each member of the Concert Party will remain subject as individuals to the provisions of the City Code. Following Completion, Silversläggan can exercise the Warrants without recourse to a further Rule 9 waiver. If following the exercise of the Warrants Silversläggan and P Gyllenhammar's aggregate holding is in excess of 50 per cent. they will be free to acquire further Ordinary Shares. Following Completion, P J Claesson will be free to increase his shareholding up to 29.99 per cent. of the Enlarged Share Capital.

Background to and reasons for the Acquisitions

As indicated in its last few public announcements, the Company has for some time been taking steps to develop an e-commerce strategy for its existing business. In June 2000, Touchline Network Television Limited, a company specialising in multimedia and e-commerce development, was acquired. In June 2000 it was announced that in due course John Griffith, managing director of Intershop (UK) Limited a supplier of e-commerce software, would join the Board as a non-executive director and then in July 2000 Andy Makeham joined the Board from Kewill Systems plc, a computer software and services company.

In July 2000 the Company became aware that Kewill Systems plc was looking to dispose of part of its enterprise resource planning ("ERP") software division. This was seen by the Company as a suitable business around which to develop an e-commerce solutions business. For both regulatory and financial reasons, RAP was not then in a position to make this acquisition. Not wishing to forego such an opportunity, the Directors approached two of the Company's principal shareholders, Johan Claesson and Peter Gyllenhammar, to see if they could assist. The outcome of this was that Silversläggan made the acquisition from Kewill Systems plc on the understanding that, as and when it became possible, RAP would acquire the business. Silversläggan completed the acquisition in August 2000 through a wholly owned subsidiary, K3 Technology.

In September 2000 the Company became aware that Kewill Systems plc was disposing of a further part of its ERP software division. The Company attempted to acquire this business directly but was unable to satisfy Kewill's timing requirements. Silversläggan again stepped in on the same basis as before and secured this acquisition in November 2000 through a wholly owned subsidiary, K3 Software.

The acquisition of K3 Technology and K3 Software represents a fundamental change in the Company's business from being principally a distributor of hardware products to being a provider of ERP computer software and support services. In addition, it provides opportunities for the development of the Company into a wider e-commerce solutions business by enhancing and complementing strengths already in the Group, especially in Touchline.

The Directors believe the Acquisitions represent excellent value. RAP will acquire K3 Technology and K3 Software for the consideration paid by Silversläggan to Kewill Systems plus an amount in respect of post tax profits accumulated and new capital injected in the period of Silversläggan's ownership. The K3 businesses are well established, profitable and cash generative. Combined sales for the year to 31 March 2000 were £9 million, of which £3.9 million is estimated to be recurring income derived from support and maintenance contracts renewable annually.

Information on K3 Technology and K3 Software

The principal activity of the K3 businesses is the development, distribution and maintenance of ERP software systems to small and medium sized manufacturing companies. K3 Technology focuses on large systems and has a retained client base of around 150. K3 Software supplies smaller systems and has around 1,500 retained clients.

Based on the unaudited management accounts for the period to 31 March 2000, K3 Technology and K3 Software generated sales of £2.9 million and £6.1 million and gross profits of £2.3 million and £5.7 million respectively.

Further details of the businesses of K3 Technology and K3 Software are set out in Part II of this document. Historic financial information on K3 Technology and K3 Software is set out in Parts VI and VII of this document.

Reasons for the Disposals

In August 2000 the Company received an enquiry from a third party to purchase the Hardware Companies. Following negotiations, an offer for the Hardware Companies was received which fell short of the Board's expectation of the Hardware Companies' value and therefore it was rejected.

The Board believes it is not an ideal time to be selling the Hardware Companies given their recent loss making record and their current trading position. In addition, the Board expects the trading performance of the Hardware Companies to improve in 2001 which should enhance their sale value.

However, the Board recognises that the Hardware Companies would be non-core businesses in the Enlarged Group and that they would potentially detract from the Company's new message to the marketplace. In addition, although there is the potential for an improvement in trading, the Board believes that, because the Hardware Companies are heavily dependent on two major customers, the associated risks to the Enlarged Group outweigh the benefits of continued ownership.

By disposing of the Hardware Companies in the manner described in this document the Enlarged Group will no longer have any operating exposure to the Hardware Companies. The Enlarged Group's on-going exposure will be restricted to 90 per cent. of any shortfall in the eventual net sales proceeds below £1 million. In order to help maximise sale value of the Hardware Companies, RAP has entered the Support Agreement whereby it will make Brian Shaw available full-time to assist Paddico in running the Hardware Companies and whereby RAP will provide accounting and other support services to the Hardware Companies.

Information on the Hardware Companies

The Hardware Companies comprise the following RAP subsidiaries: Anderson and Firmin Limited, Harwood Hardware Limited and Welpac Hardware Limited.

The unaudited turnover and loss before tax for the year ended 31 December 2000 together with the unaudited net assets as at 31 December 2000 for each of the Hardware Companies are set out below.

Name	*Principal activity*	*Turnover, Year to 31/12/00 £'000*	*Loss before tax, Year to 31/12/00 £'000*	*Net assets as at 31/12/00 £'000*
Anderson and Firmin Limited	Distribution of gloves, footwear and garden accessories	797	(449)	255
Harwood Hardware Limited	Supply of door furniture to DIY stores and builders merchants	2,356	(683)	759
Welpac Hardware Limited	Supply of fasteners and ironmongery parts to DIY stores and builders merchants	446	(169)	108
		3,599	(1,301)	1,122

Note:
Between 31 December 1999 and 31 December 2000, inter-company loans of £10.5 million have been eliminated with the Company and other subsidiary undertakings.

The principal customers of the Hardware Companies are B&Q and Focus Do-It-All. In 2000 they together accounted for approximately 79.9 per cent. of total turnover (1999: 63.5 per cent.). This dependency is expected to increase in 2001 as the Hardware Companies have recently won new orders which will increase total volumes supplied to these customers.

Further historic financial information on the Hardware Companies is set out in Part VIII of this document.

Terms of the Acquisition Agreements and the Disposal Agreement

(a) The Acquisition Agreements

The terms of the Acquisition Agreement for K3 Technology provide for the sale of the entire issued share capital, held by Silversläggan, to the Company for a total consideration of £1,162,000 which includes the elimination of £942,000 of inter-company debt. The consideration will be satisfied as to £772,000 either in cash or New Ordinary Shares issued at the Offer Price. The balance of £390,000 together with an inter-company loan of £310,000 owed by K3 Technology to Silversläggan will be repaid in seven quarterly instalments of £100,000 (plus interest), the first such payment being due on 30 June 2001. The deferred consideration and the inter-company loan will bear interest at a rate of 10 per cent. per annum for as long as any such amounts are due and payable to Silversläggan. In addition, Silversläggan will be granted warrants to subscribe for six million Ordinary Shares at a price of 20p per share. These warrants must be exercised within three years of Completion, failing which they will lapse.

The terms of the Acquisition Agreement for K3 Software provide for the sale by Silversläggan of the entire issued share capital of K3 Software to the Company for a total consideration of £2,580,000 to be satisfied on Completion either in cash or New Ordinary Shares issued at the Offer Price as described below. This consideration includes the elimination of £2,350,000 of inter-company debt. In addition, Silversläggan will be granted warrants to subscribe for 12 million Ordinary Shares at a price of 20p per share. These warrants must be exercised within three years of Completion, failing which they will lapse.

The consideration for the Acquisitions payable on Completion is £3,352,000, being £772,000 and £2,580,000 for K3 Technology and K3 Software respectively. The amount of this consideration payable in cash will be determined by the level of acceptances under the Open Offer and will be equal to the proceeds of the Open Offer in excess of £495,752. To the extent that the consideration for the Acquisitions is not satisfied in cash, it will be satisfied by the issue of New Ordinary Shares at the Offer Price.

The Acquisition Agreements are inter-conditional upon each other and are also conditional, *inter alia*, upon the Resolutions numbered 1 to 5 being passed at the EGM and upon Admission.

Silversläggan have given certain warranties on the respective businesses of K3 Technology and K3 Software and in respect of taxation, indemnities in favour of the Company, such warranties to expire on the first anniversary of the date of the relevant Acquisition Agreement and the taxation indemnities on the sixth anniversary of the date of the relevant Acquisition Agreement. In addition, Silversläggan has agreed not to compete with the respective businesses of K3 Technology and K3 Software for a period of two years from Completion. Such restrictions include covenants not to solicit various customers or key employees during that time.

Further details relating to the Warrants are set out in paragraph 10.1 of Part XI of this document.

(b) The Disposal Agreement

The terms of the Disposal Agreement for the Hardware Companies provide for the sale of the entire issued share capitals of Harwood Hardware Limited, Welpac Hardware Limited and Anderson and Firmin Limited to Paddico. The consideration for the Disposals will be determined by reference to the net proceeds of the eventual sale by Paddico of the Hardware Companies. The terms of the Disposals are structured around eventual net proceeds of £1 million. To the extent that the eventual net proceeds are greater than £1 million, RAP will receive £1 million plus 80 per cent. of such excess. If the eventual net proceeds are less than £1 million, RAP will receive £1 million less 90 per cent. of such shortfall subject to a minimum of £200,000. If the proceeds are below £200,000, Paddico has undertaken to make up the difference between £200,000 and the actual sale proceeds.

Paddico and RAP must both agree to proceed with any sale proposal introduced by either RAP or Paddico. If the parties fail to agree, after using reasonable endeavours to resolve any dispute, either Paddico must pay to RAP the amount offered by the third party whose proposal is in dispute,` or the shares in the Hardware Companies will be transferred back to RAP.

The Disposal Agreement is conditional, *inter alia*, upon the Resolutions numbered 1 to 5 being passed at the EGM and upon Admission.

The Company has given certain warranties on the Hardware Companies and, in respect of taxation, indemnities in favour of Paddico, such warranties to expire on the second anniversary of the date of the Disposal Agreement and the taxation indemnities to expire on the sixth anniversary of the date of the Disposal Agreement. In addition, the Company has agreed not to compete with the Hardware Companies for the period of three years from Completion. Such restrictions include covenants not to solicit various customers or key employees during that time.

The Company has also entered into the Support Agreement, under which the Company agrees to provide the Hardware Companies with certain administrative and management services following Completion, including accounting services, computer system support and the full time services of Brian Shaw for an aggregate fee of £16,000 per calendar month. The Support Agreement also obliges the Company to use its reasonable endeavours to secure a buyer for the Hardware Businesses on Paddico's behalf. The Company is also obliged to maintain the computer systems and ensure that appropriate security and back up procedures are followed in respect of such systems. The Support Agreement may be terminated by either party on material breach of the agreement by the other or on the other's insolvency. Paddico may terminate the agreement at any time on seven days' notice and the agreement will in any event terminate on a sale of the Hardware Companies.

Open Offer

The Open Offer is being made by Rowan Dartington on behalf of the Company. Under the Open Offer, 25,651,682 New Ordinary Shares are being offered to Qualifying Shareholders at 15p per share, payable in full on application, on the following basis:

1 New Ordinary Share for every 1 Existing Ordinary Share

held on the Record Date and so in proportion for any other number of Existing Ordinary Shares then held. Qualifying Shareholders may apply for up to their maximum entitlement of New Ordinary Shares as set out in the Application Form enclosed with this document. To the extent to which New Ordinary Shares are not applied for, Qualifying Shareholders should note that their entitlements will lapse and New Ordinary Shares corresponding to these entitlements will not be issued.

The Directors have irrevocably undertaken that they will take up their entitlements amounting in aggregate to 1,066,206 New Ordinary Shares. Mr Gyllenhammar and Mr Claesson have irrevocably undertaken that they will not take up their entitlements to 12,098,629 New Ordinary Shares. Of these, 188,833 New Ordinary Shares have been conditionally placed by Rowan Dartington, as agent for the Company, with certain employees of the Enlarged Group at the Offer Price. Under these arrangements the Company is accordingly certain that it will raise not less than £188,255, before expenses.

Full details of the Open Offer and the procedure for application are set out in the letter from Rowan Dartington contained in Part III of this document which you should read carefully.

Strategy and prospects

In the UK the ERP software market is expanding at around six per cent. per annum, whereas the use of e-commerce linked to ERP in the manufacturing sector is likely to grow at around 30 per cent. per annum in the next three years (source: Conquest Publishing), and the use of e-commerce in general business is set to grow at around 80 per cent. per annum for the next three years (source: Forrester Research).

The Company intends to maintain K3's existing customer base of approximately 1,600 ERP software users and to sell to them and new customers updated ERP software solutions which will typically be internet enabled.

In addition, by combining and enhancing the existing skills of K3 and Touchline the Directors believe the Enlarged Group is well placed to develop into a provider of wider e-business solutions to the SME sector. These e-business solutions would encompass: strategic consultancy, product management, database design, e-commerce development, web design, web content, systems integration, back office systems, IT infrastructure and hosting. The Directors intend to develop these skills and solutions in a modular format that allows customers to acquire them in segments that will be manageable within their existing business model and yet capable of fitting together to deliver a complete and coherent e-business solution. The Directors also intend to make acquisitions of businesses that will complement this strategy.

Change of name

The Directors believe that, in view of the fundamental change in the nature of the Company's business, it is appropriate for the Company's name to be changed. A special resolution will be proposed at the EGM proposing that the Company's name be changed to K3 Business Technology Group plc.

Current trading

The Company released the preliminary announcement of its unaudited results for the year ended 31 December 2000 on 2 March 2001. A copy of the preliminary announcement is set out in Part IV of this document.

Board changes

On Completion Andy Makeham will become Chief Executive of the Company. David Bolton and Brian Shaw will remain executive directors. In addition, on Completion John Griffith and Johan Claesson will be appointed non-executive directors of the Company. Johan Claesson will become Chairman of the Board.

Details of the Directors' service contracts and the Proposed Directors' letters of appointment are set out in paragraph 7 of Part XI of this document.

Corporate governance

The Directors and Proposed Directors are aware of the Combined Code applicable to listed companies, which consolidates the work of the Cadbury, Greenbury and Hampel Committees on corporate governance. As a company quoted on AIM, the Company is not required to comply with the

Combined Code but the Directors and Proposed Directors intend to comply with its main provisions as far as is practicable having regard to the size of the Enlarged Group.

The Enlarged Group will hold board meetings regularly throughout the year at which operating and financial reports will be considered. The Directors and Proposed Directors will be responsible for formulating, reviewing and approving the Enlarged Group's strategy, budgets, major items of capital expenditure and senior personnel appointments.

On Completion and following the appointment of the Proposed Directors, the Audit Committee and the Remuneration Committee will be re-established.

The Audit Committee will comprise Johan Claesson and John Griffith (one of whom will chair the Committee). It will meet at least twice a year and be responsible for ensuring that the financial performance of the Enlarged Group is properly reported on and monitored and for meeting the auditors and reviewing the reports from the auditors relating to the accounts and internal control systems.

The Remuneration Committee will comprise Johan Claesson and John Griffith (one of whom will chair the Committee). It will review the performance of the executive directors and set the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of the Shareholders.

Dividends

The Company will not be paying a dividend in respect of the year ended 31 December 2000. As at that date there will be an accumulated deficit on the profit and loss account. The Act prevents the payment of dividends out of any future profits until this accumulated deficit has been eliminated. The Directors will consider seeking Shareholders' approval and applying to the Court under section 135 of the Act for a capital reduction to eliminate the accumulated deficit.

Once the accumulated deficit is eliminated the Directors intend to adopt a dividend policy that reflects the cash generative nature of the Company's operations and is compatible with the working capital requirements of the Group from time to time.

Grant of options

As soon as practicable after Completion, the Company intends to grant to the executive Directors and certain senior employees Enterprise Management Incentive options and unapproved options under the 2000 Executive Scheme, in each case at the prevailing market price on the date of grant, over an aggregate of 2,850,000 Ordinary Shares. As the Company does not currently have a remuneration committee the grant of options to the executive Directors will be subject to Shareholders' approval of Resolution 7 at the forthcoming EGM. In view of their interests in this Resolution, the Directors will abstain from voting (and have taken all reasonable steps to ensure that their associates will abstain from voting) on this resolution.

Of the options proposed to be granted to the executive Directors, 1,000,000 will be granted to N A Makeham and 250,000 to D J Bolton. A third of the options granted to N A Makeham and D J Bolton are exercisable at 20p per Ordinary Share, a third are exercisable at 25p per Ordinary Share and a third are exercisable at 30p per Ordinary Share.

Further details relating to share options are set out in paragraph 8 of Part XI of this document.

Extraordinary General Meeting

The Extraordinary General Meeting is to be held at Eversheds, Cloth Hall Court, Infirmary Street, Leeds LS1 2JB at 11.30 a.m. on 26 March 2001. The notice convening the Extraordinary General Meeting is set out at the end of this document.

The following resolutions will be proposed at the Extraordinary General Meeting:

1. to approve the Disposals;

2. to approve the Acquisitions;

3. to authorise the Waiver;

4. to increase the authorised share capital of the Company and authorise the Directors, pursuant to section 80 of the Act, to allot relevant securities up to an aggregate nominal amount of £3,029,089.60. This will give the Directors the authority to allot the New Ordinary Shares and the Ordinary Shares to be issued pursuant to the exercise of the Warrants together with a general authority to allot up to such number of shares as equates to approximately one third of the Enlarged Share Capital;

5. to disapply the pre-emption provisions of section 89 of the Act in relation to, *inter alia*, the Employee Placing, the Open Offer and in respect of up to such number of shares as equates to 10 per cent. of the Enlarged Share Capital;

6. to change the name of the Company to K3 Business Technology Group plc; and

7. to approve the grant of options under the 2000 Executive Scheme to N A Makeham and D J Bolton.

Resolutions 1, 2, 4 and 7 will be proposed as ordinary resolutions and will therefore require the support of the majority of shareholders voting at the EGM.

Resolutions 5 and 6 will be proposed as special resolutions and will therefore require the support of three quarters of shareholders voting at the EGM.

In accordance with the requirements of the Panel, Resolution 3 will be taken on a poll and require the support of the majority of shareholders voting at the EGM.

Due to its interest in the Waiver, Acquisitions and Disposals the Concert Party will abstain from voting on all Resolutions in respect of its 12,098,629 Ordinary Shares which represent 47.17 per cent. of the Company's existing issued share capital.

Irrevocable undertakings to vote in favour of the Resolutions have been received from the Directors, J R Griffith, P J Myers and J Myers, in respect of 1,516,206 Existing Ordinary Shares, representing approximately 5.91 per cent. of the Existing Ordinary Shares. Details of the individual holdings of Existing Ordinary Shares of those parties giving irrevocable voting undertakings are set out in paragraph 6.12 of Part XI of this document.

Admission to AIM

Application will be made for the admission of the New Ordinary Shares to trading on AIM and it is expected that dealings will commence on 28 March 2001.

The Directors and Proposed Directors have undertaken that they and persons connected with them will not sell or otherwise dispose of any New Ordinary Shares before the later of the first anniversary of Admission and the preliminary announcement by the Company of its unaudited results for the year ending 31 December 2001.

Action to be taken

Shareholders will find enclosed with this document a Form of Proxy which they are requested to complete in accordance with the instructions printed thereon and return by hand or by mail to the Company's registrars, Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA, as soon as possible and, in any event, so as to be received no later than 11.30 a.m. on 24 March 2001. Completion and return of the Form of Proxy will not prevent Shareholders from attending the Extraordinary General Meeting should they wish to do so.

If you wish to participate in the Open Offer you are reminded that it closes at 3.00 p.m. on 23 March 2001 and that your Application Form, together with your remittance for payment in full in respect of the New Ordinary Shares you wish to acquire, must be returned by that time. The procedure for application is set out in Part III of this document and in the enclosed Application Form.

Further information

Your attention is drawn to Part II of this document which contains further information on the Enlarged Group and to the letter from Rowan Dartington regarding the Open Offer which forms Part III of this document. In addition, your attention is drawn to the preliminary announcement of the unaudited results of RAP for the year ended 31 December 2000 a copy of which is included in Part IV and to the historic financial information on RAP, K3 Technology, K3 Software and the Hardware Companies set out in Parts V, VI, VII and VIII respectively of this document. A pro forma statement of net assets of the Enlarged Group is set out in Part IX. Financial information on Silversläggan is set out in Part X. Additional information on the Company is set out in Part XI of this document.

Recommendation

The Directors, who have been so advised by Rowan Dartington, consider that the Acquisitions and the Disposals pursuant to the terms of the Acquisition Agreements and the Disposal Agreement are fair and reasonable so far as the shareholders of the Company are concerned, and that the Acquisitions, Disposals and the proposals relating to the Open Offer are in the best interests of the Company and its shareholders as a whole.

In addition, the Directors, who have been so advised by Rowan Dartington, consider that the Waiver is fair and reasonable so far as the Shareholders of the Company are concerned, and that it is in the best interests of Shareholders as a whole that the Acquisitions and Open Offer be implemented without triggering an obligation under Rule 9 on the part of the Concert Party collectively and/or individually to make a general offer.

Accordingly, the Directors unanimously recommend that you vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting as they have irrevocably undertaken to do in respect of their own beneficial holdings which amount, in aggregate, to 1,066,206 Existing Ordinary Shares representing approximately 4.16 per cent. of the Existing Ordinary Shares.

Yours faithfully

D J Bolton
N A Makeham
B E Shaw

PART II

INFORMATION ON THE ENLARGED GROUP

INTRODUCTION

Following completion of the Acquisitions and the Disposals, the principal activity of the Enlarged Group will be the supply and maintenance of ERP software systems to small and medium sized manufacturing companies. Other activities will include the production of broadcast quality film, video and multimedia on tape and CD together with web design and web content development and deployment consultancy services.

THE BUSINESS

The Enlarged Group will comprise the existing Touchline business together with the acquired K3 businesses.

Touchline

Touchline was acquired by RAP in June 2000 in order to underpin the development of the Company's e-commence strategy.

Touchline was founded in 1998. Its early business involved the production of broadcast quality film, video and multimedia delivered on tape or CD. Then with Touchline's clients increasingly wanting production output capable of delivery over the internet Touchline set up an e-commerce business unit. As a result Touchline now not only produces content but undertakes web design, and advises on web content and deployment.

Touchline, which operates from Burnley, has two full time employees supplemented by a number of contractors. The business has grown steadily with sales expected to be approximately £500,000 for the year ending 31 March 2001 (2000: £334,000). Revenue is currently split between sports filming and e-commerce and internet developments. Its principal customers are Bolton Wanderers Football Club with which it has a three year contract to film football matches for distribution by Sky and other broadcasters, and Sporting Information Limited which it has assisted in developing and now producing content for the sports internet portal www.bigfanof.com.

K3 Technology

K3 Technology is developing and has distribution rights to IBS, an ERP and supply chain management software package aimed at manufacturing companies typically with turnover between £10 million and £250 million. IBS is a fully integrated ERP system offering finance, costing, manufacturing, order processing, purchasing and a number of other modules. IBS is "open" in architecture, and platform independent with users typically running on UNIX mini computers or NT networks. The original development team remains largely intact and is responsible for the ongoing development of the product. Developments in recent years have included the launch of client server architecture (Workflow), a windows graphical user interface (Windows GUI) and latterly internet enablement with the launch of IBS.Net.

Many users of IBS systems operate in the defence and aerospace sectors such as Thomson CSF, Raytheon and Lockheed Martin. Other users include GKN and London Underground. K3 Technology has a user base of around 150 clients from which it derives recurring maintenance and account management income of approximately £1 million per annum. In addition, the sales team has generated new business in excess of £1 million in each of the last three years.

The sales revenue and gross margin over the last three years as derived from unaudited management accounts may be summarised as follows:

	1998	*1999*	*2000*
	£'000	*£'000*	*£'000*
Sales	2,521	2,582	2,909
Gross Margin	1,922	2,057	2,267

K3 Technology, which is based in Crewe, has 25 employees and uses two contractors to support implementation and training.

K3 Software

The K3 Software business is focused at the volume end of the ERP software market and targets manufacturing companies with revenues typically between £1 million and £10 million.

K3 either owns or has the distribution rights to four ERP software systems; Micross, Micross For Windows ("MFW"), Omicron and JobBOSS.

Micross

Micross was the original volume ERP system developed by Kewill Systems. Following its introduction in the 1980s, Micross, as part of a suite of ERP solutions, became the market's leading manufacturing control system for SME businesses. In total K3 Software has a Micross user base of approximately 350 clients on annual maintenance contracts. K3 Software owns the intellectual property rights to Micross.

MFW

MFW was launched as the successor product to Micross during the 1990's and has over 7,500 users worldwide of which about 150 are in the UK. K3 Software has the exclusive rights to distribute MFW in the UK for five years at which time it can be renewed at the company's option. In addition in 2003 K3 Software has the right to acquire the source code to MFW which will enable the in-house development of the product. MFW is targeted at traditional manufacturing companies with turnover between £1 million and £10 million per annum. It is marketed as an upgrade to the existing Micross system and as a competitive product in the new business arena.

Omicron

Omicron is a multi currency windows accounting software package with over 1,000 users worldwide supported from the UK. The software is integrated into a large number of ERP and supply chain management solutions. K3 Software owns the intellectual property rights to Omicron.

JobBOSS

JobBOSS has over 2,500 users worldwide of which about 40 are in the UK. K3 Software has the distribution rights to JobBOSS in the UK for five years after which time the rights can be renewed at the company's option. JobBOSS is targeted predominantly at small engineering companies with a turnover ranging from £500,000 to £5 million and particularly suits those companies who manufacture to order.

In aggregate K3 Software has a customer base of around 1,500 UK users. The majority of these users are on annual maintenance contracts which generate a recurring revenue stream of around £3 million per annum.

The sales revenue and gross margin over the last three years as derived from unaudited management accounts may be summarised as follows:

	1998	*1999*	*2000*
	£'000	*£'000*	*£'000*
Sales	6,240	6,335	6,097
Gross Margin	5,578	5,644	5,707

K3 Software has 35 employees of which 30 are based in Leatherhead and five in Telford.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors

As at the date of this document, the Board comprises:

David Bolton, aged 49 (Finance Director)

David Bolton was appointed Finance Director of the Company in September 1998. Having qualified as a chartered accountant in the mid 1970's with Ernst & Young he has held various finance positions in quoted and unquoted companies most notably BTR where he spent 12 years.

Andrew Makeham, aged 46(Marketing Director, e-Commerce)

Andy Makeham has over 20 years' experience running or working in software houses in IT companies, most recently at Kewill Systems plc where he was a divisional sales and marketing director. He joined RAP in July 2000 as the director responsible for e-commerce sales, marketing and development. On Completion he will become Chief Executive of the Enlarged Group.

Brian Shaw, aged 48 (Sales and Marketing Director)

Brian Shaw joined the Board in October 1998 as Sales and Marketing Director having had over 20 years' experience with a number of private companies. He has been principally responsible for maintenance and development of the key customer accounts within the Hardware Companies. Following Completion, he will continue to manage the Hardware Companies on behalf of Paddico.

Proposed Directors

John Griffith, aged 42

John Griffith will join the Board as a non-executive director on Completion. He is currently managing director of Intershop (UK) Limited, a supplier of e-commerce software. Intershop (UK) Limited is a wholly owned subsidiary of Intershop Communications AG. Mr Griffith's background is in design and corporate communications where he spent some 15 years working as a new business developer for advertising agencies and design companies, culminating in a period as new media director for Holmes and Marchant plc. His three years with Intershop have made him familiar with many of the challenges faced by businesses embracing e-commerce.

Johan Claesson, aged 49

Johan Claesson will join the Board as non-executive chairman on Completion. Mr Claesson is a Swedish national whose principal business interests are in property development and real estate. He has a controlling interest in and is Chairman of Claesson & Anderzen AB ("C&A"). C&A group holds properties with a market value of approximately £300 million.

Senior management and employees

In addition to the Directors, the Enlarged Group will have the following key personnel:

Jeff Bonning, aged 42

Jeff Bonning joined Kewill Systems plc's ERP division in 1998 as operations manager to run the day-to-day operations of the IBS business unit. Prior to this he was a planning manager at Pilkington Optronics.

Russell Dorset, aged 34

Russell Dorset joined K3 Software in January 2001 from Clarify, a large global supplier of customer relationship management software. Prior to this he was sales director of a UK ERP software house.

Peter Myers, aged 44

Peter Myers has run Touchline and its predecessor Touchline Presentations Limited since 1994. Prior to this he had worked as managing director of a mid range UK ERP software house having previously been finance director of a venture capital fund specialising in high tech and IT investments.

David Pepe, aged 49

David Pepe joined Kewill Systems plc in 1984 as an accountant since when he has undertaken many management and operational roles, culminating in his being general manager of the ERP division.

The Enlarged Group will have approximately 70 employees.

PART III

LETTER FROM ROWAN DARTINGTON IN RESPECT OF THE OPEN OFFER

ROWAN DARTINGTON

(Registered in England and Wales No: 2752304)

Registered Office:
Colston Tower, Colston Street
Bristol BS1 4RD

2 March 2001

To Qualifying Shareholders

Dear Sir or Madam

PROPOSED OPEN OFFER

As stated in the letter from your Directors which is set out on pages 8 to 17 of this document, the Company is proposing by means of an open offer to give Qualifying Shareholders the opportunity to subscribe for the New Ordinary Shares on a basis pro rata to their existing shareholdings. The purpose of the Open Offer is to raise funds to cover the expenses of the Acquisitions, Disposals and other related proposals, to provide additional working capital and to allow shareholders to avoid dilution and maintain their proportionate share of the Company. The Directors have irrevocably undertaken that they will take up their entitlements amounting in aggregate to 1,066,206 New Ordinary Shares. Mr Gyllenhammar and Mr Claesson have irrevocably undertaken that they will not take up their entitlements to 12,098,629 New Ordinary Shares. Of these, 188,833 New Ordinary Shares have been conditionally placed firm by Rowan Dartington, as agent for the Company, with certain employees of the Enlarged Group at the Offer Price. Under these arrangements the Company is accordingly certain that it will raise not less than £188,255, before expenses.

The Open Offer

Rowan Dartington, on behalf of the Company, hereby invites Qualifying Shareholders to make applications to subscribe for the New Ordinary Shares which are the subject of the Open Offer, on the terms set out in this document and in the accompanying Application Form, at a price of 15p per share, payable in full on application and free of all expenses.

Qualifying Shareholders may apply for the number of New Ordinary Shares up to and including their pro rata entitlement on the following basis:

1 New Ordinary Share for every 1 Existing Ordinary Share

registered in their name on the Record Date and so in proportion for any other number of Existing Ordinary Shares then held. Qualifying Shareholders may also apply for less than their pro rata entitlement of New Ordinary Shares if they so wish.

The New Ordinary Shares will, when allotted, rank *pari passu* in all respects with the Existing Ordinary Shares, and will rank for all dividends declared, made or paid hereafter and will be issued free from all liens, charges and encumbrances.

The Application Form shows the number of Existing Ordinary Shares on which the relevant Qualifying Shareholder's entitlement has been based and the maximum number of New Ordinary Shares for which the relevant Qualifying Shareholder is entitled to apply, calculated on the basis described above.

The Open Offer is conditional upon the Open Offer Agreement becoming unconditional in all respects on or before 28 March 2001 or such date as Rowan Dartington may agree (in any event not later than 8 a.m. on 6 April 2001) and Rowan Dartington not having terminated its obligations thereunder. The Open Offer Agreement is conditional upon, *inter alia*, the satisfaction of the following conditions:

(i) the passing of the Resolutions numbered 1 to 5 to be proposed at the Extraordinary General Meeting; and

(ii) Admission becoming effective by no later than 8 a.m. on 28 March 2001 or such later date as Rowan Dartington may agree (in any event not later than 6 April 2001).

Qualifying Shareholders should be aware that the Open Offer is not a rights issue and that New Ordinary Shares not applied for under the Open Offer will not be sold in the market for the benefit of those who do not apply under the Open Offer.

Your right to apply for New Ordinary Shares as set out in this letter will lapse and no application for New Ordinary Shares will be considered unless your Application Form is submitted in accordance with the provisions of this letter, and the Application Form itself is received by Northern Registrars Limited at the address set out below by no later than 3.00 p.m. on 23 March 2001.

Procedure for application

The enclosed Application Form shows your pro rata entitlement to New Ordinary Shares under the Open Offer. The Application Form contains the terms of the Open Offer and must be used if you wish to apply for the New Ordinary Shares.

Qualifying Shareholders who wish to subscribe for all or any of the New Ordinary Shares to which they are entitled must lodge the relevant Application Form, together with a remittance for the full amount payable on acceptance, in accordance with the instructions printed thereon, by post or by hand, with Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA, by no later than 3.00 p.m on 23 March 2001.

Payments must be made by banker's draft or cheque in pounds sterling drawn on a branch in the United Kingdom of a bank or building society which is either a settlement member of the Cheque Credit Clearing Company Limited or the CHAPS & Town Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided for the members of either of those companies and must bear the appropriate sorting code in the top right hand corner. Cheques should be made payable to "Northern Registrars – A/c RAP PLC" and crossed "A/c payee". The return of the Application Form with the appropriate remittance by cheque will constitute a warranty that the cheque (which the Company reserves the right to have presented on receipt) will be honoured on first presentation. The Company may elect not to treat as valid any acceptances in respect of which cheques are not so honoured. The Company reserves the right to seek special clearance of cheques to allow it to obtain value for remittances at the earliest opportunity and may transfer the proceeds into a separate account until the Open Offer becomes unconditional. The Company or its agents may withhold definitive share certificates pending clearance of any cheque or banker's draft. No interest will be allowed on payments made before they are due but will be retained for the benefit of the Company.

Applications may only be made for the New Ordinary Shares on the enclosed Application Form which is personal to the Qualifying Shareholder named on it. The Application Form represents a right to apply for the New Ordinary Shares subject to, *inter alia*, the conditions set out above. It is not a document of title and it may not be sold, signed or transferred, except to satisfy *bona fide* market claims in relation to purchases of Ordinary Shares through the market prior to the date on which the Existing Ordinary Shares are marked 'ex' the entitlement to participate in the Open Offer. Persons who have prior to 2 March 2001, sold or otherwise transferred some or all of their Ordinary Shares should contact their stockbroker, bank or other agent authorised under the Financial Services Act 1986 through whom the sale or transfer was effected as soon as possible and refer to the instructions regarding split applications set out in the Application Form, since the invitation to subscribe for New Ordinary Shares under the Open Offer may represent a benefit which can be claimed from them by purchasers or transferees under the Rules of the London Stock Exchange.

An Application Form may be treated by the Company (in its sole discretion) as valid and binding on the person(s) by whom or on whose behalf it is lodged even if not completed in accordance with the relevant instructions or not accompanied by a power of attorney where required. All enquiries in connection with the Application Forms should be addressed to the Company's receiving banker at Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA.

If cheques or bankers' drafts are presented for payment before the conditions of the Open Offer are fulfilled, the monies will be kept in a separate bank account until the conditions are fully met. In the event that the Open Offer does not become unconditional by 8.00 a.m. on 28 March 2001 (or such later time and date, being not later than 6 April 2001, as Rowan Dartington may agree), the Open Offer will lapse and all applications monies will be returned (without interest) to applicants as soon as practicable thereafter. The interest earned on monies held in the separate bank account will be retained for the benefit of the Company.

Qualifying Shareholders who hold their existing Ordinary Shares in certificated form will be allotted New Ordinary Shares in certificated form. Qualifying Shareholders who hold their existing Ordinary Shares in uncertificated form will be allotted New Ordinary Shares in uncertificated form to the extent that their entitlement to the New Ordinary Shares arises as a result of holding Ordinary Shares in uncertificated form. Notwithstanding any other provision of this document, the Company reserves the right to allot and/or issue any New Ordinary 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 system operated by the registrars in connection with CREST. The right may also be exercised if the correct details (such as member account ID and participant ID details) are not provided in box 6 as requested on the Application Form.

If you do not wish to apply for any of the New Ordinary Shares you should not complete or return an Application Form, but you are nevertheless requested to complete and return the Form of Proxy for use at the Extraordinary General Meeting.

Money Laundering

It is a term of the Open Offer that, to ensure compliance with the Money Laundering Regulations 1993, Northern Registrars Limited is entitled to require, at its absolute discretion, verification of identity from any person lodging an Application Form ("an applicant") including without limitation any person who either (i) tenders payment by way of a cheque or banker's draft drawn on an account in the name of a person or persons other than the applicant; or (ii) appears to Northern Registrars Limited to be acting on behalf of some other person. Return of an Application Form with appropriate remittance will constitute a warranty from the applicant that the Money Laundering Regulations 1993 will not be breached by the acceptance of the remittance. Pending the provision of evidence satisfactory to Northern Registrars Limited as to identity, Northern Registrars Limited may in its absolute discretion retain an Application Form lodged by an applicant and/or the cheque or other remittance relating thereto and/or not enter the New Ordinary Shares to which it relates on the register of members or issue any share certificate in respect of them.

If verification of identity is required this may result in delay in dealing with an acceptance and in rejection of the application. The Company and Rowan Dartington reserve the right, in their absolute discretion, to reject any application in respect of which they or Northern Registrars Limited consider that, verification of identity having been requested, satisfactory evidence of such identity has not been received by such time as was specified in the request for verification of identity. In the event of an application being rejected in any such circumstances, the Company and Rowan Dartington reserve the right in their absolute discretion, but having no obligation, to terminate any contract of allotment relating to or constituted by such Application Form (in which event the money payable or paid in respect of the acceptance will be returned (without interest) to the account of the drawee bank or building society from which such sums were originally debited) and/or to endeavour to procure other subscribers for the New Ordinary Shares in question at such price as they, in their absolute discretion, think fit. The return of an Application Form will constitute a warranty and undertaking by the applicant to provide promptly in writing to Northern Registrars Limited such information as may be specified by it as being required for the purpose of the Money Laundering Regulations 1993.

The verification of identity requirements will not usually apply:

(i) if the applicant is a United Kingdom or EC regulated organisation (e.g. a bank or a broker); or

(ii) if the applicant makes payment by way of cheque drawn on an account in the name of such applicant; or

(iii) if the aggregate subscription price for the New Ordinary Shares applied for is less than £9,000.

The following guidance is provided in order to reduce the likelihood of difficulties, delays and potential rejection of an application (but does not limit the right of Northern Registrars Limited to require verification of identity as stated above). Applicants are urged, if possible, to make payment by their own cheque. If this is not practicable and an applicant uses a cheque drawn by a building society or other third party or a banker's draft, applicants should:

(a) write their name and address on the back of the building society cheque, banker's draft or other third party cheque and, in the case of individuals, record their date of birth against their name; and

(b) if a building society cheque or banker's draft is used, ask the building society or bank to endorse on the cheque the full name and account number of the person whose building society or bank account is being debited; or

(c) if an application is delivered by hand, the applicant should ensure that he has with him evidence of identity bearing his photograph, for example a full and valid passport.

Overseas Shareholders

(a) General

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 to subscribe, nor should he in any event use an Application Form, unless in the relevant territory such an offer or invitation could lawfully be made to him or an Application Form can lawfully be used without compliance with any unfulfilled registration or other legal requirements. Any person outside the United Kingdom wishing to subscribe for any or all of the New Ordinary Shares comprised in an Application Form must satisfy himself as to the full observance of the laws of any relevant territory in connection therewith, including any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territory.

Persons resident in overseas territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to apply for the New Ordinary Shares. Receipt of an Application Form will not constitute an offer in those jurisdictions in which it would be illegal to make such an offer and in such circumstances an Application Form will be deemed to have been sent for information only.

Persons (including, without limitation, nominees, trustees and custodians), receiving this document and/or an Application Form should not, in connection with the Open Offer, distribute or send it into any jurisdiction where to do so would or might contravene local securities laws or regulations, If an Application Form is received by any person in any such jurisdiction or by the agent or nominees of such a person, he or she must not seek to take up New Ordinary Shares except pursuant to an express agreement with the Company. Any person who does forward an Application Form into any such jurisdiction whether pursuant to a contractual or legal obligation or otherwise should draw the attention of the recipient to the contents of this paragraph. The Company reserves the right to reject an application from, or made in favour of, Qualifying Shareholders in any such jurisdiction or persons who are acquiring New Ordinary Shares for resale in any such jurisdiction.

The Company reserves the right to treat as valid any applications or purported applications for New Ordinary Shares comprised in an Application Form which appears to the Company or its agents to have been executed, effected or despatched in a manner which may involve a breach of the legal or regulatory requirement of any jurisdiction.

(b) United States of America ("United States")

The Existing Ordinary Shares, the New Ordinary Shares and the Application Form have not been and will not be registered under the US Securities Act of 1933, as amended (the "US Securities Act"), or under the securities laws of any state of the United States, and may not be offered, sold, renounced, delivered or transferred directly or indirectly within the United States, except in certain transactions exempt from the registration requirements of the US Securities Act. Accordingly, the Open Offer is not being made in or into the United States and Application Forms will not be sent to shareholders with registered addresses in the United States.

Envelopes containing copies of this document and the accompanying documents (including the Application Form) should not be postmarked in the United States or otherwise despatched from the United States and all applicants for New Ordinary Shares must provide an address for registration outside the United States. Persons will be deemed to have made an invalid application if any Application Form appears to the Company or its agents to have been executed or despatched from the United States, or if they provide an address in the United States for registration or if they are unable to make the representations and warranties set out in the Application Form.

As used herein 'United States' means the United States of America (including the States and District of Columbia), its territories, its possessions and other areas subject to its jurisdiction.

(c) Australia and Canada

No circular in relation to the Open Offer has been, nor will be, lodged with or registered by, the Australian Securities Commission. Save where it is established that a person may lawfully participate in the Open Offer under exemption from Australian securities laws, a person may not:

(i) directly or indirectly offer for the subscription or purchase or issue an invitation to subscribe for or buy or sell the New Ordinary 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 or other entities organised under the laws of Australia but not including a permanent establishment of such corporation or entity located outside Australia).

Accordingly, neither this document nor the Application Form is being sent to any Shareholder with a registered address in Australia who has not supplied an address to the Company within the United Kingdom for the service of notices.

Neither of the Existing Ordinary Shares nor the New Ordinary Shares have been, nor will be, registered under the securities legislation of any province or territory of Canada. No prospectus in relation to the Open Offer will be filed and no relief from applicable securities law requirements has been or will be obtained from the applicable securities regulatory authority of any province or territory of Canada. Subject to certain exemptions, New Ordinary Shares may not be offered or sold, directly or indirectly, in or into Canada. Accordingly, neither this document nor the Application form is being sent to any shareholder with a registered address in Canada.

(d) Republic of Ireland

No document in relation to the Open Offer has been, or will be, lodged for registration with the Registrar of Companies in the Republic of Ireland and all subscribers for New Ordinary Shares must provide addresses outside the Republic of Ireland for the receipt of certificates for the New Ordinary Shares. Persons will be deemed to have made an invalid application if their Application Form appears to the Company or its agents to have been executed in or despatched from the Republic of Ireland, or if they find an address in the Republic of Ireland for registration, or if they are unable to make the representations and warranties set out in the Application Form. Accordingly, neither the document nor the Application Form is being sent to any Shareholder with a registered address in the Republic of Ireland.

(e) Other Overseas Territories

Shareholders resident in other overseas territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any further formalities to enable them to apply for New Ordinary Shares.

Taxation

Your attention is drawn to the section headed 'UK Taxation' set out in paragraph 16 of Part XI of this document.

General

The terms and conditions set out in the Application Form, including the instructions for completing it, form part of the terms and conditions of the Open Offer.

Application has been made to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on AIM. Dealings are expected to commence in the New Ordinary Shares on 28 March 2001. No temporary documents of title will be issued and, pending the issue of definitive certificates, transfers will be certified against the register.

Definitive share certificates in respect of the New Ordinary Shares are expected to be despatched by 6 April 2001 by first class post at the risk of the person(s) entitled to them.

Further Information

Your attention is drawn to the following further information set out in this document and to the terms and conditions set out in the enclosed Application Form:

Part IV	Preliminary announcement of the unaudited results of RAP for the year ended 31 December 2000
Part V	Financial information on RAP
Part VI	Accountants' report on K3 Technology
Part VII	Accountants' report on K3 Software
Part VIII	Financial information on the Hardware Companies
Part IX	Pro forma statement of net assets of the Enlarged Group
Part X	Financial information on Silversläggan
Part XI	Additional information

Yours faithfully

J N Wakefield
Director
Rowan Dartington & Co. Limited

PART IV

PRELIMINARY ANNOUNCEMENT OF THE UNAUDITED RESULTS OF RAP FOR THE YEAR ENDED 31 DECEMBER 2000

The following is the full text of the preliminary announcement of the unaudited results for RAP for the year ended 31 December 2000.

"2000 was a year of momentous change for RAP during which the fundamental restructuring of the Group included the sale of both the conveyor and rubber and safety businesses against the background of continued decline in the activity levels of each business.

A one-for-one rights issue in June, raised £1.9 million and provided the refinancing necessary to implement the disposal programme. It also supported the Company in its move into IT and e-commerce activities.

In November the Company transferred from the Official List to AIM and shortly after appointed Rowan Dartington as its nominated adviser and broker.

The fixings business has continued its recovery and the gardening division's decline has been partially arrested. However, the Board believes these hardware businesses will only show their full potential in the medium term. The Board now wishes to focus on its IT and e-commerce activities. Approaches from third parties for the hardware businesses failed to deliver the expected values. The Board has therefore decided, subject to shareholders' approval, to sell these businesses to Paddico, a company owned by Peter Gyllenhammar, one of RAP's major shareholders, for a deferred consideration, which is structured around an expected realisation of £1m. This price is in excess of offers from third parties. The sale contract provides for 80 per cent. of any increase in value over £1 million and 10 per cent. of any decrease below £1 million on the subsequent sale of this business by Paddico to be paid to RAP. In the meantime, RAP will provide Paddico with the accounting and administrative support and the businesses will continue to be managed by Brian Shaw.

In the autumn of 2000 the Board identified certain acquisitions which it wished to make, but which it was not in a position to conclude due to the disposal programme and the timing problems associated with its full listing status. The Board therefore approached Peter Gyllenhammar with a view to him acquiring these businesses whilst RAP concluded its disposal programme. As a result, Silversläggan AB, a company owned by Peter Gyllenhammar, acquired certain Enterprise Resource Planning (ERP) businesses of Kewill Systems plc.

RAP announced today that it has now exchanged conditional contracts with Silversläggan AB to acquire those ERP businesses now known as K3 Business Technology Group Limited and K3 Business Technology Software Limited. These companies are to be acquired for an aggregate consideration of £3,742,000 ("the Consideration"), in addition RAP will assume a loan of £310,000. The Consideration will be satisfied as to £3,352,000 in cash or in new ordinary shares issued at a value of 15p per share on completion, the balance of the Consideration being £390,000, will be paid in instalments over the next 21 months.

To help fund the cost of the acquisitions and to provide additional working capital the Company is making available 25.65 million new ordinary shares to existing shareholders through a one for one open offer.

The acquisitions and open offer are conditional upon shareholders' approval which will be sought at an EGM to be held on 26 March 2001.

Further details regarding the acquisitions, the open offer and various related proposals are set out in a separate announcement made today and in a circular which has been despatched to shareholders today.

Following the acquisition RAP intends to change its name to K3 Business Technology Group plc.

Financial Results

The results for the year to 31 December 2000 show further decline in sales of 27.6 per cent. to £14.25 million (1999: £19.68 million). This reflects both a contraction in the old core businesses of rubber, safety products and glove distribution and the sale of these businesses and RAP Conveyors Limited during the year. This resulted in a loss in the period of £5.19 million (1999: £1.63 million) after losses on disposal of £1.7 million (including goodwill written off of £0.3 million) and profits on property disposals of £0.3 million.

Operational Review

During the year the group implemented its programme of restructuring as it progressed its IT and e-commerce strategy.

- In May it disposed of RAP Conveyors Limited for approximately £0.4 million.
- In June it agreed to buy Touchline Network Television Limited, a company specialising in multi-media and e-commerce development.
- In July it completed a rights issue raising £1.9 million.
- In August it completed the sale of its property in Hamilton, Scotland, for £475,000.
- In November it completed the disposal of its rubber, safety products and glove divisions for approximately £3.6m.

Board Changes

As previously reported, Mr Andy Makeham joined the Board on 1 July 2000 as Marketing Director, e-Commerce. Following the sale of the rubber and safety products divisions, Mr John Savage resigned as Chairman and Chief Executive. Mr John Grimshaw also resigned as Operations Director.

Following the acquisition of the ERP businesses, Mr Makeham will become Chief Executive. Mr John Griffith, managing director of Intershop (UK) Limited, will join the Board following the EGM in March. Mr Johan Claesson, the Company's major shareholder and chairman of Claesson and Anderzen AB, a substantial Swedish property company, has also been invited to join the board as non-executive Chairman following the EGM.

Trading and Prospects

Sales in the traditional rubber and safety businesses continued to decline, the deterioration being exaggerated by the sale of these businesses during the period, with a year on year reduction of £4.07m, resulting in heavy losses. The fixings business registered a modest increase in the second half of 2000, with sales for the year up 30 per cent. on 1999. Major new contracts secured during the year should provide further growth in revenues. Sales of the gardening products businesses have started to stabilise, holding at 84 per cent. of the 1999 level. Touchline reported revenues of £0.31m in its first six months of operation within the group, reflecting the continued growth in its multimedia and e-commerce development activities.

The proposed disposal of the fixings and gardening divisions will finalise the divestment of the company's legacy businesses. The proposed acquisitions will complement the remaining activities, creating a Group that is well placed to sell ERP software solutions and which can develop into a provider of wider e-business solutions to the SME sector.

Consolidated profit and loss account for the year ended 31 December 2000

	2000				*1999*		
	Continuing operations		*Dis-continued*		*Continuing**	*Dis-continued*	
	Acquisitions	*Continuing**	*operations*	*Total*	*operations*	*operations*	*Total*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Turnover	305	3,553	10,392	14,250	3,077	16,608	19,685
Cost of sales	(161)	(3,414)	(7,122)	(10,697)	(2,237)	(12,073)	(14,310)
Gross profit	144	139	3,270	3,553	840	4,535	5,375
Selling and distribution costs	–	(429)	(1,083)	(1,512)	(593)	(1,165)	(1,758)
Administrative expenses	(59)	(2,884)	(2,656)	(5,599)	(1,771)	(3,214)	(4,985)
Operating profit (loss)	85	(3,174)	(469)	(3,558)	(1,524)	156	(1,368)
Loss on disposal of operations	–	–	(1,667)	(1,667)	–	–	–
Profit on disposal of property	–	–	305	305	–	–	–
Profit (loss) on ordinary activities before interest	85	(3,174)	(1,831)	(4,920)	(1,524)	156	(1,368)
Interest payable and similar charges				(271)			(267)
Loss on ordinary activities before taxation				(5,191)			(1,635)
Tax on loss on ordinary activities				–			–
Loss for the financial year				(5,191)			(1,635)

* With the exception of Administrative expenses of £530,000 in 2000, continuing operations are to be discontinued subject to the motion proposing the disposal of Welpac Hardware Limited, Harwood Hardware Limited and Anderson & Firmin Limited being passed at the EGM scheduled for to be held on 26 March 2001.

	2000	1999
Loss per share		
Basic	(29.2p)	(13.3p)
Diluted	(29.2p)	(13.3p)
Basic before exceptional items	(19.7p)	(7.8p)

Consolidated statement of total recognised gains and losses for the year ended 31 December 2000

	2000	*1999*
	£'000	*£'000*
Retained loss for the financial year	(5,191)	(1,635)
Unrealised deficit on revaluation of freehold property	–	(10)
Total recognised losses since the last annual report and accounts	(5,191)	(1,645)

Consolidated balance sheet as at 31 December 2000

	2000	*1999*
	£'000	*£'000*
Fixed assets		
Goodwill	127	28
Tangible assets	235	2,829
Investments	7	–
	369	2,857
Current assets		
Properties for resale	260	75
Stocks	1,071	4,538
Debtors	1,088	4,720
	2,419	9,333
Creditors: amounts falling due within one year	(2,071)	(8,022)
Net current assets	348	1,311
Total assets less current liabilities	717	4,168
Creditors: amounts falling due after more than one year	–	(360)
Provisions for liabilities and charges	(243)	(482)
Net assets	474	3,326
Capital and reserves		
Called up share capital	1,283	616
Share premium account	6,601	5,259
Shares to be issued	59	–
Revaluation reserve	–	462
Profit and loss account	(7,469)	(3,011)
Equity shareholders' funds	474	3,326

Consolidated cash flow statement for the year ended 31 December 2000

	2000	*1999*
	£'000	*£'000*
Net cash (outflow) inflow from operating activities	(1,595)	193
Returns on investments and servicing of finance	(271)	(267)
Capital expenditure and financial investment	288	(94)
Acquisitions and disposals	3,100	–
Cash inflow (outflow) before financing	1,522	(168)
Financing	1,064	(418)
Increase (decrease) in cash in the year	2,586	(586)

Notes

1. Cost of sales, gross profit and other operating expenses

The operating loss for the year included exceptional items within administrative expenses as summarised below:

	2000 *£'000*	*1999* *£'000*
Re-organisation and closure:		
Centralisation of group functions	–	201
Redundancy and closure costs	–	160
Re-organisation	–	75
Fixed asset impairment	327	20
Dilapidations provision	–	28
Provision for legal claims	–	200
Disposal of properties	–	(5)
	327	679

2. Acquisition of subsidiary undertaking

On 26 June 2000 the company acquired 100 per cent. of the issued share capital of Touchline Network Television Limited for consideration comprising the issue of 500,000 ordinary shares of 5p each in the company, and a further 330,000 ordinary shares of 5p each within twelve months should certain profit targets be met by Touchline. The fair value of the total consideration was £169,000.

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the group:

	Book value *£'000*	*Accounting policy adjustments* *£'000*	*Fair value to group* *£'000*
Fixed assets			
Tangible	25	(4)	21
Current assets			
Work in progress	50	(15)	35
Debtors	45	–	45
Cash	24	–	24
Total assets	144	(19)	125
Creditors			
Trade creditors	(37)	–	(37)
Other creditors	(40)	–	(40)
Accruals	(13)	–	(13)
Total liabilities	(90)	–	(90)
Net assets	54	(19)	35
Goodwill			134
			169

Satisfied by

Shares issued	110
Shares to be issued	59
	169

The fair value adjustments were made in order to reflect alignment with the Group's accounting policies.

	£'000
Net cash inflows in respect of the acquisition comprised:	
Cash at bank and in hand acquired	24

Touchline Network Television Limited earned a profit after taxation of £68,000 in the nine months ended 31 December 2000 (year ended 31 March 2000 - £45,000), of which a loss of £17,000 arose in the period from 1 April 2000 to 26 June 2000.

There were no recognised gains or losses other than the profit for the period.

3. Sale of subsidiary undertaking

On 3 May 2000 the group sold its 100 per cent. interest in the ordinary share capital of RAP Conveyors Limited. The loss of RAP Conveyors Limited up to the date of disposal was £9,000 and the profit for its last financial year was £88,000.

Net assets disposed of and the related sales proceeds were as follows:

	£'000
Fixed assets	95
Current assets	934
Creditors	(422)
Net assets	607
Transaction costs of disposal	127
Loss on sale	(377)
Sale proceeds	357
Satisfied by:	
Cash	500
Adjustment to consideration	(143)
	357

4. Sale of trade and assets of subsidiaries

On 6 November 2000 certain subsidiaries of the group sold their trade and assets to Zika Rapid Distribution Limited, a subsidiary of Zika Electrode Works Limited (a company listed on the Tel Aviv Stock Exchange). The subsidiaries were:

RAP Industrial Distributions Limited
Rubber and Allied Products (R.A.P.) Limited
Potter Cowan & Co Limited
Waugh of Hamilton Limited
Safety Specialists Limited
Planet Gloves (Industrial) Limited
Poplar Industrial Supplies (Stourbridge) Limited
Man-equip Limited

Net assets disposed of and the related sales proceeds were as follows:

	£'000
Fixed assets	1,657
Current assets	4,138
Creditors	(2,191)
Net assets	3,604
Related goodwill previously written off to reserves	271
Transaction costs of disposal	1,019
Loss on sale	(1,290)
Sale proceeds	3,604
Satisfied by:	
Cash	3,400
Deferred consideration to be satisfied by cash	204
	3,604

5. Reconciliation of operating loss to operating cash flow

	2000 *£'000*	*1999* *£'000*
Operating loss	(3,558)	(1,368)
Depreciation charges and fixed asset impairment	683	392
Write down of property held for resale	28	53
Amortisation of goodwill	12	6
Profit on sale of tangible fixed assets	–	(17)
Decrease in stocks	1,277	385
Decrease in debtors	1,062	890
Decrease in creditors	(860)	(330)
(Decrease) increase in provisions	(239)	182
Net cash (outflow) inflow from operating activities	(1,595)	193

6. Analysis of cash flows

Acquisitions and disposals

	2000 *£'000*	*1999* *£'000*
Bank balances acquired with subsidiary	24	–
Sale of subsidiary	500	–
Sale of businesses	3,400	–
Costs of disposal	(824)	–
	3,100	–

Financing

	2000 *£'000*	*1999* *£'000*
Issue of ordinary share capital	1,899	–
Repayment of secured loan	(687)	(225)
Capital element of finance lease rental payments	(148)	(193)
	1,064	(418)

7. Analysis and reconciliation of net debt

	1 January 2000 £'000	*Cash flow £'000*	*31 December 2000 £'000*
Overdraft	(2,930)	2,586	(344)
Bank loans	(687)	687	–
Finance leases	(203)	148	(55)
	(3,820)	3,421	(399)
Debt due after one year	(274)	274	–
Debt due within one year	(3,343)	2,999	(344)
Finance leases	(203)	148	(55)
Net debt	(3,820)	3,421	(399)

	2000 £'000	*1999 £'000*
Increase (decrease) in cash in the year	2,586	(586)
Cash outflow from decrease in debt and lease financing	835	418
Change in net debt resulting from cash flows	3,421	(168)
New finance leases	–	(98)
Movement in net debt in year	3,421	(266)
Net debt at 1 January 2000	(3,820)	(3,554)
Net debt at 31 December 2000	(399)	(3,820)

8. Reserves

	Share premium account £'000	*Revaluation reserve £'000*	*Profit and loss account £'000*	*Total £'000*
At 1 January 2000	5,259	462	(3,011)	2,710
Retained loss for the year	–	–	(5,191)	(5,191)
Disposal of revalued property	–	(462)	462	–
Goodwill previously written off to reserves	–	–	271	271
Share capital issued	1,667	–	–	1,667
Expenses of equity share issue	(325)	–	–	(325)
At 31 December 2000	6,601	–	(7,469)	(868)

9. The basic loss per share has been calculated on the loss before and after taxation of £5,191,000 (1999: £1,635,000) and on the weighted average number of shares in issue of 17,805,487 (1999: 12,325,841). The basic before exceptional items loss per share has been calculated on a loss of £3,502,000 (1999: £956,000) and on the weighted average number of shares in issue of 17,805,487 (1999: 12,325,841).

10. The directors do not recommend the payment of a final dividend and the dividend for the year is therefore nil (1999: nil).

11. The results have been prepared under the historical cost convention as modified for the revaluation of certain fixed assets and in accordance with applicable accounting standards. The accounting policies have been applied consistently with those stated in the previous accounts.

12. The financial information set out above does not comprise the company's statutory accounts. Statutory accounts for the previous financial year ended 31 December 1999 have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under section 237(2) or (3) of the Companies Act 1985. The auditors have not reported on accounts for the year ended 31 December 2000, nor have any such accounts been delivered to the Registrar of Companies.

13. This preliminary announcement was approved by the Board of directors on 2 March 2001 on the assumption that the approval of the proposed sale of the fixings and gardening divisions is obtained at the EGM to be held on 26 March 2001.

14. The directors intend to approve the full financial statements following shareholder approval of the proposed sale of the fixings and gardening divisions at the EGM to be held on 26 March 2001."

PART V

FINANCIAL INFORMATION ON RAP

AUDITED ACCOUNTS FOR THE THREE YEARS ENDED 31 DECEMBER 1999

The following information has been extracted from the audited report and accounts of the Company (with cross references to page numbers revised accordingly) for the three financial years ended 31 December 1999 filed with the Registrar of Companies and on which Arthur Andersen gave unqualified opinions for the years ended 31 December 1999 and 1998, and KPMG Audit plc gave an unqualified opinion for the year ended 31 December 1997.

(i) FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999

BOARD REPORT ON REMUNERATION

The board currently seeks guidance from external employment consultants to determine the pay and other benefits of executive directors.

Remuneration

The remuneration and emoluments of executive directors are determined by reference to advice from third-party employment consultants. The remuneration of the non-executive directors will be determined by the board as a whole, based on outside advice and review of current practices in other companies.

The salaries of the executive directors are determined after giving full consideration to the best practice provisions and after a review of the performance of the individual. It is the aim to reward directors competitively; consideration is, therefore, given to the median remuneration paid to senior management of comparable public companies.

Each of the executive directors has a service contract providing 12 months notice.

No performance related bonus scheme was implemented for the year to 31 December 1999. The payment to Mr D J Bolton was as a result of a commitment made on his appointment.

Directors' emoluments

Name of director	*Fees/Basic salary* £	*Taxable benefits* £	*Annual bonuses* £	*Pension contributions* £	*1999 total* £	*1998 total* £
Executive						
J A Savage	153,750	11,797	–	15,375	180,922	133,933
D J Bolton	80,000	8,228	20,000	8,000	116,228	29,367
J R Grimshaw	66,667	8,252	–	6,667	81,586	17,103
B E Shaw	57,167	6,982	–	5,717	69,866	13,819
D J Emmett	–	–	–	–	–	37,779
M G Bickerton	–	–	–	–	–	53,156
Non-executive						
P D Bulmer (resigned 30 July 1999)	–	–	–	–	–	–
R W Jackson (resigned 2 November 1999)	*3,092	*8,999	–	–	12,091	13,165
F K J Arp (resigned 29 July 1998	–	–	–	–	–	*5,792
Aggregate emoluments	360,676	44,258	20,000	35,759	460,693	304,114
Fees to third parties					*6,125	10,500

* to date of resignation

Fees to third parties comprise amounts paid to ABN Amro Private Equity (UK) Limited under an agreement to provide the group with the services of Mr Bulmer.

Directors' interests

The directors who held office at 31 December 1999 had the following interests in the shares of the company:

	Ordinary shares of 5p each 31 December 1999 Number	*Ordinary shares of 5p each 1 January 1999 Number*
J A Savage	665,153	565,000
D J Bolton	200,000	200,000
J R Grimshaw	125,000	125,000
B E Shaw	100,000	100,000

None of the directors had any interest in the shares of other group companies. There have been no changes in the interests of directors between 31 December 1999 and 12 June 2000.

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the company granted to or held by the directors. Details of the options are as follows:

Name of director	*1 January 1999*	*Granted*	*Exercised*	*Lapsed*	*31 December 1999*	*Exercise price*	*Gains on exercise 1999*	*Gains on exercise 1998*
J A Savage	650,000	–	–	–	650,000	20.5p	–	–

The options are exercisable after 12 March 2000 as follows:

Number of Shares	*Exercise Price*	*Exercise Criteria*
350,000	20.5p	If the market price reaches at least 20p
200,000	20.5p	If the market price reaches at least 25p
100,000	20.5p	If the market price reaches at least 30p

Name of director	*1 January 1999*	*Granted*	*Exercised*	*Lapsed*	*31 December 1999*	*Exercise price*	*Gains on exercise 1999*	*Gains on exercise 1998*
D J Bolton	–	246,500	–	–	246,500	20.5p	–	–
J R Grimshaw	–	246,500	–	–	246,500	20.5p	–	–
B E Shaw	–	246,500	–	–	246,500	20.5p	–	–

The options for each of the above directors are exercisable after 12 March 2000 as follows:

Number of Shares	*Exercise Price*	*Exercise Criteria*
133,000	20.5p	If the market price reaches at least 20p
76,000	20.5p	If the market price reaches at least 25p
37,500	20.5p	If the market price reaches at least 30p

The share options granted to Mr Savage in 1998 were revised on 30 July 1999 such that the market prices for exercise were reduced from 50p, 70p and 90p to 20p, 25p and 30p respectively in order to be at the same level as for the options granted to Messrs D J Bolton, J R Grimshaw and B E Shaw.

The market price of the ordinary shares at 31 December 1999 was 22p and the range during the year was 12.25p to 22p.

No director exercised share options during the current or previous year.

Directors' pension entitlement

The company makes contributions to defined contribution schemes for each of the executive directors. There are no pension entitlements for the non-executive directors.

DIRECTORS' RESPONSIBILITIES

Accounts, including adoption of going concern basis

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period.

Following the disposal of the shares in RAP Conveyors Limited for approximately £450,000 net of expenses and the raising of £1,900,000 net of estimated expenses through an underwritten rights issue, and with irrevocable undertakings to vote in favour of the rights issue in excess of 50 per cent. of shareholdings, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

In preparing the accounts, the directors are required to: select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; and state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

Other matters

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT TO THE SHAREHOLDERS OF RAP GROUP PLC:

We have audited the accounts on pages 41 to 60 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 44 to 46. We have also examined the amounts disclosed relating to the emoluments, share options and pension benefits of the directors which form part of the remuneration report on pages 37 to 39.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 39, preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company and the group is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statement on internal controls covers all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 31 December 1999 and of the group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered Accountants and Registered Auditors

Bank House, 9 Charlotte Street, Manchester M1 4EU

26 June 2000

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1999

	Notes	1999 £'000	1998 £'000
Turnover – continuing operations	1	19,685	24,863
Cost of sales	2	(14,310)	(18,322)
Gross Profit	2	5,375	6,541
Selling and distribution costs	2	(1,758)	(2,593)
Administrative expenses	2	(4,985)	(5,473)
Operating loss – continuing operations		(1,368)	(1,525)
Interest payable and similar charges	3	(267)	(357)
Loss on ordinary activities before taxation	4	(1,635)	(1,882)
Tax on loss on ordinary activities	7	–	–
Loss for the financial year		(1,635)	(1,882)
Loss per share			
Basic	9	(13.3p)	(15.3p)
Diluted	9	(13.3p)	(15.3p)
Basic before exceptional items	9	(7.8p)	(1.4p)

The accompanying notes are an integral part of this consolidated profit and loss account.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1999 £'000	1998 £'000
Retained loss for the financial year	(1,635)	(1,882)
Unrealised surplus on revaluation of freehold and long leasehold properties	–	512
Unrealised deficit on revaluation of freehold property	(10)	–
Total recognised losses since the last annual report and accounts	(1,645)	(1,370)

CONSOLIDATED BALANCE SHEET

31 December 1999

	Notes	*Unaudited Proforma (see note 29) 1999 £'000*	*1999 £'000*	*1998 £'000*
Fixed assets				
Goodwill	10	80	28	34
Tangible assets	11	2,755	2,829	3,140
		2,835	2,857	3,174
Current assets				
Stocks	13	3,880	4,538	4,923
Debtors	14	4,264	4,795	5,610
		8,144	9,333	10,533
Creditors: amounts falling due within one year	15	(5,108)	(8,022)	(7,724)
Net current assets		3,036	1,311	2,809
Total assets less current liabilities		5,871	4,168	5,983
Creditors: amounts falling due after more than one year	16	(356)	(360)	(712)
Provisions for liabilities and charges	18	(482)	(482)	(300)
Net assets		5,033	3,326	4,971
Capital and reserves				
Called-up share capital	19	1,282	616	616
Share premium account	20	6,603	5,259	5,259
Revaluation reserve	20	462	462	512
Profit and loss account	20	(3,314)	(3,011)	(1,416)
Equity shareholders' funds		5,033	3,326	4,971

The accounts on pages 41 to 60 were approved by the board of directors on 26 June 2000 and signed on its behalf by:

DJ Bolton
Director

26 June 2000

The accompanying notes are an integral part of this consolidated balance sheet.

COMPANY BALANCE SHEET

31 December 1999

	Notes	1999 £'000	1998 £'000
Fixed assets			
Tangible assets	11	475	428
Investments	12	3,262	3,530
		3,737	3,958
Current assets			
Debtors	14	9,739	6,919
Cash at bank and in hand		–	305
		9,739	7,224
Creditors: amounts falling due within one year	15	(7,849)	(3,885)
Net current assets		1,890	3,339
Total assets less current liabilities		5,627	7,297
Creditors: amounts falling due after more than one year	16	(356)	(670)
Provisions for liabilities and charges	18	(200)	–
Net assets		5,071	6,627
Capital and reserves			
Called-up share capital	19	616	616
Share premium account	20	5,259	5,259
Revaluation reserve	20	11	42
Profit and loss account	20	(815)	710
Equity shareholders' funds		5,071	6,627

The accounts on pages 41 to 60 were approved by the board of directors on 26 June 2000 and signed on its behalf by:

DJ Bolton
Director

26 June 2000

The accompanying notes are an integral part of this balance sheet

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 1999

	Notes	1999 £'000	1998 £'000
Net cash inflow from operating activities	22	193	138
Returns on investments and servicing of finance	23	(267)	(357)
Taxation	23	–	(50)
Capital expenditure and financial investment	23	(94)	999
Cash (outflow) inflow before financing		(168)	730
Financing	23	(418)	(1,247)
Decrease in cash in the year	24	(586)	(517)

The accompanying notes are an integral part of this consolidated cash flow statement.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with applicable accounting standards.

Basis of consolidation

The group accounts consolidate the accounts of RAP Group plc and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

Basis of unaudited pro forma balance sheet

The unaudited pro forma balance sheet at 31 December 1999 shows the effect of the proposed rights issue, the sale of RAP Conveyors Limited and the acquisition of Touchline Network Television Limited, all of which have arisen since the year end, as if the proceeds and changes in net assets and liabilities had occurred on 31 December 1999. The net proceeds have been applied to reduce bank overdrafts.

The proceeds of the proposed rights issue are included net of expenses on the basis that irrevocable undertakings to vote in favour of the rights issue in excess of 50% of shareholdings have been received and the rights issue is underwritten. The sale of RAP Conveyors Limited reflects the net assets at 31 December 1999; proceeds are included net of expenses. The acquisition of Touchline Network Television Limited reflects the net assets at 31 March 2000 which have not materially changed to the date of acquisition. The consideration paid reflects the fair value of the initial shares issued; resulting goodwill has not been amortised and no fair value adjustments have been made.

Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is between seven and a maximum of twenty years. Provision is made for any impairment.

Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale. Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account in the periods expected to benefit.

Goodwill arising on acquisitions in the year ended 31 December 1997 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings	2% per annum
Long leasehold land and buildings	2% per annum
Plant and machinery and office equipment and fixtures	10-33% per annum
Motor vehicles	25-33% per annum

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

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the profit and loss account as a movement on reserves. On disposal or recognition of a provision for impairment of a revalued fixed asset, any related balance remaining in the revaluation reserve is also transferred to the profit and loss account as a movement on reserves.

Investments

Fixed asset investments are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads as appropriate. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Taxation

Current tax, including UK corporation tax, is provided at the amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced, except that the deferred tax effects of timing differences arising from pensions and other post-retirement benefits are always recognised in full.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Pension costs

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

A further scheme is operated for certain Welpac employees providing benefits based on final pensionable earnings. The scheme is funded, with the assets of the scheme held separately from those of the group in a separate trustee administered fund. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Derivative financial instruments

The group uses forward exchange contracts to reduce exposure to foreign exchange rate movements. The group does not hold or issue derivative financial instruments for speculative purposes.

There is no direct matching of forward exchange contracts to specific trading transactions. Accordingly, gains and losses on these contracts are deferred and recognised in the profit and loss account only when the hedged transaction has itself been reflected in the group's accounts.

NOTES TO ACCOUNTS

1. *Segment information*

Classes of business:

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

Geographical segments:

The destination of turnover by geographical market is as follows:

	1999 *£'000*	*1998* *£'000*
United Kingdom	19,565	24,500
Europe and other	120	363
	19,685	24,863

The profit/(loss) and net assets of each geographical market have not been disclosed as they are not considered material.

2. *Cost of sales, gross profit and other operating expenses*

The operating loss for the year included exceptional costs as summarised below:

	1999	*1998*
	£'000	*£'000*
Re-organisation and closure:		
System related costs	–	107
Centralisation of group functions	201	212
Redundancy and closure costs	160	224
Re-organisation	75	93
Fixed asset write-offs	20	27
Write-off of other assets	–	53
Pension scheme underfunding	–	178
Dilapidations provision	28	(30)
Provision for legal claims	200	–
Stock write-offs	–	850
Disposal of properties	(5)	–
	679	1,714

All of the exceptional costs were included within administrative expenses (1998: cost of sales £850,000; administrative expenses £864,000).

3. *Finance Charges*

Interest payable and similar charges

	1999	*1998*
	£'000	*£'000*
Bills of exchange	17	27
Bank loans and overdrafts	247	316
Finance leases and hire purchase contracts	3	14
	267	357

4. *Loss on ordinary activities before taxation*

Loss on ordinary activities before taxation is stated after charging:

	1999	*1998*
	£'000	*£'000*
Depreciation and amounts written off tangible fixed assets		
– owned	191	270
– held under finance leases and hire purchase contracts	201	81
Amortisation of goodwill	6	5
Operating lease rentals		
– plant and machinery	510	499
– other	356	452
Auditors' remuneration for audit services	60	90

Amounts payable to Arthur Andersen by the company and its UK subsidiary undertakings in respect of non-audit services were £10,000 (1998: £25,000).

5. *Staff costs*

The average monthly number of employees (including executive directors) was:

	1999 Number	*1998 Number*
Production, assembly and on site service	51	75
Sales and distribution	148	151
Administration	92	105
	291	331

Their aggregate remuneration comprised:

	1999 £'000	*1998 £'000*
Wages and salaries	4,110	4,348
Social security costs	360	384
Other pension costs (see note 27)	93	128
	4,563	4,860

6. *Directors' remuneration, interests and transactions*

Aggregate remuneration

The total amounts for directors' remuneration and other benefits were as follows:

	1999 £'000	*1998 £'000*
Emoluments	425	283
Contributions to personal pension schemes	36	21
Pay in lieu of notice	–	33
Amounts paid to third parties in respect of directors' services	6	11
Total	467	348

The aggregate emoluments of the highest paid director was £165,547 (1998: £122,683), and company pension contributions of £15,375 (1998: £11,250) were made to a money purchase scheme on his behalf.

Number of directors

	1999	*1998*
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	4	6

Directors' interests are disclosed in the Remuneration Report on pages 37 to 39. Directors' share options are also disclosed in note 19.

7. *Tax on loss on ordinary activities*

No current or deferred tax has been provided in either year due to the availability of current and brought forward corporation tax losses.

8. *Loss attributable to RAP Group plc*

The loss for the financial year dealt with in the accounts of the parent company, RAP Group plc, was £1,556,000 (1998: loss of £740,000). As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company.

9. *Loss per share*

The calculations of loss per share are based on the following losses and numbers of shares.

	Basic and Diluted	
	1999 *£'000*	*1998* *£'000*
Loss for the financial year	(1,635)	(1,882)
Exceptional items	679	1,714
Loss for the financial year before exceptional items	(956)	(168)

	1999 *Number of shares*	*1998* *Number of shares*
Weighted average number of shares:		
For basic earnings per share	12,325,841	12,325,841
Exercise of share options	749,000	–
For diluted earnings per share	13,074,841	12,325,841

10. *Intangible fixed assets – goodwill*

	Positive Goodwill *£'000*
Cost	
At 1 January 1999 and at 31 December 1999	56
Amortisation	
At 1 January 1999	22
Charge for the year	6
At 31 December 1999	28
Net book value	
At 31 December 1999	28
At 31 December 1998	34

11. *Tangible fixed assets*

	Land and Buildings Freehold £'000	*Land and Buildings* Long leasehold £'000	*Land and Buildings* Short leasehold £'000	*Plant, office equipment and fixtures* £'000	*Motor vehicles* £'000	*Total* £'000
Group						
Cost or valuation						
At 1 January 1999	1,695	310	180	2,922	449	5,556
Additions	–	–	100	219	31	350
Transfer to current assets	(105)	–	–	–	–	(105)
Disposals	(115)	–	(18)	(66)	(53)	(252)
At 31 December 1999	1,475	310	262	3,075	427	5,549
Depreciation						
At 1 January 1999	–	–	87	2,190	139	2,416
Charge for the year	18	4	30	229	111	392
Disposals	–	–	(2)	(45)	(41)	(88)
At 31 December 1999	18	4	115	2,374	209	2,720
Net book value						
At 31 December 1999	1,457	306	147	701	218	2,829
At 31 December 1998	1,695	310	93	732	310	3,140
Leased assets included above:						
Net book value						
At 31 December 1999	–	306	147	143	193	789
At 31 December 1998	–	310	93	141	273	817

	Land and buildings Freehold £'000	*Plant, office equipment and fixtures* £'000	*Motor vehicles* £'000	*Total* £'000
Company				
Cost or valuation				
At 1 January 1999	193	228	101	522
Additions	–	202	31	233
Disposals	(115)	–	(26)	(141)
Intra-group transfers	–	68	26	94
At 31 December 1999	78	498	132	708
Depreciation				
At 1 January 1999	–	82	12	94
Charge for the year	2	107	30	139
Disposals	–	–	(20)	(20)
Intra-group transfers	–	–	20	20
At 31 December 1999	2	189	42	233
Net book value				
At 31 December 1999	76	309	90	475
At 31 December 1998	193	146	89	428
Leased assets included above:				
Net book value				
At 31 December 1999	–	143	72	215
At 31 December 1998	–	141	65	206

Freehold land, amounting to £377,500 (1998: £430,000) for the group and £22,500 (1998: £50,000) for the company, has not been depreciated.

Freehold and leasehold land and buildings were professionally valued on an open market existing use basis in June 1999 as follows:

	1999		*1998*	
	Freehold	*Long leasehold*	*Freehold*	*Long leasehold*
	£'000	*£'000*	*£'000*	*£'000*
Group				
Valuation at 31 December 1999	1,475	310	1,695	310
Company				
Valuation at 31 December 1999	76	–	193	–

If land and buildings had not been revalued they would have been included at the following amounts:

	1999		*1998*	
	Freehold	*Long leasehold*	*Freehold*	*Long leasehold*
	£'000	*£'000*	*£'000*	*£'000*
Group				
Cost	1,223	278	1,399	278
Depreciation	(159)	(49)	(139)	(45)
Net book value	1,064	229	1,260	233
Company				
Cost	80	–	160	–
Depreciation	(10)	–	(9)	–
Net book value	70	–	151	–

12. *Fixed asset investments*

	Company	
	1999	*1998*
	£'000	*£'000*
Subsidiary undertakings	3,262	3,530

Principal group investments

The parent company and the group have investments in the following subsidiary undertakings, which principally affected the profits or net assets of the group. To avoid a statement of excessive length, details of investments which are not significant have been omitted.

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

*Held directly by RAP Group plc

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

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

All the above group companies are included in the consolidation.

Subsidiary Undertakings

	£'000
Cost	
At 31 December 1999 and 1998	3,530
Amounts written off	
At 1 January 1999	–
Written off	268
At 31 December 1999	268
Net book value	
At 31 December 1999	3,262
At 31 December 1998	3,530

13. *Stocks*

	Group	
	1999	*1998*
	£'000	*£'000*
Raw materials and consumables	25	128
Finished goods and goods for resale	4,513	4,795
	4,538	4,923

There is no material difference between the balance sheet value of stocks and their replacement cost.

14. *Debtors*

	Group		*Company*	
	1999	*1998*	*1999*	*1998*
	£'000	*£'000*	*£'000*	*£'000*
Amounts falling due within one year:				
Freehold property for resale	75	–	–	–
Trade debtors	4,325	5,118	–	–
Amounts owed by group undertakings	–	–	9,541	6,818
Other debtors	203	160	136	90
Prepayments and accrued income	192	332	62	11
	4,795	5,610	9,739	6,919

15. *Creditors: amounts falling due within one year*

	Group		*Company*	
	1999	*1998*	*1999*	*1998*
	£'000	*£'000*	*£'000*	*£'000*
Obligations under finance leases and hire purchase contracts	117	190	94	111
Bank loans and overdrafts	3,343	2,652	3,039	211
Trade creditors	3,922	3,515	215	129
Bills of exchange payable	59	33	–	–
Amounts owed to group undertakings	–	–	4,140	3,241
Taxation and social security	256	408	146	24
Other creditors	110	102	70	52
Accruals and deferred income	215	824	145	117
	8,022	7,724	7,849	3,885

16. *Creditors: amounts falling due after more than one year*

	Group		*Company*	
	1999	*1998*	*1999*	*1998*
	£'000	*£'000*	*£'000*	*£'000*
Obligations under finance leases and hire purchase contracts	86	108	82	66
Bank loans	274	604	274	604
	360	712	356	670

The bank loans are secured on freehold and long leasehold properties of the group.

At the year end the bank loans were repayable in half-yearly instalments up to 30 September 2001. Since the year end, the bank loans have been consolidated with the overdraft under a multi-option facility repayable on demand. Interest is payable quarterly in arrears and is charged at a rate of 2 per cent. per annum above base rate.

There are unlimited cross guarantees and fixed and floating charges over the whole of the company's and group's assets in favour of The Royal Bank of Scotland plc, as security for total bank loans and overdrafts which at 31 December 1999 amounted to £3,617,000 (1998: £3,256,000).

At the year end, borrowings are repayable as follows:

	Group		*Company*	
	1999	*1998*	*1999*	*1998*
	£'000	*£'000*	*£'000*	*£'000*
Bank loans and overdrafts				
Between one and two years	274	302	274	302
Between two and five years	–	302	–	302
	274	604	274	604
On demand or within one year	3,343	2,652	3,039	211
	3,617	3,256	3,313	815
Finance leases				
Between one and two years	86	94	82	52
Between two and five years	–	14	–	14
	86	108	82	66
On demand or within one year	117	190	94	111
	203	298	176	177
Total borrowings including finance leases				
Between one and two years	360	396	356	354
Between two and five years	–	316	–	316
	360	712	356	670
On demand or within one year	3,460	2,842	3,133	322
	3,820	3,554	3,489	992

Since the year end, all bank loans have been consolidated with the overdraft facility and are repayable within one year.

17. *Derivatives and other financial instruments*

Interest rate profile

The group has overdraft facilities with its bankers to cover any seasonal financing requirements or timing differences.

Financial assets

A negligible proportion of the group's assets is in currencies other than sterling and it is not considered that any hedging of these assets is required.

Currency exposure

The group's sales are largely invoiced in sterling. Where products are purchased in a foreign currency, the group reduces the exchange exposure by purchasing the relevant currency at the time the purchase order is placed.

The following shows the group's exposures at the year end.

	US$ *£'000*	*Others* *£'000*
Net foreign currency monetary liabilities	118	90

18. *Provisions for liabilities and charges*

	Pensions *£'000*	*Other* *£'000*	*Total* *£'000*
Group			
At 1 January 1999	300	–	300
Charged to profit and loss account	–	200	200
Utilised in year	(18)	–	(18)
At 31 December 1999	282	200	482
Company			
At 1 January 1999	–	–	–
Charged to profit and loss account	–	200	200
At 31 December 1999	–	200	200

Details of pensions are set out in note 27.

The other provision relates to amounts provided in respect of legal claims resolved since the year end.

There is no provided or unprovided deferred tax (1998: £nil) in the group, due to the availability of significant surplus tax losses.

There is no provided or unprovided deferred tax in the company (1998: £nil).

19. *Called-up share capital*

	1999 *£'000*	*1998* *£'000*
Authorised		
15,000,000 ordinary shares of 5p each	750	750
Allotted, called-up and fully-paid		
12,325,841 ordinary shares of 5p each	616	616

Options have been granted under the RAP Group plc Executive Share Option Scheme 1994 and the RAP Group plc Sharesave Scheme 1994 to subscribe for ordinary shares of the company as follows:

RAP Group plc Executive Share Option Scheme 1994

Number of shares under option	*Subscription price per share*	*Exercise period*
84,300	142p	3 to 10 years following grant on 6 December 1994
749,000	20.5p	After 12 March 2000 and if the market price reaches at least 20p
428,000	20.5p	After 12 March 2000 and if the market price reaches at least 25p
212,500	20.5p	After 12 March 2000 and if the market price reaches at least 30p

No options were exercised by members of the Executive Scheme during the year. 2,700 options lapsed unexercised during the year. 739,500 of the share options at a subscription price of 20.5p were granted equally to Messrs DJ Bolton, JR Grimshaw and BE Shaw on 30 July 1999.

The share options granted to Mr JA Savage in 1998 were revised on 30 July 1999 such that the market prices for exercise were reduced to the same level as for the options granted to Messrs DJ Bolton, JR Grimshaw and BE Shaw.

RAP Group plc Sharesave Scheme 1994

Number of shares under option	*Subscription price per share*	*Exercise period*
58,003	128p	6 months following fifth anniversary of Save-As-You-Earn contract

No options were exercised by members of the Sharesave Scheme during the year. 20,813 lapsed unexercised during the year.

No shares in RAP Group plc are held by subsidiary undertakings.

20. *Reserves*

	Share premium account £'000	*Revaluation reserve £'000*	*Profit and loss account £'000*	*Total £'000*
Group				
At 1 January 1999	5,259	512	(1,416)	4,355
Retained loss for the year	–	–	(1,635)	(1,635)
Disposal of revalued property	–	(30)	30	–
Revaluation of freehold land and buildings	–	(10)	–	(10)
Amortisation of revaluation surplus	–	(10)	10	–
At 31 December 1999	5,259	462	(3,011)	2,710

The cumulative amount of goodwill resulting from acquisitions which has been written off is £930,000 (1998: £930,000).

	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
Company				
At 1 January 1999	5,259	42	710	6,011
Retained loss for the year	–	–	(1,556)	(1,556)
Disposal of revalued property	–	(30)	30	–
Amortisation of revaluation surplus	–	(1)	1	–
At 31 December 1999	5,259	11	(815)	4,455

21. *Reconciliation of movements in group shareholders funds*

	1999 *£'000*	*1998* *£'000*
Loss for the financial year	(1,635)	(1,882)
Revaluation of land and buildings	(10)	512
Net reduction to shareholders' funds	(1,645)	(1,370)
Opening shareholders' funds	4,971	6,341
Closing shareholders' funds	3,326	4,971

22. *Reconciliation of operating loss to operating cash flows*

	1999 *£'000*	*1998* *£'000*
Operating loss	(1,368)	(1,525)
Depreciation charges	392	351
Write down of property held for resale	53	–
Amortisation of goodwill	6	5
(Profit) loss on sale of tangible fixed assets	(17)	17
Decrease in stocks	385	1,609
Decrease in debtors	890	475
Decrease in creditors	(330)	(894)
Increase in provisions	182	100
Net cash inflow from operating activities	193	138

23. *Analysis of cash flows*

	1999	*1998*
	£'000	*£'000*
Returns on investments and servicing of finance		
Interest paid	264	343
Interest element of finance lease rentals	3	14
Net cash outflow	267	357
Taxation		
UK corporation tax paid	–	50
Net cash outflow	–	50
Capital expenditure and financial investment		
Purchase of tangible fixed assets	252	216
Sale of tangible fixed assets	(158)	(1,215)
Net cash outflow (inflow)	94	(999)
Financing		
Repayment of secured loan	225	1,091
Capital element of finance lease rental payments	193	156
Net cash outflow	418	1,247

24. *Analysis and reconciliation of net debt*

	1 January 1999	*Cash flow*	*Other non-cash changes*	*31 Dec 1999*
	£'000	*£'000*	*£'000*	*£'000*
Overdraft	(2,344)	(586)	–	(2,930)
Bank loans	(912)	225	–	(687)
Finance leases	(298)	193	(98)	(203)
	(3,554)	(168)	(98)	(3,820)
Debt due after 1 year	(604)	330	–	(274)
Debt due within 1 year	(2,652)	(691)	–	(3,343)
Finance leases	(298)	193	(98)	(203)
Net debt	(3,554)	(168)	(98)	(3,820)

	1999	*1998*
	£'000	*£'000*
Decrease in cash in the year	(586)	(517)
Cash outflow from decrease in debt and lease financing	418	1,247
Change in net debt resulting from cash flows	(168)	730
New finance leases	(98)	(332)
Movement in net debt in year	(266)	398
Net debt at 1 January 1999	(3,554)	(3,952)
Net debt at 31 December 1999	(3,820)	(3,554)

25. *Major non-cash transactions*

During the year the group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £98,000 (1998: £332,000).

26. *Financial commitments*

Capital commitments are as follows:

	Group		*Company*	
	1999	*1998*	*1999*	*1998*
	£'000	*£'000*	*£'000*	*£'000*
Contracted for but not provided for	19	14	–	14

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

	1999		*1998*	
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£'000	*£'000*	*£'000*	*£'000*
Group				
Expiry date				
– within one year	19	73	23	145
– between two and five years	100	327	102	350
– after five years	273	2	234	3
	392	402	359	498
Company				
Expiry date				
– within one year	–	8	–	–
– between two and five years	–	46	–	28
– after five years	–	–	–	–
	–	54	–	28

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

27. *Pension arrangements*

The group operates a number of defined contribution schemes for which the pension cost charge for the year amounted to £93,000 (1998; £128,000).

The Welpac plc scheme, which has no contributing members, provided benefits based on final pensionable earnings and ordinary contributions to the plan ceased during 1996. The last valuation was carried out in June 1999 which compares the existing assets with the accrued liabilities and such liabilities include transfer values calculated at the full MFR basis. The market value of the scheme's assets was insufficient to cover the accrued liabilities and a further provision of £178,000 was, therefore, made in 1998 to cover the accrued benefits.

28. *Contingent liabilities*

Outstanding contingent liabilities at 31 December 1999 on HM Customs and Excise bonds amounted to £Nil and on irrevocable letters of credit amounted to £62,000 (1998: £445,000 and £107,000 respectively).

29. *Subsequent events*

(a) On 19 April 2000 contracts were exchanged for the conditional sale of a portion of the property at 50 Union Street, Hamilton, Scotland for the sum of £471,500. The sale is conditional on the granting of planning permission to develop the site being granted within six months. The remaining part of the property at 50 Union Street, Hamilton was sold with immediate effect for £3,500.

(b) On 3 May 2000 the entire issued share capital of RAP Conveyors Limited was sold for a consideration of approximately £500,000. The proceeds of the sale net of expenses have been used to reduce group indebtedness.

(c) On 26 June 2000 the company acquired Touchline Network Television Limited for an initial consideration of 500,000 ordinary shares of 5p each.

(d) On 23 June 2000 the board approved a proposed rights issue of 12,825,841 shares at 18p to raise £1,900,000, net of estimated expenses. The rights issue has been fully underwritten and as at 23 June irrevocable undertakings have been received to vote in favour of the rights issue in excess of 50 per cent. of shareholdings.

30. *Unaudited pro forma balance sheet*

The unaudited pro forma balance sheet includes the following adjustments to the balance sheet at 31 December 1999 in respect of the subsequent events referred to in note 29(b), (c) and (d) above:

	Audited 1999 £'000	*Proposed rights issue £'000*	*Sale of RAP Conveyors Limited £'000*	*Acquisition of Touchline Network Television Limited £'000*	*Unaudited Pro forma 1999 £'000*
Fixed assets	2,857	–	(102)	80	2,835
Current assets	9,333	–	(1,273)	84	8,144
Creditors: amounts falling due within one year	(8,022)	1,900	1,068	(54)	(5,108)
Net current assets	1,311	1,900	(205)	30	3,036
Total assets less current liabilities	4,168	1,900	(307)	110	5,871
Creditors: amounts falling due after more than one year	(360)	–	4	–	(356)
Provisions for liabilities and charges	(482)	–	–	–	(482)
Net assets	3,326	1,900	(303)	110	5,033
Capital and reserves	3,326	1,900	(303)	110	5,033

31. *Related party transactions*

There were no transactions with related parties during the year.

(ii) FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

BOARD REPORT ON REMUNERATION

The board maintains a Remuneration Committee consisting of the non-executive directors. The committee is responsible for determining on behalf of the board the pay and other benefits of executive directors.

Remuneration

The remuneration and emoluments of executive directors are determined by the Remuneration Committee. The remuneration of the non-executive directors is determined by the board.

The salaries of the executive directors are determined by the Committee after giving full consideration to the best practice provisions annexed to the listing rules, and after a review of the performance of the individual. It is the aim of the Committee to reward directors competitively; consideration is, therefore, given to the median remuneration paid to senior management of comparable public companies.

Each of the executive directors has a service contract providing 12 months notice.

It is proposed that the company will grant its executive directors options under its Executive Share Option Scheme.

The executive directors noted below are entitled to a performance related bonus which is determined by reference to the following criteria:

- performance of the group
- qualitative performance of the Executive Director.

The remuneration of the non-executive directors is determined by the board as a whole, based on outside advice and review of current practices in other companies.

Directors' emoluments

Name of director	*Fees/Basic salary*	*Taxable benefits*	*Annual bonuses*	*Pension contributions*	*1998 total*	*1997 total*
	£	£	£	£	£	£
Executive						
J A Savage	112,500	10,183	–	11,250	133,933	–
D J Bolton	20,000	3,367	5,000	1,000	29,367	–
J R Grimshaw	13,403	3,030	–	670	17,103	–
B E Shaw	8,860	4,516	–	443	13,819	–
D J Emmett	32,250	2,304	–	3,225	37,779	149,333
M G Bickerton	43,537	5,265	–	4,354	53,156	69,857
Non-executive						
P D Bulmer	–	–	–	–	–	–
R W Jackson	–	13,165	–	–	13,165	15,594
F K J Arp	5,792	–	–	–	5,792	20,000
L J Stammers	–	–	–	–	–	5,222
Aggregate emoluments	236,342	41,830	5,000	20,942	304,114	260,006
Fees to third parties					10,500	10,500

Fees to third parties comprise amounts paid at ABN Amro Private Equity (UK) Limited under an agreement to provide the group with the services of Mr Bulmer.

In addition to his emoluments shown above, Mr Bickerton was paid £33,225 by the company as pay in lieu of notice following his resignation from the board on 30 September 1998.

Directors' interests

The directors who held office at 31 December 1998 had the following interests in the shares of the company:

	Ordinary shares of 5p each 31 December 1998 Number	*Ordinary shares of 5p each 1 January 1998 or subsequent date of appointment Number*
J A Savage	565,000	–
D J Bolton	200,000	–
J R Grimshaw	125,000	–
B E Shaw	100,000	–
P D Bulmer	–	–
R W Jackson	60,000	–

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

	31 December 1998	*31 December 1997*
Ordinary shares of 5p each	2,510,000	2,510,000

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

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

There have been no changes in the interests of directors between 31 December 1998 and 16 June 1999.

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the company granted to or held by the directors. Details of the options are as follows:

Name of director	*1 January 1998*	*Granted*	*Exercised*	*Lapsed*	*31 December 1998*	*Exercise price*	*Gains on exercise 1998*	*Gains on exercise 1997*
J A Savage	–	650,000	–	–	650,000	20.5p	–	–

The options are exercisable after 12 March 2000 as follows:

Name of Shares	*Exercise Price*	*Exercise Criteria*
350,000	20.5p	If the market price reaches at least 50p
200,000	20.5p	If the market price reaches at least 70p
100,000	20.5p	If the market price reaches at least 90p

The market price of the ordinary shares at 31 December 1998 was 17.5p and the range during the year was 13.5p to 44.5p

No director exercised share options during the current or previous year.

The Remuneration Committee has agreed that it is appropriate for each of Messrs Bolton, Grimshaw and Shaw to receive share options over 246,500 ordinary shares of 5p each. These are exercisable subject to the company's share price achieving pre-determined levels at the appropriate date of exercise. The Committee has also agreed that it is appropriate to amend the pre-determined levels of the company's share price for the share options granted to Mr Savage on 29 July 1998. Full details of the proposals are to be considered within the special business at the Annual General Meeting.

Directors' pension entitlement

The company makes contributions to defined contribution schemes for each of the executive directors. There are no pension entitlements for the non-executive directors.

DIRECTORS' RESPONSIBILITIES

Accounts, including adoption of going concern basis

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period.

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

In preparing the accounts, the directors are required to: select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; and state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

Other matters

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for the taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT TO THE SHAREHOLDERS OF RAP GROUP PLC:

We have audited the accounts on pages 65 to 82 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 68 to 70. We have also examined the amounts disclosed relating to the emoluments, share options and pension benefits of the directors which form part of the remuneration report on pages 61 to 63.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 63, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 31 December 1998 and of the group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered Accountants and Registered Auditors

Bank House, 9 Charlotte Street, Manchester M1 4EU

29 June 1999

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1998

			1998			*1997*	
			Exceptional	*Total*		*Exceptional*	*Total*
	Notes	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Turnover – continuing operations	1	24,863	–	24,863	27,356	–	27,356
Cost of sales	2	(17,472)	(850)	(18,322)	(18,816)	(1,379)	(20,195)
Gross profit	2	7,391	(850)	6,541	8,540	(1,379)	7,161
Selling and distribution costs	2	(2,593)	–	(2,593)	(2,361)	–	(2,361)
Administrative expenses	2	(4,609)	(864)	(5,473)	(5,101)	(511)	(5,612)
Operating profit/(loss) – continuing operations		189	(1,714)	(1,525)	1,078	(1,890)	(812)
Interest payable and similar charges	3			(357)			(460)
Loss on ordinary activities before taxation	4			(1,882)			(1,272)
Tax on loss on ordinary activities	7			–			–
Loss for the financial year				(1,882)			(1,272)
Dividends paid and proposed	9			–			(86)
Retained loss for the financial year	21			(1,882)			(1,358)
(Loss)/earnings per share							
Basic and diluted	10			(15.3p)			(10.3p)
Basic before exceptional items	10			(1.4p)			5.0p

The accompanying notes are an integral part of this consolidated profit and loss account.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1998	*1997*
	£'000	*£'000*
Retained loss for the financial year	(1,882)	(1,358)
Unrealised surplus on revaluation of freehold and long leasehold properties	512	–
Total recognised losses since the last annual report and accounts	(1,370)	(1,358)

CONSOLIDATED BALANCE SHEET

31 December 1998

	Notes	*1998* *£'000*	*1997* *£'000*
Fixed assets			
Goodwill	11	34	39
Tangible assets	12	3,140	2,603
		3,174	2,642
Current assets			
Stocks	14	4,923	6,532
Debtors	15	5,610	7,145
		10,533	13,677
Creditors: Amounts falling due within one year	16	(7,724)	(8,245)
Net current assets		2,809	5,432
Total assets less current liabilities		5,983	8,074
Creditors: Amounts falling due after more than one year	17	(712)	(1,533)
Provisions for liabilities and charges	19	(300)	(200)
Net assets		4,971	6,341
Capital and reserves			
Called-up share capital	20	616	616
Share premium account	21	5,259	5,259
Revaluation reserve	21	512	–
Profit and loss account	21	(1,416)	466
Equity shareholders' funds		4,971	6,341

The accounts on pages 65 to 82 were approved by the board of directors on 29 June 1999, and signed on its behalf by:

DJ Bolton
Director

29 June 1999

The accompanying notes are an integral part of this consolidated balance sheet.

COMPANY BALANCE SHEET
31 December 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	12	428	220
Investments	13	3,530	3,530
		3,958	3,750
Current assets			
Debtors	15	6,919	6,154
Cash at bank and in hand		305	2,849
		7,224	9,003
Creditors: amounts falling due within one year	16	(3,885)	(3,916)
Net current assets		3,339	5,087
Total assets less current liabilities		7,297	8,837
Creditors: amounts falling due after more than one year	17	(670)	(1,512)
Net assets		6,627	7,325
Capital and reserves			
Called up share capital	20	616	616
Share premium account	21	5,259	5,259
Revaluation reserve	21	42	–
Profit and loss account	21	710	1,450
Equity shareholders' funds		6,627	7,325

The accounts on pages 65 to 82 were approved by the board of directors on 29 June 1999, and signed on its behalf by:

DJ Bolton
Director

29 June 1999

The accompanying notes are an integral part of this balance sheet.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
Net cash inflow from operating activities	23	138	2,449
Returns on investments and servicing of finance	24	(357)	(451)
Taxation	24	(50)	–
Net capital expenditure and financial investment	24	999	(62)
Equity dividends paid		–	(197)
Cash inflow before financing		730	1,739
Financing	24	(1,247)	(588)
(Decrease)/increase in cash in the year	25	(517)	1,151

The accompanying notes are an integral part of this consolidated cash flow statement.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with applicable accounting standards.

Basis of consolidation

The group accounts consolidate the accounts of RAP Group plc and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is between seven and a maximum of twenty years. Provision is made for any impairment.

Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale. Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account in the periods expected to benefit.

Goodwill arising on acquisitions in the year ended 31 December 1997 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings	2% per annum
Long leasehold land and buildings	2% per annum
Plant and machinery and office equipment and fixtures	10-33% per annum
Motor vehicles	25-33% per annum

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

Revaluation of properties

Individual freehold and long leasehold properties are revalued at least every five years with the surplus or deficit on book value being transferred to the revaluation reserve, except that a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account. A deficit which represents a clear consumption of economic benefits is charged to the profit and loss account regardless of any such previous surplus. Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the profit and loss account as a movement on reserves. On the disposal or recognition of a provision for impairment of a revalued fixed asset, any related balance remaining in the revaluation reserve is also transferred to the profit and loss account as a movement on reserves.

Investments

Fixed asset investments are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads as appropriate. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Advance corporation tax payable on dividends paid or provided for in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous years when it is recovered against corporation tax liabilities.

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced, except that the deferred tax effects of timing differences arising from pensions and other post-retirement benefits are always recognised in full.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Pension costs

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

A further scheme is operated for certain Welpac employees providing benefits based on final pensionable earnings. The scheme is funded, with the assets of the scheme held separately from those of the group in a separate trustee administered fund. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Derivative financial instruments

The group uses derivative financial instruments to reduce exposure to foreign exchange risk movements. The group does not hold or issue derivative financial instruments for speculative purposes.

NOTES TO ACCOUNTS

1. *Segment information*

Classes of business:

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

Geographical segments:

The destination of turnover by geographical market is as follows:

	1998	*1997*
	£'000	*£'000*
United Kingdom	24,500	26,919
Europe and other	363	437
	24,863	27,356

The profit/(loss) and net assets of each geographical market have not been disclosed as they are not considered material.

2. *Cost of sales, gross profit and other operating expenses*

The board has reviewed key areas of the business including the restructuring and modernisation of the business and stock management which has resulted in exceptional costs as follows:

Cost of sales includes £850,000 (1997: £1,379,000) in respect of write offs of stock. The review of stock was started in 1997 resulting in write offs at Burnley of £1,379,000 and was extended to cover the whole business in 1998 in conjunction with the business consolidation process resulting in write offs of £850,000.

Administrative expenses include £864,000 (1997: £511,000) in respect of the reorganisation of the group including the centralisation of group functions at Burnley and the closure of uneconomic branches and businesses. The directors do not consider that the branch closures have had a material effect upon the nature and focus of the group's operations.

There are no effects of the exceptional items on the amounts charged to the profit and loss account for taxation.

3. *Finance charges (net)*

Interest payable and similar charges

	1998	*1997*
	£'000	*£'000*
Bills of exchange	27	39
Bank loans and overdrafts	316	411
Finance leases and hire purchase contracts	14	7
Other loans	–	3
	357	460

4. *Loss on ordinary activities before taxation*

Loss on ordinary activities before taxation is stated after charging (crediting):

	1998 *£'000*	*1997* *£'000*
Depreciation and amounts written off tangible fixed assets		
– owned	270	616
– held under finance leases and hire purchase contracts	81	29
Amortisation of goodwill	5	6
Operating lease rentals		
– plant and machinery	499	412
– other	452	424
Auditors' remuneration for audit services	90	115

Amounts payable to Arthur Andersen by the company and its UK subsidiary undertakings in respect of non-audit services were £25,000 (1997: to KPMG £10,000).

5. *Staff costs*

The average monthly number of employees (including executive directors) was:

	1998 *Number*	*1997* *Number*
Production, assembly and on site service	75	88
Sales and distribution	151	170
Administration	105	117
	331	375

	1998 *£'000*	*1997* *£'000*
Their aggregate remuneration comprised:		
Wages and salaries	4,348	4,649
Social security costs	384	423
Other pension costs (see note 28)	128	108
	4,860	5,180

6. *Directors' remuneration, interests and transactions*

Aggregate remuneration

The total amounts for directors' remuneration and other benefits were as follows:

	1998 *£'000*	*1997* *£'000*
Emoluments	283	242
Contributions to personal pension schemes	21	18
Pay in lieu of notice	33	–
Amounts paid to third parties in respect of directors' services	11	11
Total	348	271

The aggregate emoluments of the highest paid director was £122,683 (1997: £136,773), and company pension contributions of £11,250 (1997: £12,560) were made to a money purchase scheme on his behalf.

	1998	*1997*
Number of directors		
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	6	2

Directors' interests are disclosed in the Renumeration Report on pages 61 to 63. Directors' share options are also disclosed in note 20.

7. *Tax on loss on ordinary activities*

No current or deferred tax has been provided in either year due to the availability of current and brought forward corporation tax losses.

8. *Loss attributable to RAP Group plc*

The loss for the financial year dealt with in the accounts of the parent company, RAP Group plc, was £740,000 (1997: loss of £214,000). As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company.

9. *Dividends paid and proposed on equity shares*

	1998 *£'000*	*1997* *£'000*
Dividends paid and proposed		
Equity shares		
– interim paid of nil (1997: 0.7p) per ordinary share	–	86
– final proposed of nil (1997: nil) per ordinary share	–	–
	–	86

10. *(Loss)/earnings per share*

The calculation of (loss)/earnings per share are based on the following (losses)/profits and numbers of shares.

	Basic and Diluted *1998* *£'000*	*1997* *£'000*
Loss for the financial year	(1,882)	(1,272)
(Loss)/profit for the financial year before exceptional items	(168)	618

	1998 *Number of shares*	*1997* *Number of shares*
Weighted average number of shares	12,325,841	12,325,841

11. *Intangible fixed assets – goodwill*

	Positive goodwill *£'000*
Cost	
At 1 January 1998 and at 31st December 1998	56
Amortisation	
At 1 January 1998	17
Charge for the year	5
At 31 December 1998	22
Net book value	
At 31 December 1998	34
At 31 December 1997	39

12. *Tangible fixed assets*

Group	*Land and Buildings* Freehold £'000	Long leasehold £'000	Short leasehold £'000	*Plant, office equipment and fixtures* £'000	*Motor vehicles* £'000	*Total* £'000
Cost or valuation						
At 1 January 1998	1,520	278	166	2,764	302	5,030
Additions	–	–	16	291	241	548
Revaluations	296	32	–	–	–	328
Disposals	(121)	–	(2)	(133)	(94)	(350)
At 31 December 1998	1,695	310	180	2,922	449	5,556
Depreciation						
At 1 January 1998	153	41	74	2,014	145	2,427
Charge for the year	22	4	15	226	84	351
Revaluations	(139)	(45)	–	–	–	(184)
Disposals	(36)	–	(2)	(50)	(90)	(178)
At 31 December 1998	–	–	87	2,190	139	2,416
Net book value						
At 31 December 1998	1,695	310	93	732	310	3,140
At 31 December 1997	1,367	237	92	750	157	2,603
Leased assets included above:						
Net book value						
At 31 December 1998	–	310	93	141	273	817
At 31 December 1997	–	237	92	39	145	513
Company						
Cost or valuation						
At 1 January 1998	160	–	–	75	67	302
Additions	–	–	–	153	102	255
Revaluations	33	–	–	–	–	33
Disposals	(121)	–	–	–	(68)	(189)
Intra-group transfers	121	–	–	–	–	121
At 31 December 1998	193	–	–	228	101	522
Depreciation						
At 1 January 1998	7	–	–	27	48	82
Charge for the year	2	–	–	55	18	75
Revaluations	(9)	–	–	–	–	(9)
Disposals	(37)	–	–	–	(54)	(91)
Intra-group transfers	37	–	–	–	–	37
At 31 December 1998	–	–	–	82	12	94
Net book value						
At 31 December 1998	193	–	–	146	89	428
At 31 December 1997	153	–	–	48	19	220
Leased assets included above						
Net book value						
At 31 December 1998	–	–	–	141	65	206
At 31 December 1997	–	–	–	39	–	39

Freehold land, amounting to £505,000 (1997: £507,000) for the group and £50,000 (1997: £55,000) for the company, has not been depreciated.

Freehold and long leasehold land and buildings were professionally valued by Burton, Barnes & Vigers, Chartered Surveyors, on an open market basis in June 1999 with the revaluation being reflected in the 1998 accounts as follows:

	1998		*1997*	
	Freehold	*Long leasehold*	*Freehold*	*Long leasehold*
	£'000	*£'000*	*£'000*	*£'000*
Group				
Valuation 1998	1,695	310	–	–
Cost	–	–	1,520	278
Cost or revaluation at 31 December 1998	1,695	310	1,520	278
Company				
Valuation 1998	193	–	–	–
Cost	–	–	160	–
Cost or revaluation at 31 December 1998	193	–	160	–

If land and buildings had not been revalued they would have been included at the following amounts:

	1998		*1997*	
	Freehold	*Long leasehold*	*Freehold*	*Long leasehold*
	£'000	*£'000*	*£'000*	*£'000*
Group				
Cost	1,399	278	1,520	278
Depreciation	(139)	(45)	(153)	(41)
Net book value	1,260	233	1,367	237
Company				
Cost	160	–	160	–
Depreciation	(9)	–	(7)	–
Net book value	151	–	153	–

13. *Fixed asset investments*

	Company	
	1998	*1997*
	£'000	*£'000*
Subsidiary undertakings	3,530	3,530

Principal group investments

The parent company and the group have investments in the following subsidiary undertakings, which principally affected the profits or net assets of the group. To avoid a statement of excessive length, details of investments which are not significant have been omitted.

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

*Held directly by RAP Group plc

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

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

All the above group companies are included in the consolidation.

Subsidiary undertakings

	£000
Cost and net book value	
At 31 December 1998 and 1997	3,530

14. *Stocks*

	Group		*Company*	
	1998	*1997*	*1998*	*1997*
	£'000	*£'000*	*£'000*	*£'000*
Raw materials and consumables	128	133	–	–
Finished goods and goods for resale	4,795	6,399	–	–
	4,923	6,532	–	–

There is no material difference between the balance sheet value of stocks and their replacement cost.

15. Debtors

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Amounts falling due within one year:				
Freehold property for resale	–	1,060	–	–
Trade debtors	5,118	5,474	–	–
Amounts owed by group undertakings	–	–	6,818	6,040
ACT recoverable	–	39	–	–
Other debtors	160	320	90	78
Prepayments and accrued income	332	252	11	36
	5,610	7,145	6,919	6,154

16. Creditors: Amounts falling due within one year

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Obligations under finance leases and hire purchase contracts	190	89	111	12
Bank loans and overdrafts	2,652	2,330	211	503
Trade creditors	3,515	4,415	129	8
Bills of exchange payable	33	239	–	–
Amounts owed to group undertakings	–	–	3,241	3,052
Taxation and social security	408	577	24	151
Other creditors	102	60	52	–
Accruals and deferred income	824	535	117	190
	7,724	8,245	3,885	3,916

17. Creditors: Amounts falling due after more than one year

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Obligations under finance leases and hire purchase contracts	108	33	66	12
Bank loans	604	1,500	604	1,500
	712	1,533	670	1,512

The bank loans are secured on freehold and long leasehold properties of the group.

The bank loans are repayable in half-yearly instalments up to 30 September 2001. Interest is payable quarterly in arrears and is charged at a rate of 1.5 per cent. per annum above LIBOR.

There are unlimited cross guarantees and fixed and floating charges over the whole of the company's and group's assets in favour of The Royal Bank of Scotland plc, as security for total bank loans and overdrafts which at 31 December 1998 amounted to £3,256,000 (1997: £3,830,000).

Borrowings are repayable as follows:

	Group		*Company*	
	1998	*1997*	*1998*	*1997*
	£'000	*£'000*	*£'000*	*£'000*
Bank loans				
Between one and two years	302	499	302	499
Between two and five years	302	984	302	984
After five years	–	17	–	17
	604	1,500	604	1,500
On demand or within one year	309	503	309	503
	913	2,003	913	2,003
Finance leases				
Between one and two years	94	–	52	–
Between two and five years	14	33	14	12
After five years	–	–	–	–
	108	33	66	12
On demand or within one year	190	89	111	12
	298	122	177	24
Total borrowings including finance leases				
Between one and two years	396	499	354	499
Between two and five years	316	1,017	316	996
After five years	–	17	–	17
	712	1,533	670	1,512
On demand or within one year	499	592	420	515
	1,211	2,125	1,090	2,027

18. *Derivatives and other financial instruments*

The Group's policy is to hedge foreign exchange transactions through the use of the forward market and the forward purchase of currency. The Group operates clearly established treasury procedures as part of its overall group accounting procedures.

19. *Provisions for liabilities and charges*

	Pensions	*Other*	*Total*
	£'000	*£'000*	*£'000*
Group			
At 1 January 1998	140	60	200
Charged to profit and loss account	178	–	178
Released unused	–	(60)	(60)
Utilised in year	(18)	–	(18)
At 31 December 1998	300	–	300

Details of pensions are set out in note 28.

There is no provided or unprovided deferred tax (1997: unprovided deferred tax of £228,000) in the group, due to the availability of significant surplus tax losses.

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

20. *Called-up share capital*

	1998 £'000	1997 £'000
Authorised		
15,000,000 ordinary shares of 5p each	750	750
Allotted, called-up and fully-paid		
12,325,841 ordinary shares of 5p each	616	616

Options have been granted under the RAP Group plc Executive Share Option Scheme 1994 and the RAP Group plc Sharesave Scheme 1994 to subscribe for ordinary shares of the company as follows:

RAP Group plc Executive Share Option Scheme 1994

Number of shares under option	*Subscription price per share*	*Exercise period*
87,000	142p	3 to 10 years following grant on 6 December 1994
350,000	20.5p	After 12 March 2000 and if the market price reaches at least 50p
200,000	20.5p	After 12 March 2000 and if the market price reaches at least 70p
100,000	20.5p	After 12 March 2000 and if the market price reaches at least 90p

No options were exercised by members of the Executive Scheme during the year. 48,500 options lapsed unexercised during the year. The share options at a subscription price of 20.5p were granted to Mr JA Savage on 29 July 1998.

RAP Group plc Sharesave Scheme 1994

Number of shares under option	*Subscription price per share*	*Exercise period*
78,816	128p	6 months following fifth anniversary of Save-As-You-Earn contract

No options were exercised by members of the Sharesave Scheme during the year. 61,614 lapsed unexercised during the year.

No shares in RAP Group plc are held by subsidiary undertakings.

21. *Reserves*

	Share premium account £'000	*Revaluation reserve £'000*	*Profit and loss account £'000*	*Total £'000*
Group				
At 1 January 1998	5,259	–	466	5,725
Retained loss for the year	–	–	(1,882)	(1,882)
Revaluation of land and buildings	–	512	–	512
At 31 December 1998	5,259	512	(1,416)	4,355

The cumulative amount of goodwill resulting from acquisitions which has been written off is £930,000 (1997: £930,000).

	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
Company				
At 1 January 1998	5,259	–	1,450	6,709
Retained loss for the year	–	–	(740)	(740)
Revaluation of land and buildings	–	42	–	42
At 31 December 1998	5,259	42	710	6,011

22. *Reconciliation of movements in group shareholders' funds*

	1998 £'000	1997 £'000
Loss for the financial year	(1,882)	(1,272)
Dividends paid and proposed on equity shares	–	(86)
Revaluation of land and buildings	512	–
Net reduction to shareholders' funds	(1,370)	(1,358)
Opening shareholders' funds	(6,341)	(7,699)
Closing shareholders' funds	4,971	6,341

23. *Reconciliation of operating loss to operating cash flows*

	1998 £'000	1997 £'000
Operating loss	(1,525)	(812)
Depreciation charges	351	645
Write down of property held for resale	–	69
Amortisation of goodwill	5	6
Loss/(profit) on sale of tangible fixed assets	17	(51)
Decrease in stocks	1,609	2,048
Decrease in debtors	475	1,175
Decrease in creditors	(894)	(765)
Increase in provisions	100	134
Net cash inflow from operating activities	138	2,449

24. *Analysis of cash flows*

	1998 £'000	1997 £'000
Returns on investments and servicing of finance		
Interest paid	343	444
Interest element of finance lease rentals	14	7
Net cash outflow	357	451
Taxation		
UK Corporation tax paid	50	–
Net cash outflow	50	–
Capital expenditure and financial investment		
Purchase of tangible fixed assets	216	115
Sale of tangible fixed assets	(1,215)	(53)
Net cash (inflow)/outflow	(999)	62
Financing		
Repayment of secured loan	1,091	504
Capital element of finance lease rental payments	156	84
Net cash outflow	1,247	588

25. *Analysis and reconciliation of net debt*

	1 January 1998 £'000	Cash flow £'000	Other non-cash changes £'000	31 December 1998 £'000
Overdraft	(1,827)	(517)	–	(2,344)
Bank loans	(2,003)	1,091	–	(912)
Finance leases	(122)	156	(332)	(298)
	3,952	730	(332)	(3,554)
Debt due after 1 Year	(1,500)	896	–	(604)
Debt due within 1 Year	(2,330)	(322)	–	(2,652)
Finance leases	(122)	156	(332)	(298)
Net debt	(3,952)	730	(332)	(3,554)

	1998 £'000	1997 £'000
Decrease in cash in the year	517	(1,151)
Cash inflow from increase in debt and lease financing	(1,247)	(588)
Change in net debt resulting from cash flows	(730)	(1,739)
New finance leases	332	119
Movement in net debt in year	(398)	(1,620)
Net debt at 1 January 1998	3,952	5,572
Net debt at 31 December 1998	3,554	3,952

26. *Major non-cash transactions*

During the year the group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £332,000 (1997: £116,000).

27. *Financial commitments*

Capital commitments are as follows:

	Group		*Company*	
	1998	*1997*	*1998*	*1997*
	£'000	*£'000*	*£'000*	*£'000*
Contracted for but not provided for				
– other	14	27	14	–
	14	27	14	–

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

	1998		*1997*	
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£'000	*£'000*	*£'000*	*£'000*
Group				
Expiry date				
– within one year	23	145	53	35
– between two and five years	102	350	76	371
– after five years	234	3	280	–
	359	498	409	406
Company				
Expiry date				
– within one year	–	–	–	–
– between two and five years	–	28	–	–
– after five years	–	–	–	–
	–	28	–	–

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

28. *Pension arrangements*

The group operates a number of defined contribution schemes for which the pension cost charge for the year amounted to £128,000 (1997: £108,000).

The Welpac plc scheme, which has no contributing members, provided benefits based on final pensionable earnings and ordinary contributions to the plan ceased during 1996. The last valuation was carried out in June 1999 which compares the existing assets with the accrued liabilities and such liabilities include transfer values calculated at the full MFR basis. The market value of the scheme's assets was insufficient to cover the accrued liabilities and a further provision of £178,000 has, therefore, been made in 1998 to cover the accrued benefits (1997: £92,000).

29. *Contingent liabilities*

Outstanding contingent liabilities at 31 December 1998 on HM Customs and Excise bonds amounted to £445,000 and on irrevocable letters of credit amounted to £107,000 (1997: £345,000 and £125,000 respectively).

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

30. *Subsequent events*

On 17 June 1999 the Maidstone property was sold for £120,000. There are no taxable profits arising.

On 1 January 1999 the group started the divisionalisation of its various subsidiary companies into the holding company to support the process of business consolidation.

31. *Related party transactions*

RW Jackson is a non-executive director of the company and a director of Deloitte & Touche, Chartered Accountants. Deloitte & Touche were engaged to review the stock provisioning policy at Burnley and fees of £16,800 were paid. In addition, Deloitte & Touche carried out various accounting exercises and fees of £39,750 were paid.

(iii) FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1997

REPORT OF THE REMUNERATION COMMITTEE

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

Remuneration

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

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

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

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

Director	*Salary* £	*Fees* £	*Pension* £	*Total Benefits* £	*1997 total* £	*1996 total* £
Executive directors						
D J Emmett	125,600	–	12,560	11,173	149,333	150,000
M G Bickerton	56,000	–	5,600	8,257	69,857	71,000
Non-executive directors						
P D Bulmer	–	–	–	–	–	–
F K J Arp	–	20,000	–	–	20,000	20,500
R W Jackson	–	–	–	15,594	15,594	–
L J Stammers	–	5,222	–	–	5,222	20,500
	181,600	25,222	18,160	35,024	260,006	262,000

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

Share options

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

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

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

Pension scheme

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

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

Service contracts

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

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

John Savage

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

REPORT OF THE AUDITORS TO THE MEMBERS OF RAP GROUP PLC

We have audited the financial statements on pages 86 to 110. We have also examined the amount disclosed relating to emoluments, share options and directors pension entitlements which form part of the remuneration committee report on pages 83 and 84.

Respective responsibilities of directors and auditors

As described on page 84 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

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

KPMG Audit Plc

Chartered Accountants
Registered Auditor

29 June 1998

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1997

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

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

CONSOLIDATED BALANCE SHEET

31 December 1997

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

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

MG Bickerton
Director

COMPANY BALANCE SHEET

at 31 December 1997

	Note	*1997* £'000	*1997* £'000	*1996* £'000	*1996* £'000
Fixed assets					
Tangible assets	11		220		188
Investments	12		3,530		3,530
			3,750		3,718
Current assets					
Debtors	14	6,154		7,963	
Cash at bank and in hand		2,849		1,197	
		9,003		9,160	
Creditors: amounts falling due within one year	15	(3,916)		(3,336)	
Net current assets – including debtors recoverable after more than one year of £nil (1996: £1,027,000)			5,087		5,824
Total assets less current liabilities			8,837		9,524
Creditors: amounts falling due after more than one year	16		(1,512)		(2,003)
Net assets			7,325		7,539
Capital and reserves					
Called up share capital	18		616		616
Share premium account	19		5,259		5,259
Profit and loss account	19		1,450		1,664
Equity shareholder's funds			7,325		7,539

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

MG Bickerton
Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 1997

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

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 December 1997

	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
(Loss)/profit for the financial year	(1,272)	542	(128)	1,198
Dividends	(86)	(185)	(86)	(185)
Retained profit for the year	(1,358)	357	(214)	1,103
New equity share capital subscribed (net of costs)	–	22	–	22
Net (reduction in)/addition to shareholders' funds	(1,358)	379	(214)	1,035
Opening shareholders' funds	7,699	7,320	7,539	6,504
Closing shareholders' funds	6,341	7,699	7,325	7,539

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

1. *Accounting policies*

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

Basis of preparation

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

Basis of consolidation

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

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

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

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

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

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

Fixed assets and depreciation

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

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

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

Leases

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

Pension costs

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

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

Stocks

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

Taxation

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

Foreign currencies

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

Turnover

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

2. *Segmental analysis*

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

The destination of turnover by geographical market is as follows:

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

3. *(Loss)/Profit on ordinary activities before taxation*

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

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

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

4. *Remuneration of directors*

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

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

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

5. *Staff numbers and costs*

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

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

The aggregate payroll costs of these persons were as follows:

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

6. *Interest payable and similar charges*

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

7. *Taxation*

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

8. *Dividends*

	1997 £'000	1996 £'000
Equity		
Ordinary dividends – interim paid	86	74
– final proposed	–	111
	86	185

9. *(Loss)/earnings per share*

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

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

10. *Intangible fixed assets*

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

11. *Tangible fixed assets – Group*

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

The net book value of land and buildings comprises:

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

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

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

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

Tangible fixed assets – Company

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

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

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

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

12. *Fixed asset investments – Company*

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

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

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

*Shares held via subsidiary undertakings.

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

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

All the above Group companies are included in the consolidation.

13. *Stocks*

	Group		*Company*	
	1997	*1996*	*1997*	*1996*
	£'000	*£'000*	*£'000*	*£'000*
Raw materials and consumables	133	105	–	–
Finished goods and goods for resale	6,399	8,475	–	–
	6,532	8,580	–	–

14. Debtors

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

Company

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

15. Creditors: amounts falling due within one year

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

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

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

Creditors payable by instalments:

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

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

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

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

17. *Provisions for liabilities and charges*

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

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

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

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

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

18. *Share capital*

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

RAP Group plc Executive Share Option Scheme 1994

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

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

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

RAP Group plc Sharesave Scheme 1994

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

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

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

19. *Statement of movements on reserves*

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

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

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

20. *Secured liabilities*

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

21. *Commitments*

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

	Group		*Company*	
	1997	*1996*	*1997*	*1996*
	£'000	*£'000*	*£'000*	*£'000*
Contracted	27	25	–	–

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

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

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

22. *Contingent liabilities*

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

23. *Pension scheme*

The Group operates defined contribution pension schemes.

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

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

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

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

	1997 *£'000*	*1996* *£'000*
Operating (loss)/profit	(812)	1,124
Depreciation charge	645	647
Write down of property held for resale	69	–
Amortisation of goodwill	6	6
Profit on sale of property held for resale	–	(37)
Profit on sale of tangible fixed assets	(51)	(160)
Decrease in stocks	2,048	796
Decrease in debtors	1,175	2
Decrease in creditors	(765)	(1,699)
Movement on provisions	134	(59)
Net cash inflow from operating activities	2,449	710

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

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

26. *Analysis of net debt*

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

27. *Related party transactions*

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

28. *Post balance sheet events*

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

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

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

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

PART VI

ACCOUNTANTS' REPORT ON K3 TECHNOLOGY

The Directors
RAP Group plc
RAP House
Harrison Street
Briercliffe
Burnley
BB10 2HP

The Directors
Rowan Dartington
Colston Tower
Colston Street
Bristol
BS1 4RD

2 March 2001

Gentlemen

K3 Business Technology Group Limited ("K3 Technology")

On 2 March 2001 RAP Group plc ("RAP Group") entered into a conditional contract to acquire the whole of the issued share capital of K3 Technology. We report on the financial information set out below. This financial information has been prepared for inclusion in the Prospectus dated 2 March 2001 of RAP Group ("the Prospectus").

Basis of preparation

The financial information set out below, which has been prepared on the basis set out under paragraph 5, and in accordance with applicable United Kingdom accounting standards, is based on the audited financial statements of K3 Technology for the period from incorporation on 9 August 1999 to 31 December 2000, to which no adjustments were considered necessary. K3 Technology commenced trading on 31 August 2000.

Responsibility

The financial statements are the responsibility of the Director of K3 Technology who approved their issue.

The Directors of RAP Group are responsible for the contents of the Prospectus in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued in the United Kingdom by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of K3 Technology as at the date stated and of their profits and cash flows for the periods then ended.

We consent to the inclusion of this report in the Prospectus and accept responsibility for this report for the purposes of paragraph 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

1. Profit and loss account

	Notes	*Period from incorporation to 31 December 2000 £'000*
Turnover	6.1	973
Cost of sales		(193)
Gross profit		780
Distribution costs		(311)
Administrative expenses		(359)
Operating profit before goodwill amortisation		160
Goodwill amortisation		(50)
Operating profit		110
Profit on ordinary activities before taxation	6.2	110
Tax on profit on ordinary activities	6.5	(48)
Retained profit for the period		62

All activity relates to acquisitions during the period.

There are no recognised gains and losses in the period other than the profit for the period.

2. Balance sheet

	Notes	*31 December 2000 £'000*
Fixed assets		
Goodwill	6.6	1,460
Tangible assets	6.7	35
Investments	6.8	–
		1,495
Current assets		
Debtors	6.9	976
Cash at bank and in hand		148
		1,124
Creditors: Amounts falling due within one year	6.10	(1,305)
Net current liabilities		(181)
Total assets less current liabilities		1,314
Creditors: Amounts falling due after more than one year	6.11	(1,252)
Net assets		62
Capital and reserves		
Called-up share capital	6.12	–
Profit and loss account	6.13	62
Equity shareholders' funds		62

3. Cash flow statement

	Notes	*Period from incorporation to 31 December 2000* *£'000*
Net cash outflow from operating activities	6.15a	(287)
Capital expenditure		(16)
Acquisitions	6.15b	(801)
New unsecured loan		1,252
Increase in cash in the period		148

Reconciliation of net cash flow to movement in net debt

	Period from incorporation to 31 December 2000 *£'000*
Increase in cash	(148)
Cash inflow from movement in net debt	1,252
Movement in net debt in the period	1,104
Net debt at start of period	–
Net debt at end of period	1,104

4. Reconciliation of movements in equity shareholders' funds

	Period from incorporation to 31 December 2000 *£'000*
Profit for the financial period	62
Net addition to shareholders' funds	62
Opening shareholders' funds	–
Closing shareholders' funds	62

5. Accounting policies

K3 Technology has adopted the following accounting policies. They have all been applied consistently throughout the period.

Basis of accounting

The accounts have been prepared under the historical cost convention, and in accordance with applicable accounting standards.

The Company has taken advantage of the provision within Section 248 of the Companies Act 1985 not to prepare group accounts on the basis that the group is classified as small by the definitions given.

Intangible assets – Goodwill

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is ten years. Provision is made for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Computer equipment	33% per annum
Fixtures and fittings	20% per annum

Residual value is calculated on prices prevailing at the date of acquisition or revaluation.

Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced, except that the deferred tax effects of timing differences arising from pensions and other post-retirement benefits are always recognised in full.

Turnover

Turnover is calculated net of value added tax and represents the total amount receivable by the company in respect of the sale of software licenses, customised software, hardware and fees derived from installation, consultancy, training and support.

Income from the sale of software licences, customised software, hardware and installation is recognised upon delivery to a customer when the significant risks and rewards of ownership have been transferred to the buyer or on completion of contractual milestone performance obligations. Income from training and consultancy is recognised on performance of the service. Income from support is generally invoiced in advance, termed 'deferred income', and taken to income in equal monthly instalments over the relevant periods.

Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

6. Notes to the accounts

6.1 Segment information

In the opinion of the director, the company carries on only one class of business for the purposes of the disclosures required by Statement of Standard Accounting Practice No 25, namely the supply of software and related services. All turnover and profits before taxation are derived from this class of business in the United Kingdom.

6.2 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	Period from incorporation to 31 December 2000 £'000
Depreciation and amounts written off tangible fixed assets	
– owned	2
Amortisation of goodwill	50
Operating lease rentals – other	30
Auditors' remuneration for audit services	4

Amounts payable to Arthur Andersen and their associates by the company in respect of non-audit services were £Nil.

6.3 Staff costs

The average monthly number of employees (including executive directors) was:

	Period from incorporation to 31 December 2000 Number
Sales	10
Administration	13
	23

	Period from incorporation to 31 December 2000 £'000
Their aggregate remuneration comprised:	
Wages and salaries	318
Social security costs	28
	346

6.4 Directors' remuneration and transactions

No directors received any remuneration during the period.

6.5 Tax on profit on ordinary activities

	Period from incorporation to 31 December 2000 £'000
UK Corporation tax	48

6.6 Goodwill

	£'000
Cost	
Additions	1,510
At 31 December 2000	1,510
Amortisation	
Charge for the period	50
At 31 December 2000	50
Net book value	
At 31 December 2000	1,460

Acquisition of business

On 31 August 2000 the company acquired the worldwide licence to modify, reproduce, develop market and distribute Trifid software plus the related intellectual property rights (IPR) and identifiable assets and liabilities from Kewill Systems plc for consideration of £819,000. The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the company.

	Book value £'000	*Fair value adjustment £'000*	*Fair value to company £'000*
Fixed assets			
Intangible	782	(782)	–
Tangible	21	–	21
	803	(782)	21
Current assets			
Debtors	11	–	11
Cash	43	–	43
Total assets	857	(782)	75
Creditors due within one year	(741)	–	(741)
Net assets (liabilities)	116	(782)	(666)
Goodwill			1,510
			844
Satisfied by			
Cash			819
Professional costs			25
			844

The intangible fixed asset has been eliminated as it is not a separately indentifiable asset with a measurable fair value.

6.7 Tangible fixed assets

	Computer equipment £'000	*Fixtures and fittings £'000*	*Total £'000*
Cost			
Acquisitions	15	6	21
Additions	16	–	16
At 31 December 2000	31	6	37
Depreciation			
Charge for the period	1	1	2
At 31 December 2000	1	1	2
Net book value			
At 31 December 2000	30	5	35

6.8 Investments

	31 December 2000 £
Subsidiary undertakings	2

On 31 August 2000, the company acquired 100 per cent. of the ordinary share capital of Trifid Software Limited (formerly Paddico (208) Limited) and Paddico (209) Limited, both of which are dormant companies registered in England.

6.9 Debtors

	31 December 2000 £'000
Amounts falling due within one year:	
Trade debtors	944
Amounts owed by group undertakings	30
Prepayments	2
	976

6.10 Creditors: Amounts falling due within one year

	31 December 2000 £'000
Trade creditors	144
UK corporation tax	48
Other taxation and social security	89
Other creditors	40
Accruals and deferred income	984
	1,305

6.11 Creditors: Amounts falling due after more than one year

	31 December 2000 £'000
Amounts owed to group undertakings	1,252

Amounts owed to group undertakings are unsecured, have no set repayment date and bear no interest.

6.12 Called-up share capital

	31 December 2000 £
Authorised	
100,000 ordinary shares of £1 each	100,000
Allotted, called-up and fully-paid	
2 ordinary shares of £1 each	2

On incorporation the company allotted 2 ordinary shares with a nominal value of £2.

6.13 Reserves

	£'000
Retained profit for the period	62
At 31 December 2000	62

6.14 Financial commitments

There were no capital commitments at the end of the period.

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

	31 December 2000 Land and buildings £'000	Other £'000
Expiry date		
– within one year	84	8
– between two and five years	–	27
	84	35

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

6.15a Reconciliation of operating profit to operating cash flows

	Period from incorporation to 31 December 2000 *£'000*
Operating profit	110
Depreciation charges	2
Amortisation of goodwill	50
Increase in debtors	(965)
Increase in creditors	516
	(287)

6.15b Acquisitions

	Period from incorporation to 31 December 2000 *£'000*
Purchase of business	(844)
Net cash acquired with business	43
	(801)

6.16 Ultimate controlling party

The director regards Silversläggan AB, a company incorporated in Sweden, as the ultimate parent company and Peter Gyllenhammar as the ultimate controlling party.

Yours faithfully

Arthur Andersen
Chartered Accountants

PART VII

ACCOUNTANTS' REPORT ON K3 SOFTWARE

The Directors
RAP Group plc
RAP House
Harrison Street
Briercliffe
Burnley
BB10 2HP

The Directors
Rowan Dartington & Co. Limited
Colston Tower
Colston Street
Bristol
BS1 4RD

2 March 2001

Gentlemen

K3 Business Technology Software Limited ("K3 Software")

On 2 March 2001 RAP Group plc ("RAP Group") entered into a conditional contract to acquire the whole of the issued share capital of K3 Software. We report on the financial information set out below. This financial information has been prepared for inclusion in the Prospectus dated 2 March 2001 of RAP Group ("the Prospectus").

Basis of preparation

The financial information set out below, which has been prepared on the basis set out in paragraph 5 and in accordance with applicable United Kingdom accounting standards, is based on the audited financial statements of K3 Software for the period from incorporation on 26 November 1999 to 31 December 2000, to which no adjustments were considered necessary. K3 Software commenced trading on 29 November 2000.

Responsibility

The financial statements are the responsibility of the Director of K3 Software who approved their issue.

The Directors of RAP Group are responsible for the contents of the Prospectus in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued in the United Kingdom by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of K3 Software as at the date stated and of its profits and cash flows for the period then ended.

We consent to the inclusion of this report in the Prospectus and accept responsibility for this report for the purposes of paragraph 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

1. Profit and loss account

	Notes	*Period from incorporation to 31 December 2000 £'000*
Turnover	6.1	411
Cost of sales		(30)
Gross profit		381
Distribution costs		(133)
Administrative expenses		(163)
Operating profit before goodwill amortisation		113
Goodwill amortisation		(28)
Operating profit		85
Profit on ordinary activities before taxation	6.2	85
Tax on profit on ordinary activities	6.5	(34)
Retained profit for the period		51

All activity relates to acquisitions during the period.

There are no recognised gains and losses in the period other than the profit for the period.

2. Balance sheet

	Notes	*31 December 2000 £'000*
Fixed assets		
Goodwill	6.6	3,303
Tangible assets	6.7	57
		3,360
Current assets		
Debtors	6.8	1,096
Cash at bank and in hand		30
		1,126
Creditors: Amounts falling due within one year	6.9	(2,085)
Net current liabilities		(959)
Total assets less current liabilities		2,401
Creditors: Amounts falling due after more than one year	6.10	(2,350)
Net assets		51
Capital and reserves		
Called-up share capital	6.11	–
Profit and loss account	6.12	51
Equity shareholders' funds		51

3. Cash flow statement

	Notes	*Period from incorporation to 31 December 2000 £'000*
Net cash inflow from operating activities	6.14a	24
Acquisitions	6.14b	(2,344)
New unsecured loan		2,350
Increase in cash in the period		30

Reconciliation of net cash flow to movement in net debt

	Period from incorporation to 31 December 2000 £'000
Increase in cash	(30)
Cash inflow from movement in net debt	2,350
Movement in net debt in the period	2,320
Net debt at start of period	–
Net debt at end of period	2,320

4. Reconciliation of movements in equity shareholders' funds

	Period from incorporation to 31 December 2000 £'000
Profit for the financial period	51
Net addition to shareholders' funds	51
Opening shareholders' funds	–
Closing shareholders' funds	51

5. Accounting policies

K3 Software has adopted the accounting policies set out below. They have all been applied consistently throughout the period.

Basis of accounting

The accounts have been prepared under the historical cost convention, and in accordance with applicable accounting standards.

Intangible assets – Goodwill

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is ten years. Provision is made for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Computer equipment	33% per annum
Fixtures and fittings	20% per annum

Residual value is calculated on prices prevailing at the date of acquisition or revaluation.

Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced, except that the deferred tax effects of timing differences arising from pensions and other post-retirement benefits are always recognised in full.

Turnover

Turnover is calculated net of value added tax and represents the total amount receivable by the company in respect of the sale of software licenses, customised software, hardware and fees derived from installation, consultancy, training and support.

Income from the sale of software licences, customised software, hardware and installation is recognised upon delivery to a customer when the significant risks and rewards of ownership have been transferred to the buyer or on completion of contractual milestone performance obligations. Income from training and consultancy is recognised on performance of the service. Income from support is generally invoiced in advance, termed 'deferred income', and taken to income in equal monthly instalments over the relevant periods.

Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

6. Notes to the accounts

6.1 Segment information

In the opinion of the director, the company carries on only one class of business for the purposes of the disclosures required by Statement of Standard Accounting Practice No 25, namely the supply of software and related services. All turnover and profits before taxation are derived from this class of business and originated in the United Kingdom.

Geographical segments:

	Period from incorporation to 31 December 2000		
	United Kingdom £'000	*Other £'000*	*Total £'000*
Turnover by destination	387	24	411

6.2 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	Period from incorporation to 31 December 2000 £'000
Depreciation and amounts written off tangible fixed assets	1
Amortisation of goodwill	28
Operating lease rentals	
– plant and machinery	3
– other	13
Auditors' remuneration for audit services	4

Amounts payable to Arthur Andersen and their associates by the company in respect of non-audit services were £Nil.

6.3 *Staff costs*

The average monthly number of employees (including executive directors) was:

	Period from incorporation to 31 December 2000 Number
Sales	8
Administration	28
	36

	Period from incorporation to 31 December 2000 £'000
Their aggregate remuneration comprised:	
Wages and salaries	142
Social security costs	8
	150

6.4 *Directors' remuneration and transactions*

No directors received any remuneration from the company during the period.

6.5 *Tax on profit on ordinary activities*

	Period from incorporation to 31 December 2000 £'000
UK Corporation tax	34

6.6 *Goodwill*

	£'000
Cost	
Additions	3,331
At 31 December 2000	3,331
Amortisation	
Charge for the period	28
At 31 December 2000	28
Net book value	
At 31 December 2000	3,303

Acquisition of business

On 29 November 2000 the company acquired the software and intellectual property rights (IPR) of the systems Micross and Powersystems, a licence to sell the systems MFW and JobBoss, and other identifiable assets and liabilities from Kewill Systems plc for consideration of £2,410,000. The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the company.

	Book value £'000	*Fair value adjustments £'000*	*Fair value to company £'000*
Fixed assets			
Intangible	2,000	(2,000)	–
Tangible	58	–	58
Current assets			
Debtors	732	(30)	702
Cash	96	–	96
Total assets	2,886	(2,030)	856
Creditors due within one year	(1,747)	–	(1,747)
Total liabilities	(1,747)	–	(1,747)
Net assets (liabilities)	1,139	(2,030)	(891)
Goodwill			3,331
			2,440
Satisfied by			
Cash			2,410
Professional costs			30
			2,440

The intangible fixed asset has been eliminated as it is not a separately identifiable asset with a measurable fair value. In addition an adjustment of £30,000 has been made against the book value of debtors to reflect an assessment of their realisable value at acquisition.

6.7 *Tangible fixed assets*

	Computer equipment £'000	*Fixtures and fittings £'000*	*Total £'000*
Cost or valuation			
Acquisitions	54	4	58
At 31 December 2000	54	4	58
Depreciation			
Charge for the period	1	–	1
At 31 December 2000	1	–	1
Net book value			
At 31 December 2000	53	4	57

6.8 Debtors

	31 December 2000 £'000
Amounts falling due within one year:	
Trade debtors	819
VAT	273
Other debtors	2
Prepayments	2
	1,096

6.9 Creditors: Amounts falling due within one year

	31 December 2000 £'000
Trade creditors	151
Amounts owed to group undertakings	27
UK corporation tax	34
Other taxation and social security	21
Other creditors	96
Accruals and deferred income	1,756
	2,085

6.10 Creditors: Amounts falling due after more than one year

	31 December 2000 £'000
Amounts owed to group undertakings	2,350

Amounts owed to group undertakings are unsecured, have no set repayment date and bear no interest.

6.11 Called-up share capital

	31 December 2000 £
Authorised	
100,000 ordinary shares of £1 each	100,000
Allotted, called-up and fully-paid	
2 ordinary shares of £1 each	2

On incorporation the company allotted 2 ordinary shares with a nominal value of £2.

6.12 Reserves

	Profit and loss account £'000
Retained profit for the period	51
At 31 December 2000	51

6.13 Financial commitments

(a) Capital commitments

The company had no capital commitments at the period end.

(b) Operating leases

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

31 December 2000

	Other £'000
Expiry date	
– within one year	16
– between two and five years	25
– after five years	–
	41

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

6.14a Reconciliation of operating profit to operating cash flows

	Period from incorporation to 31 December 2000 £'000
Operating profit	85
Depreciation charges	1
Amortisation of intangibles	28
Increase in debtors	(394)
Increase in creditors	304
	24

6.14b Acquisitions

	Period from incorporation to 31 December 2000 £'000
Purchase of business	(2,440)
Net cash acquired with business	96
	(2,344)

6.15 Ultimate controlling party

The director regards Silversläggan AB, a company incorporated in Sweden, as the ultimate parent company and Peter Gyllenhammar as the ultimate controlling party.

Yours faithfully

Arthur Andersen
Chartered Accountants

PART VIII

FINANCIAL INFORMATION ON THE HARDWARE COMPANIES

Nature of Financial Information

The financial information relating to the Hardware Companies set out below does not constitute statutory accounts within the meaning of Section 240 of the Act. The Hardware Companies did not constitute a standalone statutory entity for 1997, 1998 or 1999. Accordingly, statutory accounts were neither prepared nor audited for the Hardware Companies as a whole for these years. The financial information shown below has been compiled from an aggregation of the individual companies statutory accounts which form the basis for consolidation into the RAP Group plc accounts at the respective dates. The profit and loss accounts and balance sheets of the companies included in the Hardware Companies that were used as a basis of this aggregation, are extracted without material adjustment from the statutory accounts of the underlying companies on which the auditors' reports were unqualified.

Aggregated Profit and Loss Accounts

	Years ended 31 December		
	1997	*1998*	*1999*
	£'000	*£'000*	*£'000*
Turnover	4,637	3,369	3,044
Cost of Sales	(4,706)	(2,619)	(2,347)
Gross Profit	(69)	750	697
Other operating expenses	(2,287)	(1,368)	(1,208)
Loss on ordinary activities before taxation	(2,356)	(618)	(511)
Tax on loss on ordinary activities	368	–	–
Loss for the financial year	(1,988)	(618)	(511)

Note:

1. The results of the Hardware Companies are aggregated and not consolidated. Accordingly, no adjustments have been made to eliminate inter company trading between companies included in the Hardware Companies. These adjustments had they been made would have had no affect upon profit.

Aggregated Balance Sheet

	31 December 1999 £'000
Fixed Assets	
Tangible Assets	231
	231
Current Assets	
Stocks	1,473
Debtors	1,343
Cash	63
	2,879
Creditors: amount falling due within one year	(11,143)
Net current liabilities	(8,264)
Net liabilities	(8,033)
Capital and reserves	
Called up share capital	2
Profit and loss account	(8,035)
Total capital employed	(8,033)

Notes:

1. The balance sheet of the Hardware Companies is an aggregate of the balance sheets of the underlying companies and not a full consolidation. Accordingly, no adjustments have been made to eliminate investments or inter-company balances within the Hardware Companies.
2. Included within debtors and creditors, are intercompany balances of £650,000 and £10,603,000 respectively which were outstanding with the company and fellow subsidiary undertakings.

PART IX

PRO FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP

Set out below is an unaudited pro forma statement of the net assets of RAP following the disposal of the Hardware Companies, the acquisition of K3 Technology and K3 Software and the Placing and Open Offer, based on the unaudited consolidated balance sheet of the group at 31 December 2000. The pro forma statement of net assets has been prepared to show the impact of these transactions on the net assets of RAP as if they had occurred as at 31 December 2000 and is for illustrative purposes only. Because of its nature, it cannot give a true picture of the financial position or results of the RAP. No account has been taken of the trading results of the Group since 31 December 2000.

		Adjustments				
	RAP as at 31 December 2000	*Sale of Hardware companies*	*Acquisition of K3 Technology*	*Acquisition of K3 Software*	*Open Offer*	*Pro forma*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note5)*	
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Fixed assets						
Goodwill	127	–	1,460	3,303	–	4,890
Tangible assets	235	(35)	35	57	–	292
Investments	7	–	–	–	–	7
	369	(35)	1,495	3,360	–	5,189
Current assets						
Properties for resale	260	–	–	–	–	260
Stocks	1,071	(1,071)	–	–	–	–
Debtors	1,088	270	976	1,096	–	3,430*
Cash	–	–	148	30	(37)	141
	2,419	(801)	1,124	1,126	(37)	3,831
Creditors: amounts falling due within one year	(2,071)	714	(1,305)	(2,085)	–	(4,747)
Net current assets (liabilities)	348	(87)	(181)	(959)	(37)	(916)
Total assets less current liabilities	717	(122)	1,314	2,401	(37)	4,273
Creditors: amounts falling due after more than one year	–	–	(1,252)	(2,350)	3,182	(420)
Provisions for liabilities and charges	(243)	–	–	–	–	(243)
Net assets	474	(122)	62	51	3,145	3,610

* including items over one year of £1 million

Notes:

1. The RAP figures have been extracted from the preliminary unaudited results of the Company for the year ended 31 December 2000 as set out in in Part IV of this document.
2. The figures in respect of the Hardware Companies have been extracted from the consolidation schedules used in compiling the unaudited preliminary results as at 31 December 2000. In addition, debtors includes the estimated deferred consideration of £1 million.
3. The K3 Technology figures have been extracted from the accountants' report set out in Part VI of this document and to which no fair value adjustments have been made.
4. The K3 Software figures have been extracted from the accountants' report set out in Part VII of this document and to which no fair value adjustments have been made.
5. The figures here represent the Minimum Proceeds of £188,255 less expenses of the transactions amounting to £225,000. The £3,182,000 represents the issue of shares to Silversläggan in consideration for discharging the loans to K3 Technology and K3 Software.

PART X

FINANCIAL INFORMATION ON SILVERSLÄGGAN

1. Nature of Financial Information

The financial information set out below does not constitute statutory accounts within the meaning of section 240 of the Companies Act. The financial information in paragraphs 2 to 4 below has been extracted, without material adjustment, from the financial statements of Silversläggan AB for each of the three financial periods ended 31 December 1997, 1998 and 1999.

2. Income Statement

		Year to	
	31/12/99	*31/12/98*	*31/12/97*
	SEK'000	*SEK'000*	*SEK'000*
Turnover	16,049	26,348	59,129
Other operating income	335	187	8
	16,384	26,535	59,137
Operating expenses			
Trading expenses	(12,889)	(24,012)	(61,580)
Other operating expenses	(66)	(58)	(37)
Operating profit/(loss)	3,429	2,465	(2,480)
Income from interest in former group companies	(10)	–	300
Interest receivable and similar income	1	1	8
Interest payable	(671)	(553)	(491)
Profit/(loss) before taxation	2,749	1,913	(2,663)
Taxation	(33)	(38)	–
Retained profit/(loss) for the year	2,716	1,875	(2,663)

3. Balance Sheet

	Year ended 31/12/99 SEK'000
Current Assets	
Investments	20,844
Other debtors	170
Prepayments and accrued income	7
Cash at bank	188
Total assets	21,209
Current liabilities	
Other creditors	125
Accruals and deferred income	25
	150
Long term liabilities	
Debts to institutions	11,501
Other creditors	94
Total long term liabilities	11,595
Equity	
Restricted equity:	
Share capital	100
Legal reserve	20
	120
Profit and loss account	9,344
Total equity and debts	21,209

4. Significant Accounting Policies and Major Notes to the Accounts

The accounts are prepared in accordance with Swedish accounting standards, under which Silversläggan is not required to produce a cash flow statement. There are no material notes to the accounts.

PART XI

ADDITIONAL INFORMATION

1. Responsibility

1.1 The Directors and the Proposed Directors whose names are set out in paragraph 6 below, accept responsibility for the information contained in this document (save for information relating to Silversläggan, Peter Gyllenhammar and members of his immediate family and related trusts). To the best of the knowledge and belief of the Directors and the Proposed Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

1.2 Peter Gyllenhammar, the sole director of Silversläggan, accepts responsibility for the information relating to Silversläggan, himself and members of his immediate family and related trusts contained in this document. To the best of the knowledge and belief of Peter Gyllenhammar (who has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the impart of such information.

2. The Company

The Company was incorporated and registered in England and Wales on 28 August 1991 under the Act as a private limited company under the name De Facto 238 Limited with registered number 2641001. By a special resolution passed on 28 October 1991 the Company changed its name to RAP Group Limited. On 28 November 1994 the Company was re-registered as a public limited company under the name RAP Group plc. The principal legislation under which the Company operates is the Act and the regulations made thereunder. The registered office and principal place of business of the Company is at RAP House, Harrison Street, Briercliffe, Burnley, Lancashire, BB10 2HP. The principal activity of the Company is the distribution of DIY and gardening hardware and equipment.

3. Share capital

3.1 The following table shows the authorised and issued fully paid ordinary share capital of the Company as at the date of this document and as it will be immediately following Admission, assuming all the New Ordinary Shares are issued:

	Existing share capital		*Enlarged Share Capital*	
	Nominal amount	*Number*	*Nominal amount*	*Number*
Authorised	£2,500,000	50,000,000	£5,000,000	100,000,000
Issued	£1,282,584.10	25,651,682	£2,565,168.20	51,303,364

3.2 As at 28 February 2001 (being the last practicable date prior to the publication of this document) the following options over Ordinary Shares were outstanding under the 1994 Executive Scheme:

Date of grant	*Number of Ordinary Shares*	*Exercise price*	*Exercise criteria*
29.07.98	364,000	19.7p	Market price reaches 20p
29.07.98	208,000	19.7p	Market price reaches 25p
29.07.98	104,000	19.7p	Market price reaches 30p
30.07.99	414,960	19.7p	Market price reaches 20p
30.07.99	237,120	19.7p	Market price reaches 25p
30.07.99	117,000	19.7p	Market price reaches 30p

All of the above options are exerciseable between 12 March 2000 and 10 years after grant subject to satisfaction of the exercise criteria.

Following the Open Offer the rules of the 1994 Executive Scheme and the 2000 Executive Scheme require that the number of shares comprised in an option and the exercise price of the shares comprised in an option be adjusted in such manner as in the opinion of the auditors of the Company is fair and reasonable. In the case of the Inland Revenue approved part of the 1994 Executive Scheme the adjustment will require the prior approval of the Inland Revenue.

3.3 Resolutions will be proposed at the Extraordinary General Meeting to, *inter alia*:

(i) increase the Company's authorised share capital from £2,500,000 to £5,000,000 by the creation of 50,000,000 New Ordinary Shares; and

(ii) generally and unconditionally authorise the Directors in accordance with section 80 of the Act and in substitution for any previous such authority to exercise all powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal value of £3,029,089.60 for the period expiring on the fifth anniversary of the passing of the resolution provided the authority may only be utilised as follows:

(a) to allot the New Ordinary Shares;

(b) to allot Ordinary Shares on exercise of the Warrants; and

(c) to allot additional relevant securities up to an aggregate amount of £846,505.50 (representing approximately one third of the issued ordinary share capital of the Company immediately following Admission);

(iii) empower the Directors to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the section 80 authority referred to in paragraph (ii) above as if section 89(1) of the Act did not apply to any such allotment such power to expire 15 months from the date of the passing of the resolution or if earlier at the conclusion of the next annual general meeting of the Company, provided that such power is to be limited to:

(a) the allotment of the New Ordinary Shares (in connection with the Open Offer and the Acquisitions);

(b) the allotment of Ordinary Shares on exercise of the Warrants;

(c) the allotment of equity securities (other than pursuant to (a) or (b) above) in connection with any issue by way of rights or other offer where the number of equity securities to be allotted to holders of ordinary shares of the Company on a fixed record date is proportionate (as nearly as maybe) to the number of ordinary shares being held by such shareholders, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems under the laws of, or at the requirement of, any regulatory or stock exchange authority in any jurisdiction or in relation to fractional entitlements; and

(d) the allotment (other than pursuant to (a), (b) and (c) above) of equity securities up to a maximum aggregate nominal amount of £256,516.80 (representing approximately 10 per cent. of the issued ordinary share capital of the Company immediately following Admission).

3.4 The New Ordinary Shares will be allotted pursuant to the authorities referred to in paragraph 3.3 above under and in each case pursuant to a resolution of the board or a committee thereof.

3.5 The provisions of section 89(1) of the Act (to the extent not disapplied as referred to in paragraph 3(e) above) confer on shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in section 94(2) of the Act) which are, or are to be, paid up in cash.

4. Memorandum and Articles of Association

The Company's principal objects are set out in clause 4 of its Memorandum of Association and include the carrying on of the business of a holding company and, *inter alia*, entering into, assisting or participating in financial, commercial, mercantile, industrial and other transactions, undertakings and businesses of every description and to establish, carry on, develop and extend the same or sell, dispose of or otherwise turn the same to account and to co-ordinate the policy and administration of any companies of which this company is a member or which in any manner is controlled by, or connected with the Company.

The Articles of Association of the Company which were adopted pursuant to a special resolution passed on 8 December 1994 ("the Articles") contain provisions, *inter alia*, to the following effect:

4.1 *Votes of members*

(i) Subject to any restrictions imposed by or pursuant to the Articles and to any rights or restrictions attached to any shares, on a show of hands every member personally present (or, being a corporation, present by a duly appointed representative not being himself a member entitled to vote) at a general meeting shall have one vote only, and in the case of a poll every member present in person or by proxy shall have one vote for every share held by him.

(ii) No holder of a share shall, unless the board otherwise determines, be entitled to vote at a general meeting, or at any separate general meeting of the holders, either personally or by proxy if any call or such other sums as are presently payable by him to the Company in respect of shares in the Company remain unpaid.

(iii) No person holding shares shall be entitled to be present at or vote at a general meeting if he or any other person who appears to be interested in such shares in the company and has been duly served, pursuant to section 212(1) of the Act or any other statutory provision concerning the disclosure of interests in voting shares, with a notice requiring the provision to the Company of information regarding such shares, and is in default in complying with such notice.

4.2 *Dividends*

(i) The Company may by ordinary resolution declare dividends but no dividend shall be payable except out of the profits of the Company available for distribution in accordance with the provisions of the relevant legislation, or in excess of the amount recommended by the board.

(ii) Subject to any rights or privileges for the time being attached to any shares having preferential or special rights in regard to dividend, the profits of the Company which it shall from time to time be determined to distribute by way of dividend shall be applied in payment of dividends upon the shares in proportion to the amounts paid up thereon respectively otherwise than in advance of calls and so that all dividends shall be apportioned and paid pro rata according to the portion or portions of the period in respect of which the dividend is paid during which any such amount or amounts were paid up. If any share is issued upon terms providing that it shall rank for dividend as from or after a particular date, or be entitled to dividends declared after a particular date, such share shall rank for or be entitled to dividend accordingly.

(iii) The directors may, if in their opinion the profits of the Company justify such payments, pay the fixed dividends of any class of shares carrying a fixed dividend expressed to be payable on fixed dates for the payment thereof and subject thereto may pay interim dividends of such amounts and on such dates as they think fit.

(iv) The directors may retain any dividend payable on or in respect of a share on which the Company has a lien or (except in the circumstances specified in the Articles) if:

(1) a notice has been duly served in respect of that share pursuant to section 212(1) of the Act or any other statutory provision concerning the disclosure of interests in voting shares,

(2) the share or shares which are the subject of that notice represent in aggregate at least 0.25 per cent. of that class of share,

(3) the notice has not been complied with within the period stipulated in the notice.

(v) No dividends or other monies payable in respect of any share shall bear interest unless otherwise provided by the rights attached to the share;

(vi) The directors may deduct from any dividend or other monies payable in respect of any shares all sums due from the person to whom such dividends or other monies are payable on account of calls or otherwise in relation to the shares,

(vii) Subject to the provisions of the Articles, the directors may with the authority of an ordinary resolution of the Company, offer the holders of shares the right to elect to receive further shares of the same class credited as fully paid instead of cash in respect of all or part of such dividend or direct that the payment of any dividend declared be satisfied wholly or partly by distribution of assets *in specie*.

(viii) Any dividend remaining unclaimed after a period of 12 years from the date such dividend becomes due for payment shall be forfeited and shall revert to the Company

4.3 *Distribution of assets on a winding-up*

Subject to the sanction of an extraordinary resolution of the Company and any other sanction required by the Insolvency Act 1986, on a return of assets on voluntary winding up of the Company the Liquidator may divide among the members in specie the whole or any part of the assets of the Company in accordance with the existing rights of the members

4.4 *Transfer of shares*

(i) All transfers of shares may be effected by transfer in writing in any usual or common form or in any other form which the board may approve. Any such instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the register of members in respect thereof.

(ii) The directors may in their absolute discretion, and without assigning any reason therefore, refuse to register or authorise the registration of any transfer of a share:

(1) which is not fully paid up;

(2) on which the Company has a lien;

(3) unless it is delivered to the registered office, duly stamped (if required), together with the relevant share certificates(s) and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer, and

(a) it is in respect of only one class of share; and

(b) in the case of a transfer of joint holders, they do not exceed four in number.

Provided that such discretion may not be exercised in such a way as to prevent dealings in the Company's shares from taking place on an open and proper basis.

(iii) The Articles do not contain any pre-emption rights relating to the transfer of shares.

(iv) If the directors refuse to register a transfer they must, within two months after the date on which the transfer was lodged with the Company, send notice of the refusal to the transferee.

(v) The register of transfers may be suspended by the board for any period (not exceeding thirty days) in any year.

4.5 *Borrowing powers*

(i) The board may exercise all the powers of the Company to borrow or raise money and to mortgage or charge its undertaking, property, assets and uncalled capital and, subject to legal requirements, to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or any third party.

(ii) The board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries so as to secure (as regards subsidiaries so far as by such exercise they can secure) that the aggregate amount for the time being remaining undischarged of all moneys borrowed by the group (excluding money owed by any member of the group to any other member of the group) shall not without the previous sanction of an ordinary resolution of the Company exceed an amount equal to three times the "Adjusted Capital and Reserves" as defined in the Articles. The certificate of the Auditors for the time being as to the amount of the Adjusted Capital and Reserves at any time shall be conclusive evidence of the amount or of that fact.

4.6 *Directors*

(i) Subject to relevant legislation and provided that the Director has disclosed to the board the nature and extent of any material interest, a director:

(1) may be party to or otherwise directly or indirectly interested in any transaction or arrangement with the Company or in which the Company is otherwise interested;

(2) may be or become a member or director or other officer of, or employed by, or be a party to any transaction or arrangement with, or be otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested; and

(3) shall not be accountable to the Company for any benefit which he derives from such office or employment or any such transaction or arrangement or from any interest in any such body corporate and no such transaction or arrangement shall be liable to be avoided.

(ii) Save as provided below, a director shall not vote at any meeting of the board or a committee of the board on any resolution concerning a matter in which he has, directly or indirectly, an interest which is material or a duty which conflicts or may conflict with interests of the Company unless this interest or duty arises only because of one of the following:

(1) the giving to him or any person of a guarantee, security or indemnity in respect of any money lent to or obligation incurred by him;

(2) the giving to a third party of a guarantee, security or indemnity in respect of any obligation of the Company or any subsidiary undertakings for which the Director has assumed responsibility in whole or in part;

(3) his interest arises by virtue of his being or intending to become a participant in the underwriting or sub-underwriting of an offer for any shares, debentures or other securities by the Company or any subsidiary undertakings for subscription, purchase or exchange;

(4) the resolution relates to any proposal concerning any other company in which he is interested provided that he does not hold any interest in shares representing 1 per cent. or more of either a class of the equity share capital or of the voting rights available to members of such companies;

(5) the resolution relates to a proposed adoption, modification or operation of a superannuation fund and retirement benefits scheme;

(6) the resolution concerns any scheme or arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings under which the Director benefits in a similar manner to such employees and does not accord to any Director any privilege or advantage; and

(7) proposals concerning any insurance which the Company is empowered to purchase and/or maintain for or for the benefit of any directors of the Company or for persons who include directors of the Company.

5. Information on the Concert Party

5.1 The Concert Party comprises Silversläggan, Peter Gyllenhammar and Johan Claesson.

5.2 Silversläggan is a private company incorporated in Sweden. Silversläggan is wholly owned by Peter Gyllenhammar who is also its sole director. Silversläggan's principal activity is that of an investment holding company.

5.3 The business address of Silversläggan is Nybrokajen 7 SE 1147, Stockholm, Sweden.

5.4 Peter Gyllenhammar is a Swedish national who currently holds 2,382,985 Existing Ordinary Shares of RAP. As well as his interest in Silversläggan, he is an executive director of the private Swedish investment company Browallia International BV, the principal shareholder of YJL plc. Peter Gyllenhammar is Deputy Chairman of YJL plc and a director of British Mohair Holdings Plc. He also has a further interest in a number of other UK public companies.

5.5 Johan Claesson is a Swedish national who currently holds 9,715,644 Existing Ordinary Shares. He acquired these shares as a result of having underwritten the Company's Rights Issue. Mr Claesson's principal business interests are in property development and real estate. Mr Claesson has a controlling interest in Claesson & Anderzen AB ("C&A") of which he is also chairman. C&A group holds properties with a market value of approximately £300 million.

Mr Claesson also has a number of disclosed holdings in listed companies in the UK and Sweden, although these have no links with the Group. In the UK, his holdings do not exceed 15 per cent. in any one company. In Sweden he is a director of two listed companies, Boras Wafery and Evidentia, in which he holds 19 per cent. and 98 per cent. respectively. The two companies have a market capitalisation of approximately £18 million and £60 million, respectively.

In addition he is also involved in a number of small unquoted ventures in Sweden, none of which is individually or collectively significant.

5.6 The interests and dealings of the Concert Party are set out in paragraph 6.8 below.

6. Interests and dealings of Directors, Proposed Directors and others

6.1 The Directors' principal functions are as follows:

David John Bolton	*Group Financial Director*
Nigel Andrew Makeham	*Marketing Director, e-commerce*
Brian Edward Shaw	*Sales and Marketing Director*

The business address for all of the Directors is RAP House, Harrison Street, Briercliffe, Burnley, Lancashire BB10 2HP.

The Board anticipates that John Robert Griffith and Johan Claesson will be invited to join the Board as non-executive directors on Completion.

6.2 All companies (other than the Company's subsidiary companies) and partnerships of which the Directors and the Proposed Directors have been a director or partner at any time in the five years prior to the date of this document are as follows:

Director/Proposed Director	*Current directorships*	*Previous directorships*
D J Bolton	RAP Group plc	The Hollas Group plc Airwork Limited
N A Makeham	RAP Group plc	Grant Management Limited Egerton Organisation Limited Touchline Presentations Limited
B E Shaw	RAP Group plc	Profile Training for Professionals Limited
J R Griffith	Intershop (UK) Limited Altodigital.com Limited	None
P J Claesson	Handelsbolaget Torp Familjen Claessons Förvaltning Kommanditbolag Bremerhus O Co Kommanditbolag Johan och Marianne Claesson AB Proedel AB Fastighetsab Malmpip Fastighets AB Fanjunkaren Majo Hotellinvest AB Evidentia Fastigheter AB Philipson Bil AB AB Claesson & Press Hantverkscentrum AB Fastighets AB Balkongräcket Fastighets AB Ankarjärnet Fastighets AB Fölungen Jönköpings Industrifastigheter 1 AB Jönköpings Industrifastigheter Fridhem AB Jönköpings Industrifastigheter Oronskyddet 6 Fastighets AB Gashojden Jönköpings Industrifastigheter Adelkorallen 6 Fastighets AB Remstycket Vemo Industri AB Fastighetsab Juvelen Web Intelligent Digital Hosting In Paskallavik Fastighets AB Alen Fastighets AB Sadeltaket Soft Center i Kalmar AB Fastighets AB Trappraäcket Ulvarboett Fastighets AB Claesson & Anderzen Hotellfastighets AB Sydostpress AB Ulvarboett Facilities AB Ca i Växjö AB Varvsholmens Fastighets AB Ca Fastigheter AB Ca Fastighetsutveckling AB Handelsab i Ousby Ca Industrifastigheter i Jonkoping AB Ca i Jönköpings AB Fastighets AB Takfoten Linköpings Lokaluthyrning AB Förvaltnings AB Fölungen	Orb Estates plc Skandigen AB Solitair AB

Director/Proposed Director	*Current directorships*	*Previous directorships*
P J Claesson (continued)	Philipson Trollhattän Bil AB Fastighetsbolaget Angkvarnen AB Nya Apodemus AB H-Invest AB Hälleflundran Förvaltnings AB Fastighetsab Korpralen (556034-6032) Boras Wäfveri AB (556108-9052) Palace Hotel AB (556063-9345) Claesson & Anderzen Invest AB Ulvarboett AB Fastighets AB Fonstervalvet Ca Fastighetsservice AB Claesson & Anderzen AB Evidentia Consult AB Boras City Fastighets AB Ulvarboett Förvaltning AB Fastighets AB Sergeanten Netrenovator Sweden AB Hotell Christian IV i Kristianstad AB Ulvarboett Fund AB Ca i Kristianstad AB Ulvarboett Management AB Smalandsbyggen AB Fojobo Fastighets AB Gerdens Byggnadsab Fastighetsab Bremia	

6.3 Save as disclosed in paragraph 6.4 below, none of the Directors nor the Proposed Directors have any unspent convictions in relation to indictable offences nor has any been a director of a company (wherever incorporated) or partner in a partnership at any time which has gone into administration, company or partnership voluntary arrangements or made any composition or arrangement with creditors generally or any class of creditors or been the subject of receivership, compulsory liquidation or creditors' voluntary liquidation where he was a director or partner at the time or in the preceding 12 months, nor have any of them been declared bankrupt or entered into an individual voluntary arrangement, nor have any of them ever been publicly criticised by any statutory or regulatory authority (including any recognised professional body) or disqualified by a court from acting in the management or conduct of the affairs of any company.

6.4 N A Makeham was a director of Touchline Presentations Limited when it was placed into receivership in May 1998. There was a shortfall to secured and unsecured creditors of £399,782. He was also a director of Grant Management Limited when the company was placed in receivership in June 1998. There was a shortfall to secured and unsecured creditors of £14,787. D J Bolton was a director of The Hollas Group plc when it was placed in receivership in May 1998. There was an estimated shortfall to secured and unsecured creditors of £35,400,000.

6.5 The interests of (i) the Directors and the Proposed Directors in the share capital of the Company in so far as they are known to the Company pursuant to section 324 or section 328 of the Act which are required to be entered in the register maintained under the provisions of section 325 of the Act, and (ii) any persons connected with a Director or the Proposed Director (within the meaning of section 346 of the Act) which would, if such person were a Director, be required to be disclosed under (i) and (ii) above and the existence of which is known to or could with reasonable diligence be ascertained by that Director or the Proposed Directors as at 28 February 2001 (being the last practicable date prior to the publication of the document), are and immediately following Admission assuming all the New Ordinary Shares are issued will be as follows:

	Existing share capital		*Enlarged Share Capital*	
Director	*Number*	*Per cent.*	*Number*	*Per cent.*
D J Bolton	400,000	1.6	800,000	1.6
N A Makeham	466,206	1.8	932,416	1.8
B E Shaw	200,000	0.8	400,000	0.8
J R Griffith	150,000	0.6	300,000	0.6
P J Claesson	9,715,644	37.9	9,715,644	18.9

6.6 Details of all share options over Ordinary Shares which have been granted to the Directors pursuant to the 1994 Executive Scheme and which remain outstanding at the date of this document are as follows:

Director	*Date of grant*	*Number of Ordinary Shares*	*Exercise price*	*Exercise criteria*
D J Bolton	July 1999	138,320	19.7p	Market price reaches at least 20p
D J Bolton	July 1999	79,040	19.7p	Market price reaches at least 25p
D J Bolton	July 1999	39,000	19.7p	Market price reaches at least 30p
B E Shaw	July 1999	138,320	19.7p	Market price reaches at least 20p
B E Shaw	July 1999	79,040	19.7p	Market price reaches at least 25p
B E Shaw	July 1999	39,000	19.7p	Market price reaches at least 30p

All of the above options are exerciseable between 12 March 2000 and 10 years after grant subject to satisfaction of the exercise criteria.

Following the Open Offer the rules of the 1994 Executive Scheme and the 2000 Executive Scheme require that the number of shares comprised in an option and the exercise price of the shares comprised in an option be adjusted in such manner as in the opinion of the auditors of the Company is fair and reasonable. In the case of options granted under the Inland Revenue approved part of the 1994 Executive Scheme the adjustment will require the prior approval of the Inland Revenue.

6.7 Save as disclosed in sub-paragraphs 6.5 and 6.6 above, no Director or Proposed Director has any interest, beneficial or non-beneficial, in the share capital of the Company.

6.8 Save as disclosed in sub-paragraphs 6.9 (iii) below, neither the Company nor any Director or Proposed Director has, or has had, any interest beneficial or non-beneficial, in the share capital of Silversläggan.

6.9 *Interests and dealings of Silversläggan, Peter Gyllenhammar and Johan Claesson*

(i) As at close of business on 28 February 2001 (being the latest practicable date prior to the publication of this document) and assuming that Silversläggan receives all of the consideration for the Acquisitions in New Ordinary Shares, its interests and its dealings for value in the issued share capital of the Company in the period of 12 months preceding the date of this document are as follows:

(a) Interests

Existing share capital		*Enlarged Share Capital**	
Number	*Per cent.*	*Number*	*Per cent.*
Nil	Nil	22,346,666	43.5

*Assuming Silversläggan receives no cash consideration in respect of the Acquisitions.

(b) Dealings

Nil

(ii) As at close of business on 28 February 2001 (being the latest practicable date prior to publication of this document) the interests of P Gyllenhammar in the existing issued share capital of the Company and in the Enlarged Share Capital, assuming all of the New Ordinary Shares are issued and his dealings for value in the issued share capital of the Company in the period of 12 months preceding the date of this document are as follows:

(a) Interests

Existing share capital		*Enlarged Share Capital**	
Number	*Per cent.*	*Number*	*Per cent.*
2,382,985	9.3	2,382,985	4.6

*Assuming P Gyllenhammar does not take up his rights under the Open Offer.

(b) Dealings

The allotment of 885,000 Ordinary shares at 18p per share on 3 August 2000 as a result of the take up of rights under the Rights Issue.

(iii) As at close of business on 28 February 2001 (being the latest practicable date prior to the publication of this document), the interests of P J Claesson in the existing issued share capital of the Company and in the Enlarged Share Capital, assuming all of the New Ordinary Shares are issued and his dealings for value in the issued share capital of the Company in the period of 12 months preceding the date of this document are as follows:

(a) Interests

Existing share capital		*Enlarged Share Capital**	
Number	*Per cent.*	*Number*	*Per cent.*
9,715,644	37.9	9,715,644	18.9

*Assuming P J Claesson does not take up his rights under the Open Offer.

(b) Dealings

The allotment of 9,580,644 Ordinary Shares at 18p per share on 3 August 2000 as underwriter to the Rights Issue.

(iv) Save as disclosed above, during the period of 12 months preceding the date of this document, there have been no dealings for value in, nor are there any holdings of, Ordinary Shares by any member of the Concert Party or any person connected with Silversläggan.

6.10 In addition to the interests of the Directors, the Proposed Directors and the Concert Party disclosed in paragraphs 6.5, 6.6 and 6.9 above, the Directors are aware of the following existing shareholders who, directly or indirectly ,are interested in three per cent. or more of the issued share capital of the Company or will be immediately following Admission:

	Existing share capital		*Enlarged Share Capital**	
Name	*Number*	*Per cent.*	*Number*	*Per cent.*
Barfield Nominees Limited	2,510,000	9.8	5,020,000	9.8
J A Savage	1,330,306	5.2	2,660,612	5.2

*The number and percentage of the Enlarged Share Capital assumes each of them takes up its/his rights under the Open Offer and that all the New Ordinary Shares are issued.

6.11 The details of the dealings for value in Ordinary Shares of the Directors and J R Griffith in the 12 months preceding the date of this document are:

Name	*Details*
N A Makeham	Allotment on 26 June 2000 of 165,000 Ordinary Shares as initial consideration for the acquisition of shares in Touchline
	Allotment on 3 August 2000 of 233,104 Ordinary Shares at 18p per share as a result of the take up of rights under the Rights Issue
D J Bolton	Allotment on 3 August 2000 of 200,000 Ordinary Shares at 18p per share as a result of the take up of rights under the Rights Issue
B E Shaw	Allotment on 3 August 2000 of 100,000 Ordinary Shares at 18p per share as a result of the take up of rights under the Rights Issue
J R Griffith	Purchase on 13 July 2000 of 150,000 Ordinary Shares at 18p per share

6.12 Each of the Directors has given an irrevocable undertaking to take up his rights in full under the Open Offer and to vote in favour of the Resolutions and J R Griffiths has given an irrevocable undertaking to vote in favour of the resolutions. Details of the shareholdings and dealings in the last 12 months of other Shareholders who have given irrevocable undertakings to vote in favour of the Resolutions are as follows:

Name	*Number of Existing Ordinary Shares held*	*Details of dealings in the 12 months preceding the date of this document*
P J Myers	50,000	Allotment on 26 June 2000 of 50,000 Ordinary Shares as initial consideration for the acquisition of Touchline
J Myers	250,000	Allotment on 26 June 2000 of 250,000 Ordinary Shares as initial consideration for the acquisition of Touchline

7. Directors' remuneration and service agreements

7.1 Each of the following Executive Directors has a service agreement with the Company on the terms set out below:

Director	*Date of appointment*	*Salary **
D J Bolton	25 September 1998	£84,131
N A Makeham	1 July 2000	£92,610
B E Shaw	1 October 1998	£73,615

*The salaries payable under the service agreements are to be increased at yearly intervals (on 1 January each year) by no less than the increase in the Retail Price Index.

Each Executive Director's service agreement can be terminated by the Company on 12 months' notice and by the Executive Director on six months' notice. Each Executive Director's service agreement provides for the resignation of the Executive as Director in the event of termination of employment.

Each Executive Director's service agreement (save for N A Makeham's) contains a change of control clause which provides that, in the event of a takeover, the Executive Director may immediately terminate his employment with the company and will receive one year's salary as a severance payment. Each Executive Director's service agreement contains a liquidated damages clause which provides that, in the event where the Company gives notice of termination (other than summary dismissal in accordance with the service agreement), the Executive will receive one year's salary in full and final settlement of all claims.

Each Executive Director is entitled to:

- 10 per cent. contribution towards a personal pension plan;
- life insurance;
- private medical expenses insurance for the executive and his spouse;
- permanent health insurance; and
- a fully expensed company car (renewable every 24 months).

Each Executive Director's service agreement contains restrictive covenants which apply for 12 months following the termination of employment.

7.2 Conditional upon Completion, the proposed Directors have entered into letters of appointment with the Company on the terms set out below:

(a) J R Griffith — By a letter of appointment dated 2 March 2001, J R Griffith has been appointed as a non-executive director of the Company conditional upon, and with effect from, Admission for a fee of £20,000 per year. The appointment is for an initial period of one year, renewable by agreement of the parties for additional rolling periods of one year. The fee payable to J R Griffith is subject to review on 1 January in each year he remains a non-executive director. J R Griffith has agreed to attend at least six board meetings a year and also be available on an informal basis to provide general guidance and advice to the Board. J R Griffith has also agreed to serve on the Company's audit and remuneration committees.

(b) P J Claesson — By a letter of appointment dated 2 March 2001, P J Claesson has been appointed as a non-executive director of the Company conditional upon, and with effect from, Admission for a fee of £15,000 per year. The appointment is for an initial period of one year, renewable by agreement of the parties for additional rolling periods of one year. The fee payable to P J Claesson is subject to review on 1 January in each year he remains a non-executive director. P J Claesson has agreed to attend at least six board meetings a year and to serve on the Company's audit and remuneration committees.

7.3 In the year ended 31 December 2000, the aggregate remuneration and benefits in kind (including pension contributions) from the Company or any member of the RAP Group of all directors of the Company were £706,000 (including payments made on termination of employment of £198,000).

7.4 It is estimated that the aggregate amounts payable to the Directors under the arrangements in force at the date of this document (including pension contributions and anticipated payments under bonus arrangements but excluding non-executive directors' fees payable by the Company) from the Company or any member of the Group in respect of the year ending 31 December 2001 will be £399,000. It is estimated that the aggregate amount of non-executive directors' fees payable in the same period will be £26,000.

7.5 The following amendments to Directors' salaries have taken place in the last six months:

	Previously	*With effect from 1 January 2001*
D J Bolton	£81,760	£84,131
N A Makeham	£90,000	£92,610
B E Shaw	£71,540	£73,615

7.6 Save as disclosed in paragraph 7.5 above, there have been no amendments to the service contracts of the directors in the six months prior to the publication of this document.

8. Share Option Schemes

8.1 *2000 Executive Scheme*

(a) Eligibility

Any full time director or full or part time employee of any company within the Group is eligible to participate in the 2000 Executive Scheme. However, an option may not be granted to a director or employee less than two years before the date on which he is bound to retire under the terms of his contract of employment.

(b) Grant of options

Options will be granted by the Company to executives selected by the Board. Options may normally be granted only during the period of 42 days following the adoption of the 2000 Executive Scheme by the Company's shareholders or the date on which the preliminary announcement of the Company's final results is made or the date on which the announcement of the Company's interim results is made to the Company Announcements office of the London Stock Exchange apart from in exceptional circumstances. Options may not be granted during a period when the grant of options would not be in accordance with the Model Code for transactions in securities by directors, certain employees and persons connected with them. No payment is required for the grant of an option.

(c) Subscription price

An option will entitle the holder to subscribe for Ordinary Shares at a price determined by the Board which shall not be less than the higher of the nominal value of an Ordinary Share and (save in exceptional circumstances) the middle market quotation of an Ordinary Share, as derived from the Official List, for the dealing day immediately preceding the date of grant.

(d) Scheme limits

The number of Ordinary Shares which may be placed under option under the 2000 Executive Scheme is limited to 10 per cent. of the Company's issued ordinary share capital from time to time. Any Ordinary Shares issued or placed under option under the 1994 Executive Scheme shall not count for the purpose of this limit.

(e) Individual participation limit

No option may be granted to an employee if the result of the grant would be that the aggregate subscription price payable on the exercise of all options (other than options granted under an Inland Revenue approved savings-related share option scheme) granted to him under the 2000 Executive Scheme or any other share option scheme adopted by the Company or an "associated company" (as defined in the relevant legislation) of the Company during the preceding 10 years would exceed four times the employee's current annual remuneration. Notwithstanding this limit, an employee may be granted an option under the 2000 Executive Scheme to replace an option which he has previously exercised but such an option may be granted only if the Board is satisfied that there has been a significant improvement in the Company's performance on the preceding two financial years of the Company prior to the proposed date of grant.

(f) Exercise of options

An option will normally be exercisable only during the period between three and 10 years following the date of grant. An option will normally lapse if the option holder ceases to be employed within the Group. However, options may be exercised during a limited period in certain specified circumstances, such as the death, injury or disability of the option holder or the takeover or voluntary winding up of the Company. (Alternatively, in the event of a takeover of the Company, options may, with the agreement of the acquiring company, be exchanged for options over shares in the acquiring company.) If an option holder ceases to be employed within the Group in any other circumstances, the Board has a discretion to allow the option holder to exercise his option during a limited period.

(g) Performance target

The Board may, in its absolute discretion, impose a performance target as a condition of the exercise of an option. If the Board imposes a performance target the option may normally be exercised only if, and to the extent that, the auditors of the Company have first confirmed in writing to the Board that the performance target has been satisfied.

(h) Transferability

An option is not transferable and may be exercised only by the person to whom it was granted or, in the case of a deceased option holder, his personal representatives.

(i) Adjustments of options

In the event of a capitalisation issue, a rights issue or a sub-division, consolidation or reduction in the capital or any other variation of the share capital of the Company, the number of Ordinary Shares subject to an option and the subscription price under the option may be adjusted by the Board subject to the auditors of the Company confirming in writing to the Board that such adjustment is, in their opinion, fair and reasonable.

(j) Rights carried by shares issued on exercise of option

Ordinary Shares issued on the exercise of an option granted under the 2000 Executive Scheme will rank equally in all respects with the other Ordinary Shares in issue at the date of exercise, except for dividends and other entitlements arising by reference to a record date prior to the date of exercise.

(k) Listing

While the Ordinary Shares are listed and traded on the London Stock Exchange, application will be made by the Company to the London Stock Exchange for the listing of any Ordinary Shares allotted on the exercise of an option.

(l) Administration

The Board is responsible for the administration of the 2000 Executive Scheme including, in particular, the grant of options and the imposition of performance criteria. The Board may not amend the 2000 Executive Scheme for the benefit of executives without the prior approval of the Company in general meeting except for minor amendments to benefit the administration of the 2000 Executive Scheme and amendments to comply with or take account of the requirements of the London Stock Exchange, the Association of British Insurers, the National Association of Pension Funds or any similar body or any legal or regulatory requirement or any proposed change thereto.

(m) Exclusion from terms of employment

The rules of the 2000 Executive Scheme provide that the 2000 Executive Scheme does not form part of the contract of employment of any employee and that any claim by an employee for loss of employment will not include the loss of any benefit or advantage under the 2000 Executive Scheme.

(n) Governing law

The 2000 Executive Scheme is governed by English Law and any dispute concerning the 2000 Executive Scheme is subject to the jurisdiction of the English courts.

8.2 *1994 Executive Scheme*

The Company has established the RAP Group plc Executive Share Option Scheme 1994 ("the 1994 Executive Scheme"). Part I of the 1994 Executive Scheme was approved by the Inland Revenue under schedule 9 to the Income & Corporation Taxes Act 1988 ("the Approved Part"). Part 2 to the 1994 Executive Scheme was adopted by the Company on 29 July 1998 and is not approved by the Inland Revenue under schedule 9 to the Income & Corporation Taxes Act 1988 ("the Unapproved Part").

(a) The Approved Part

The Approved Part of the 1994 Executive Scheme was adopted by the Company on 29 November 1994 and approved by the Inland Revenue on 30 November 1994.

(i) Eligibility

Any full time director or full or part time employee of the Group is eligible to participate in the Approved Part of the 1994 Executive Scheme. However, an option may not be granted to a director or employee less than two years before he is bound to retire under the terms of his contract of employment or otherwise leave the employment of the Group.

(ii) Grant of options

Options will be granted by the Company to executives selected by the board. Options may normally be granted only during the period of 42 days following the announcement of the Company's interim or final results for any period. Options may not be granted more than ten years after the approval of the 1994 Executive Scheme by the Inland Revenue nor during a period when the grant of options would not be in accordance with the Model Code (as contained in the Listing Rules) for transactions in securities by directors, certain employees and persons connected with them. No payment is required for the grant of an option.

(iii) Subscription price

An option will entitle the holder to subscribe for ordinary shares in the Company at a price determined by the Board, which may not be less than the higher of:

(1) the middle market quotation of a share as derived from the daily Official List for the dealing day immediately preceding the date of grant, and

(2) the nominal value of a share.

(iv) Scheme limits

The number of shares which may be placed under option under the Approved Part of the 1994 Executive Scheme is subject to the following limits:

(1) in any rolling ten year period, not more than ten per cent. of the issued ordinary share capital of the Company from time to time may be placed under option under the Approved Part of the 1994 Executive Scheme or any other share option scheme (whether or not an executive scheme) or issued under any profit sharing or other share incentive scheme;

(2) in any rolling ten year period, not more than five per cent. of the issued ordinary share capital of the Company from time to time may be placed under option under the Approved Part of the 1994 Executive Scheme or any other executive share option scheme. This limit does not apply for options granted in the period 29 November 1994 to 29 November 1998 where not more than 2.5 per cent. of the issued ordinary share capital of the Company could be placed under option under the Approved Part of the 1994 Executive Scheme or any other executive share option scheme;

(3) in any rolling three year period not more than three per cent. of the issued ordinary share capital of the Company from time to time may be placed under option under the Approved Part of the 1994 Executive Scheme or any other share option scheme (whether or not an executive scheme) or issued under any profit sharing or other share incentive scheme.

In applying these limits, shares issued on the previous exercise of an option are counted. Shares granted under the Unapproved Part of the 1994 Executive Scheme to Messrs Savage, Bolton, Grimshaw and Shaw are disregarded.

(v) Individual participation limit

No option may be granted to an executive if the result of the grant would be that the aggregate price payable on the exercise of all options (other than options granted under a savings-related share option scheme or in the case of 8.2(a)(v)(2) below other than options granted prior to the admission of the shares to the Official List):

(1) granted to him under the Approved Part of the 1994 Executive Scheme or any other executive share option scheme approved by the Inland Revenue under Schedule 9 Income and Corporation Taxes Act 1988 would exceed £30,000; or

(2) granted to him under the 1994 Executive Scheme or any other executive share option scheme would exceed four times the individual's current annual remuneration.

(vi) Exercise of options

An option will normally be exercisable only during the period between three and ten years following the date of grant. An option will normally lapse if the option holder ceases to be employed within the Group. However, options may be exercised during a limited period in certain specified circumstances, such as the death, injury, disability, redundancy or retirement of the option holder or the take-over of the Company. (Alternatively, in the event of a take-over of the Company, options may, with the agreement of the acquiring company, be exchanged for options over shares in the acquiring company, or an associated company of the acquiring company). If an option holder ceases to be employed within the Group in any other circumstances, the Board may allow the option holder to exercise his option during a limited period. If an option holder is required to work overseas the Board may also permit the option holder to exercise his option during a limited period.

(vii) Performance target

The Board may, subject to the prior agreement of the Inland Revenue, require objective performance targets to be satisfied as a condition of exercise of an option granted under the Approved Part of the 1994 Executive Scheme. The Board may amend any performance target, if it considers it to be no longer appropriate. In certain specified circumstances such as death, injury, disability, redundancy or retirement at normal retirement age of the option holder or the take-over of the company where an option may become exercisable, any such performance targets are disapplied.

(viii) Transferability

An option is not transferable and may be exercised only by the person to whom it was granted or, in the case of a deceased option holder, his personal representatives.

(ix) Adjustment of options

In the event of a capitalisation issue, a rights issue or a sub-division, consolidation or reduction in the capital of the Company, the number of shares subject to an option and the subscription price under the option may be adjusted by the Board, subject to obtaining the prior approval of the Inland Revenue to the adjustment and subject to the auditors of the Company confirming in writing to the Board that such adjustment is, in their opinion, fair and reasonable.

(x) Listing

Following the exercise of any option, the Company will apply to the London Stock Exchange for the new Ordinary Shares to be admitted to the AIM appendix of the Official List.

(xi) Administration

The Board is responsible for the administration of the Approved Part of the 1994 Executive Scheme including, in particular, the grant of options and the imposition of performance criteria. The Board may amend the rules of the Approved Part of the 1994 Executive Scheme. However, the Board may not amend the Approved Part of the 1994 Executive Scheme for the benefit of executives without the prior approval of the Company in general meeting except for minor amendments to benefit the administration of the 1994 Executive Scheme and amendments to obtain or maximise favourable tax, exchange of control or regulatory treatment.

(xii) Exclusion from terms of employment

The rules of the Approved Part of the 1994 Executive Scheme provide that the Approved Part of the 1994 Executive Scheme does not form part of the contract of employment of any executive and that any claim by an executive for loss of employment will not include the loss of any benefit or advantage under the 1994 Executive Scheme.

(xiii) Governing law

The Approved Part of the 1994 Executive Scheme is governed by English Law and any dispute concerning the Approved Part of the 1994 Executive Scheme is subject to the jurisdiction of the English courts.

(b) *The Unapproved Part*

The Unapproved Part was approved by the Shareholders of the Company in a general meeting on 29 July 1998.

The Unapproved Part of the 1994 Executive Scheme was added to the rules of the 1994 Executive Scheme to enable the grant of an option over 676,000 shares (as adjusted following the rights issue) to be granted to Mr John Savage.

The Unapproved Part of the 1994 Executive Scheme was further amended with approval of the Shareholders of the Company in general meeting on 30 July 1999 to enable the grant of options to Messrs Bolton, Grimshaw and Shaw over 256,360 shares respectively (as adjusted following the Rights Issue).

The Unapproved Part of the 1994 Executive Scheme is in substantially the same terms as the Approved Part of the 1994 Executive Scheme.

The principal differences between the Unapproved Part of the 1994 Executive Scheme and the Approved Part of the 1994 Executive Scheme are as follows:

(i) the Unapproved Part of the 1994 Executive Scheme is not approved by the Inland Revenue;

(ii) the limit of £30,000 on the value of shares which may be subject to outstanding options granted to any individual under the Approved Part of the 1994 Executive Scheme does not apply to the Unapproved Part of the 1994 Executive Scheme;

(iii) the limit of four times an individual's current annual remuneration on the value of shares which may be subject to outstanding options granted to an individual under the Approved Part of the 1994 Executive Scheme does not apply to the Unapproved Part of the 1994 Executive Scheme;

(iv) options granted under the Unapproved Part of the 1994 Executive Scheme to Messrs Savage, Bolton, Grimshaw and Shaw are exercisable only on or after 12 March 2000, save where Messrs Savage, Bolton, Grimshaw or Shaw leave the employment of the Company in specified circumstances or the Company is taken over as described in paragraph 8.2(a)(vi) above;

(v) the exercise of an option granted under the Unapproved Part of the 1994 Executive Scheme requires an option holder to put the Company in funds to satisfy any income tax and employees national insurance contributions payable on the exercise of the option under the PAYE system; and

(vi) options granted to Messrs Savage, Bolton, Grimshaw and Shaw under the Unapproved Part of the 1994 Executive Scheme become exercisable if:

(1) there is a disposal by way of sale of the whole or substantially the whole of the Company's businesses; or

(2) the Company acquires another company in what constitutes a reverse take-over under the Listing Rules.

9. Principal subsidiaries

After Completion, the Company will be the holding company of the Enlarged Group. The principal subsidiary undertakings of the Company following Completion, all of which will be wholly owned, are listed below.

Name	*Principal Activity*
Oldrapco (No. 3) Limited	Intermediate holding company
Welpac plc	Intermediate holding company
K3 Business Technology Software Limited*	Software consultancy and supply
K3 Business Technology Group Limited*	Software consultancy and supply
Touchline Network Television Limited	Software and multi-media consultancy

The registered office of each of the above subsidiaries is RAP House, Harrison Street, Briercliffe, Burnley, Lancashire BB10 2HP, save for those marked with an asterisk whose registered office in the case of K3 Technology, is at Electra House, Electra Way, Crewe Business Park, Crewe, Cheshire CW1 6YX, and in the case of K3 Software is at Carlton Tower, 34 Saint Paul's Street, Leeds LS1 2QB. All of the above companies are registered in England and Wales.

10. Material contracts

10.1 *Material contracts of RAP*

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or its subsidiaries during the two years immediately preceding the date of this document and are or may be material:

(a) The Open Offer Agreement pursuant to which Rowan Dartington, *inter alia*, has undertaken to use all reasonable endeavours to make the Open Offer and the Employee Placing, in each case at the Offer Price.

The Open Offer and the Employee Placing are conditional, *inter alia*, upon Admission becoming effective on or before 28 March 2001. If the Open Offer and Employee Placing become unconditional in all respects, the Company has agreed to pay Rowan Dartington a fee of £78,000 plus VAT.

The Open Offer Agreement contains representations, warranties and indemnities given by the Company and the Directors to Rowan Dartington and also contains provisions enabling Rowan Dartington to terminate its obligations under the agreement in certain circumstances prior to Admission.

The Directors have undertaken that they and persons connected with them will not, without the prior written consent of Rowan Dartington, sell or otherwise dispose of any interest in Ordinary Shares before the date following 12 months after Admission.

(b) The Acquisition Agreements.

(c) The Disposal Agreement.

(d) The Support Agreement.

(e) A warrant instrument agreed by the Company to be executed on Completion, which constitutes warrants to subscribe for 18,000,000 Ordinary Shares. The Warrants are granted in favour of Silversläggan and are exercisable between 28 March 2001 and the earlier of 28 March 2004 and the date on which a future takeover or listing of the Company on the Official List of the UK Listing Authority becomes effective. The exercise price is 20 pence per Ordinary Share. The warrant instrument also enables the Company, with the consent of Silversläggan, to require Silversläggan to exercise its right to subscribe for warrants and direct that the Ordinary Shares allotted on such exercise are allotted to placees nominated by the Company, at a placing price no less than 90 per cent. of the prevailing mid market price. The Company is then obliged to remit to Silversläggan an amount equal to the difference between such placing price and the exercise price of 20 pence per share. An adjustment to the exercise price of the Warrants will be made by the auditors of the Company upon any re-organisation of the Company's share capital or capitalisation issue. The Warrants are not transferable.

(f) A nominated adviser and nominated broker agreement dated 2 March 2001 between the Company, Rowan Dartington and the Directors whereby Rowan Dartington has agreed to act, *inter alia*, as nominated adviser and nominated broker for an annual fee of £15,000, which is subject to annual review.

(g) An agreement dated 13 October 2000 made between the Company and various of its subsidiaries (1) Zika Rapid Distribution Limited ("Zika") (2) and Zika Electrode Works Limited (3) under which the Company agreed to sell its rubber, safety equipment and industrial gloves distribution business to Zika. The consideration for the sale of this business was the payment in cash of an amount equal to the net asset value of the business at completion, provisionally estimated at £3.8 million. £3.4 million was paid on completion. On agreement or determination of completion accounts, a further cash payment equal to the difference between the net asset value of the business and £3.4 million will be payable to the Company or Zika as the case may be. The agreement contains warranties in favour of Zika which last for 18 months following completion, none of which were unusual for an agreement of this nature. As part of the sale to Zika, the Company has agreed to provide certain administrative and management services to Zika for a period of six months following completion.

(h) An agreement dated 26 June 2000 made between the Company and J Myers, P J Myers, N A Makeham and D Walker relating to the sale to the Company of the entire issued share capital of Touchline Network Television Limited. The consideration for the sale was the issue to the vendors of an aggregate of 830,000 Ordinary Shares, of which the issue of 330,000 Ordinary Shares is dependent on the profitability of Touchline in the period to 31 March 2001. The agreement contains warranties and indemnities given by the vendors, none of which are unusual in their nature.

(i) An agreement dated 26 June 2000 between the Company and P J Claesson pursuant to which Mr Claesson agreed to lend the Company the sum of £200,000, until completion of the rights issue undertaken by the Company in June 2000. The loan is unsecured although interest accrues at a rate of 10 per cent, per annum on any amount outstanding.

(j) An agreement dated 3 May 2000 between Rubber & Allied Products (RAP) Limited and P Gyllenhammar relating to the sale of the entire issued share capital of RAP Conveyors Limited for a total cash consideration of approximately £500,000. The agreement contains warranties and indemnities in favour of the purchaser including non-taxation warranties which last for 18 months and taxation warranties which last for six years, in each case from completion. None of these warranties are unusual for an agreement of this nature.

(k) A conditional agreement dated 14 April 2000 made between Waugh of Hamilton Limited and Kwik-Fit Properties Limited relating to the sale of freehold property owned by Waugh of Hamilton Limited at 50 Union Street, Hamilton, for a cash consideration of £475,000. Completion of the agreement was conditional upon the purchaser obtaining planning permission to change the use of the property.

(l) An agreement dated 17 June 1999 made between the Company and G Bosman Transport Limited, relating to the sale of freehold property at Unit 4, New Road Business Estate, Ditton, Kent, for a cash consideration of £120,000.

10.2 *Material Contracts of K3 Technology*

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by K3 Technology or its subsidiaries during the two years immediately preceding the date of this document and are or may be material:

(a) an exclusive worldwide licence and transfer agreement dated 31 August 2000 made between Kewill Systems Plc (1), Trifid Software Limited (2), K3 Technology (3) and Silverslägga n (4) under which Kewill agreed to grant an exclusive, worldwide licence to use, modify and exploit the manufacturing system software known as IBS to K3 Technology and to sell certain assets associated with this software, including customer contracts and goodwill to K3 Technology. The total consideration for the grant of the licence and sale of the assets was £819,067 plus VAT, payable as to £294,163 plus VAT in cash on completion, £262,452 plus VAT in cash on 31 March 2001 and £262,452 plus VAT in cash on 30 September 2001. The cash relating to the deferred elements of the consideration has been placed on a joint deposit account to be released at the relevant times. The agreement contains certain warranties in relation to the IBS software and the assets sold, such warranties to expire on 31 August 2001. In addition, Kewill has agreed not to solicit any employees transferred to K3 Technology under the agreement or solicit customers of the business for a period of two years from completion;

(b) an underlease dated 31 August 2000 made between Kewill Systems Plc (1) and K3 Technology (2) under which Kewill grants an underlease to K3 Technology of ground floor office premises at Electra House, Crewe Business Park, Crewe, Cheshire. The term of the underlease is six months from 31 August 2000 and the rent payable is equivalent to £53,000 per annum, payable quarterly. Various covenants are entered into by K3 Technology and Kewill, none of which are unusual for an agreement of this nature.

10.3 Material Contracts of K3 Software

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by K3 Software during the two years immediately preceding the date of this document and are or may be material:

(a) an asset transfer agreement dated 29 November 2000 made between Kewill Systems plc (1), K3 Software (2) and Silverslägga n (3) under which Kewill agreed to sell to K3 Software the business of the supply of Omicron and Micross Elite software, together with certain assets of this business including customer contracts, goodwill and the lease of office premises in Telford, Shropshire. The total consideration was £60,115 payable in cash on completion. Kewill has agreed to collect book debts of the business outstanding at completion for a period of 12 months following completion. The parties agreed that the first £100,000 of book debts so collected would belong to Kewill. Thereafter, the proceeds of any book debts collected would belong as to 50 per cent. to Kewill and 50 per cent. to K3 Software. The agreement contains certain warranties in relation to the Omicron and Micross software and the assets sold, such warranties to expire on 29 November 2001. In addition, Kewill has agreed not to compete with the business sold for three years following completion nor to solicit any employees transferred to K3 Software or customers of the business for a period of two years from completion;

(b) a software distribution agreement dated 29 November 2000 made between Kewill ERP Inc (1) and K3 Software (2) under which Kewill ERP Inc has granted to K3 Software a non-exclusive licence to use, sub-licence, market and distribute the software as "JobBOSS" in the UK and Ireland. The term of the licence is five years from the date of the agreement, terminable thereafter by either party giving the other 12 months' notice in writing. A licence fee is payable of 15 per cent. of the prevailing UK list price for the software as provided to each new customer and 6.5 per cent. of the prevailing UK list price for maintenance and support services provided to each new customer;

(c) a software distribution agreement dated 29 November 2000 made between Kewill ERP Inc (1) and K3 Software (2) under which Kewill ERP Inc has granted to K3 Software an exclusive licence to use, sub-licence, market and distribute the software known as "Micross for Windows", "MFW" or "MAX" in the UK and Ireland. The term of the licence is five years from the date of the agreement, terminable thereafter by either party giving the other three months' notice in writing. A licence fee is payable from 1 April 2003 of 15 per cent. of the prevailing UK list price for the software as provided to each new customer; and

(d) a software distribution agreement dated 29 November 2000 made between Kewill Systems plc (1) and K3 Software (2). under which Kewill Systems plc has granted to K3 Software a non-exclusive licence to use, sub-licence, market and distribute the software known as "Kewill.view" in the UK and Ireland. The term of the licence is five years from the date of the agreement, terminable thereafter by either party giving the other three months' notice in writing. An initial licence fee of £2,000,000 plus VAT was paid in cash on the date of the agreement. Further licence fees are payable thereafter of 15 per cent. of the prevailing UK list price for the software as provided to each new customer and 6.5 per cent. of the prevailing UK list price for maintenance and support services provided to each new customer.

10.4 *Material Contracts of Silversläggan*

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by Silversläggan or its subsidiaries during the two years immediately preceding the date of this document and are or may be material:

(a) the contracts referred to in paragraph 10.2 above; and

(b) the contracts referred to in paragraph 10.3 above.

11. Properties

The principal premises occupied by the Enlarged Group will be as follows:

Company	*Leasehold/Freehold*	*Terms of lease*	*Property*
K3 Technology	Leasehold	Expires 28 February 2001 (to be renewed)	Part of the ground floor of Electra House, Crewe Business Park, Crewe, Cheshire
Touchline	Leasehold	Expires 17 December 2001	Units 7, 8 and 15 in the Innovation Centre, Brunswick Street, Nelson, Lancashire

12. Working capital

The Directors are of the opinion that, assuming the Acquisitions and Disposals take place and taking into account bank and other facilities available to it and the Minimum Proceeds net of expenses, the Enlarged Group will have sufficient working capital for its present requirements, being at least the next twelve months from the date of this document.

13. Significant or material changes

13.1 There have been no significant or material changes in the financial or trading position of the Group since 31 December 2000 (the date to which the Company's preliminary unaudited results were made up).

13.2 There have been no material changes in the financial or trading position of K3 Technology or K3 Software since 31 December 2000 (the date to which their last accounts were made up as set out in Parts VI and VII of this document).

13.3 Save for the acquisitions of the businesses of K3 Technology and K3 Software from Kewill Systems plc in August 2000 and November 2000 respectively, there has been no significant change in the financial or trading position of Silversläggan since 31 December 1999 (the date to which Silversläggan's last published accounts were made up).

14. Litigation

14.1 No member of the Group is, or has been, engaged in any legal or arbitration proceedings and no litigation, arbitration or claim is pending or threatened against any member of the Group which may have, or has had, during the previous 12 months a significant effect on the Group's financial position.

14.2 Neither K3 Technology nor K3 Software is or has been engaged in any legal or arbitration proceedings and no litigation arbitration or claim is pending or threatened against K3 Technology or K3 Software which may have or has had during the previous 12 months a significant effect on the such company's financial position.

15. Consents

15.1 Arthur Andersen have given and not withdrawn their written consent to the inclusion of their audit reports in Part V and to the references to their name and their reports in the form and respective contexts in which they are included and accepts responsibility for such reports and have not become aware, since the date of any such audit report, of any matter affecting the validity of that report at that date.

15.2 Rowan Dartington has given and not withdrawn its written consent to the inclusion of its name and references to its name in the form and contexts in which they are included.

15.3 KPMG Audit plc has given and not withdrawn its written consent to the inclusion of its report in Part V and to the references to its name and its report in the form and respective contexts in which it is included and accepts responsibility for such report and has not become aware, since the date of any such audit report, of any matter affecting the validity of that report at that date.

16. UK Taxation

16.1 *UK tax disclosure*

The statements set out below are intended as a general guide only to current United Kingdom legislation and Inland Revenue practice as at the date of this document. Except where the position of non-United Kingdom resident or ordinarily resident corporate or non-corporate shareholders is expressly referred to, these comments deal only with the position of corporate or non corporate shareholders who are resident or ordinarily resident in the United Kingdom for tax purposes, who are the beneficial owners of their shares and who hold their shares as an investment. They do not deal with the position of shareholders other than these or of certain classes of shareholders, such as dealers in securities. The summary does not purport to be a complete analysis or listing of all the potential tax consequences of holding shares. **If you are in any doubt as to your tax position or if you require more detailed information than that outlined below you should consult an appropriate professional adviser.**

16.2 *Dividends*

Under current United Kingdom taxation legislation, no tax will be withheld from dividend payments by the Company to United Kingdom resident shareholders.

Non-corporate shareholders resident in the United Kingdom for tax purposes will be entitled to a tax credit in respect of any dividend paid by the Company which they can offset against their income tax liability on the dividend. That credit is equal to one ninth of the dividend received (or 10 per cent. of the gross dividend). The gross dividend (i.e. the amount received plus the tax credit) is considered to be the top slice of the recipient's income. To the extent that the income falls within either the starting or basic rate tax band, the dividend income (including the tax credit) is taxed at 10 per cent. and the tax liability will therefore be offset in full by the tax credit so that there will be no further tax to pay. If the recipient is a higher rate tax payer, he is liable to pay tax at 32.5 per cent. on that part of the dividend income falling above the higher rate limit; part of this liability is satisfied by the tax credit, and the remaining liability is equal to 25 per cent. of the amount received. Persons who are not subject to taxation on all or part of the dividend income are not entitled to a repayment of the tax credit.

A United Kingdom resident corporate shareholder will not generally be subject to taxation on the dividend received unless the corporation is a dealer in securities, in which case the receipt will be considered part of its trading income and taxed accordingly.

Persons who are not resident in the UK should consult their own tax advisers on the possible application of such provisions and what relief or credit may be claimed in the jurisdiction in which they are resident.

16.3 *Stamp duty and stamp duty reserve tax*

Stamp duty and stamp duty reserve tax ("SDRT") treatment under the Open Offer will be as follows:

(i) In relation to the New Ordinary Shares being issued by the Company, no liability to stamp duty or SDRT will arise on their issue.

(ii) No stamp duty or SDRT will arise on a deposit of New Ordinary Shares in CREST for conversion into uncertificated form (otherwise than pursuant to a transfer on sale or in contemplation of such sale) in which case a liability to stamp duty or SDRT will arise, usually at the rate of 0.5 per cent. of the consideration).

16.4 *Capital Gains*

A disposal of shares by a shareholder who is either resident or, in the case of an individual resident or ordinarily resident for tax purposes in the UK or who is not UK resident but carries on a trade, profession or vocation in the UK through a branch or agency to which the shares are attributable, may, depending on the shareholders' circumstances and subject to any available exemptions or reliefs, give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains. A shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident or ordinarily resident for tax purposes in the UK for a period of less than five years and who disposes of the shares during that period may also be liable on his return to UK taxation of chargeable gains (subject to any available exemptions or reliefs).

For a shareholder not within the charge to corporation tax, such as an individual, trustee or personal representative, taper relief (which reduces a chargeable gain depending on the length of time for which an asset is held) may be available to reduce the amount of chargeable gain realised on a subsequent disposal.

For a shareholder within the charge to corporation tax, indexation allowance on the cost apportioned to the shares should be available to reduce the amount of chargeable gain realised on a subsequent disposal.

Any person who is in any doubt as to his tax position or who may be subject to tax in any other jurisdiction should consult an appropriate professional adviser.

17. General

17.1 The expenses of the Acquisitions, Disposals, Open Offer and other proposals described in this document are estimated to amount to approximately £225,000 (including VAT) and are payable by the Enlarged Group. The estimated net proceeds of the Open Offer on this basis are approximately negative £37,000.

17.2 No person (excluding professional advisers disclosed in this document) has received, directly or indirectly, from the Company within 12 months preceding the date of this document or entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after admission of the New Ordinary Shares to AIM fees totalling £10,000 or more for securities in the Company with a value of £10,000 or more calculated by reference to the Offer Price or any other benefit with the benefit of £10,000 at the date of Admission.

17.3 The minimum amount which in the opinion of the Directors and the Proposed Directors must be raised by the Company under the Open Offer to provide the sums required in respect of the matters specified in paragraph 21 of Schedule 1 to the Public Offers of Securities Regulations 1995 is £188,000 which will be applied as follows:

(a) expenses of the Acquisitions, Open Offer and Disposals – £188,000;

(b) purchase of property – £nil;

(c) working capital of – £nil.

17.4 The financial information contained in this document does not constitute statutory accounts within the meaning of section 240 of the Act.

17.5 Other than as disclosed in this document, the Directors and the Proposed Directors are not aware of any exceptional factors which have influenced the Group's recent activities. Other than disclosed in this document the Directors and the Proposed Directors are not aware of any exceptional factors which have influenced K3 Technology's and K3 Software's recent activities.

17.6 Other than as disclosed in Part II of this document, there are no patents or other intellectual property rights licences or contracts which are or may be of fundamental importance to the Group, K3 Technology or K3 Software.

17.7 Save as disclosed in paragraph 6.12 of this Part XI, no agreement arrangement or understanding (including any compensation arrangement) exists between the Concert Party and any director, recent director, shareholder or recent shareholder and any other person having any connection with or dependence upon the proposals set out in this document.

17.8 As at 28 February 2001 (the last practicable date prior to the publication of this document), no subsidiary of the Company, no pension fund of the Company or of a subsidiary of the Company and no bank, financial or other professional adviser (including a stockbroker) of the Company or any subsidiary of the Company, their associated companies and companies of which such companies are associated companies, including persons controlling, controlled by or under the same control of such banks, financial and other professional advisers (but excluding exempt market makers), holds any Ordinary Shares.

17.9 There is no agreement, arrangement or understanding whereby the beneficial ownership of any New Ordinary Shares to be acquired by the Concert Party pursuant to the Acquisition Agreements will be transferred to any other person save that the Concert Party reserves the right to transfer any such shares between members of the Concert Party.

17.10 The following table shows the middle market quotations for Ordinary Shares as derived from the AIM Appendix to the Official List for the first dealing day in each of the six months before the date of this document and on 28 February 2001, being the last practicable date prior to the publication of this document:

Date	*Middle market quotation (p)*
1 September 2000	18.00
2 October 2000	16.50
1 November 2000	15.50
1 December 2000	16.00
2 January 2001	18.25
1 February 2001	19.00
28 February 2001	19.00

18. Documents available for inspection

Copies of the following documents may be inspected at the offices of Eversheds, Cloth Hall Court, Infirmary Street, Leeds LS1 2JB and at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excepted) for a period of 14 days from the date of this document:

(a) the Memorandum and Articles of Association of the Company referred to in paragraph 4 above;

(b) the constitutional document of Silversläggan;

(c) the irrevocable undertakings referred to in Part I;

(d) the rules of the Share Option Schemes;

(e) the service agreements and letters of appointment referred to in paragraph 6 of this Part XI;

(f) the material contracts referred to in paragraph 10 of this Part XI;

(g) the letters of consent referred to in paragraph 15 of this Part XI;

(h) the audited consolidated accounts of the RAP for each of the three financial years ended 31 December 1997, 31 December 1998 and 31 December 1999;

(i) the audited accounts of K3 Technology and the audited accounts of K3 Software for the respective periods ended 31 December 2000.

2 March 2001

RAP GROUP PLC

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE is hereby given that an Extraordinary General Meeting of the Company will be held at Eversheds, Cloth Hall Court, Infirmary Street, Leeds LSl 2JB on 26 March 2001 at 11.30 a.m. for the purpose of considering and if thought fit passing the following ordinary and special resolutions:

ORDINARY RESOLUTIONS

1. THAT the disposals by the Company of the entire issued share capital of each of Welpac Hardware Limited, Harwood Hardware Limited and Anderson and Firmin Limited on the terms and conditions of the disposal agreements each dated 2 March 2001 described in Part I of the prospectus and circular to shareholders of the Company dated 2 March 2001 of which this notice forms part ("Prospectus") be and are hereby approved and the Directors of the Company be and are hereby authorised to complete the said agreements in accordance with their terms subject to such modifications thereto as they may consider expedient or appropriate (provided that any such modification shall not be a material modification).

2. THAT the acquisitions by the Company of the entire issued share capital of each of K3 Business Technology Group Limited and K3 Business Technology Software Limited ("Acquisitions') on the terms and conditions of the acquisition agreements ("Acquisition Agreements") each dated 2 March 2001 described in Part I of the Prospectus be and are hereby approved and the Directors of the Company be and are hereby authorised to complete the said agreements in accordance with their terms subject to such modifications thereto as they may consider expedient or appropriate (providing that any such modifications shall not be a material modification).

3. THAT the waiver by the Panel on Takeovers and Mergers of any obligation which might otherwise fall on the Concert Party (as defined in the Prospectus) to make a general offer pursuant to Rule 9 of the City Code on Takeovers and Mergers as a result of the allotment of new Ordinary Shares (as defined in the Prospectus) under the open offer described in the Prospectus ("Open Offer") and/or under the Acquisition Agreements and pursuant to exercise of the Warrants (as defined in the Prospectus) to Silversläggan AB which would result in a shareholding of Concert Party of up to a maximum of 52,445,295 Ordinary Shares, being 75.67 per cent. of the enlarged issued share capital of the Company immediately following the Open Offer and the Acquisitions and assuming the Warrants are exercised, be and is hereby approved.

4. THAT: (a) the authorised share capital of the Company be increased from £2,500,000 to £5,000,000 by the creation of 50,000,000 ordinary shares of 5p each; and

   (b) in substitution for all existing and unexercised authorities, pursuant to section 80 of the Companies Act 1985 ("the Act"), the Directors of the Company be generally and unconditionally authorised to exercise all or any powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) in the capital of the Company up to (i) a maximum nominal amount of £1,282,584.10 in connection with the Open Offer and in connection with the Acquisitions (ii) a maximum nominal amount of £900,000 in connection with exercise of the Warrants (as defined in the Prospectus) and (iii) otherwise than pursuant to (i) and (ii) above to a maximum nominal amount of £846,505.50 (representing approximately one third of the issued Ordinary Share capital of the Company immediately following Admission (as defined in the Prospectus)), provided that this authority shall unless previously revoked or varied by the Company in general meeting expire five years from the date of this resolution save that the Company may before the expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors of the Company may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

SPECIAL RESOLUTION

5. THAT subject to the passing of resolution 1 and in substitution for any existing authority the Directors of the Company be and are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) as if to section 89(1) of the Act did not apply to the allotment, provided that this power is limited to:

   (a) the allotment of equity securities in connection with the Open Offer (as defined in the prospectus);

   (b) the allotment of equity securities in connection with the Acquisitions;

   (c) the allotment of equity securities in connection with the Warrants (as defined in the Prospectus);

   (d) the allotment of equity securities in connection with a rights issue, open offer or other pre-emptive offer in favour of shareholders but subject to such exclusions or other arrangements and the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems and other laws of other overseas territory with the requirements of any regulatory body or stock exchange; and

   (e) the allotment of equity securities for cash (otherwise than pursuant to paragraphs (a) to (d) above) up to an aggregate nominal amount of £256,516.80 (being approximately 10 per cent. of the nominal value of the issued ordinary share capital of the Company immediately following the Open Offer and the Acquisitions) and will (unless previously renewed varied or revoked) expire at the conclusion of the annual general meeting of the Company held in 2002 but the Company may before this power expires make an offer or agreement which would or might require equity securities to be allotted otherwise than in accordance with section 89 of the Act after such expiry and the directors may allot equity securities of pursuance in such offer or agreement as if the power conferred hereby had not expired.

SPECIAL RESOLUTION

6. THAT the name of the Company be and is hereby changed to "K3 Business Technology Group plc".

ORDINARY RESOLUTION

7. THAT the grant of the following options under the 2000 Executive Scheme be and is hereby approved:

   (a) to D J Bolton over 250,000 Ordinary Shares to be granted at the prevailing market price at the date of grant at an exercise price of 20p per Ordinary Share in respect of 83,334 Ordinary Shares, 25p per Ordinary Share in respect of 83,333 Ordinary Shares and 30p per Ordinary Share in respect of 83,333 Ordinary Shares; and

   (b) to N A Makeham over 1,000,000 Ordinary Shares to be granted at the prevailing market price at the date of grant at an exercise price of 20p per Ordinary Share in respect of 333,334 Ordinary Shares, 25p per Ordinary Share in respect of 333,333 Ordinary Shares and 30p per Ordinary Share in respect of 333,333 Ordinary Shares.

BY ORDER of the Board
D J Bolton,
Company Secretary

DATED 2 March 2001

Registered Office: RAP House, Harrison Street, Briercliffe, Burnley, Lancashire BB10 2HP.

Notes:

1. The Company, pursuant to regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only holders of Ordinary Shares registered in the Register of Members of the Company as at 11.30 a.m. on 24 March 2001 shall be entitled to attend and vote at the extraordinary general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 11.30 a.m. on 24 March 2001 shall be disregarded in determining the right of any person to attend and vote at the meeting.
2. A member of the Company who is entitled to attend and vote at the meeting convened by this notice may appoint one or more proxies to attend, and on a poll, vote instead of him. Any proxy need not be a member of the Company. A form of proxy is enclosed. In order to be valid, an instrument appointing a proxy and any power of attorney under which it is signed (or a notarially certified copy thereof) must be deposited at Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 OLA not later than 48 hours before the time appointed for the meeting. The completion and return of a proxy will not however preclude shareholders from attending and voting in person at the meeting should they still wish to.
3. Resolution 3 will be taken on a poll in accordance with the requirements of the Panel on Takeovers and Mergers, for dispensation from Rule 9 of the City Code on Takeovers and Mergers.

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