



# greenaways

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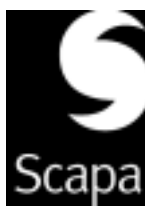
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**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about what action you should take, you should seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser duly authorised pursuant to the Financial Services and Markets Act 2000, or, if you are not in the United Kingdom, another appropriately authorised independent professional adviser.**

If you have sold or transferred all of your Ordinary Shares in Scapa Group plc, please forward this document and the accompanying Form of Proxy to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. If you have sold or otherwise transferred some only of your shares in Scapa Group plc, you should retain these documents.

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## **Scapa Group plc**

*(registered in England and Wales with registered no. 826179)*

### **Proposed Disposal of the Megolon Division and**

### **Notice of Extraordinary General Meeting**

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This document should be read as a whole. Your attention is drawn to the letter from the Chairman of Scapa Group plc which is set out on pages 5 to 7 of this document and which contains the recommendation of the Board that Shareholders vote in favour of the resolution which is to be proposed at the Extraordinary General Meeting.

Notice convening the Extraordinary General Meeting of Scapa Group plc, to be held at 2.00 p.m. on 23 August 2006 at the offices of Addleshaw Goddard LLP, 100 Barbirolli Square, Manchester M2 3AB, is set out at the end of this document. To be valid, the Form of Proxy enclosed with this document for use in relation to the Extraordinary General Meeting must be completed in accordance with the instructions set out therein and returned as soon as possible to Capita Registrars (Proxies) at PO Box 25, 34 Beckenham Road, Beckenham, Kent BR3 4BR, but in any event so as to arrive not later than 2.00 p.m. on 21 August 2006. The return of the Form of Proxy will not preclude a member from attending and voting at the Extraordinary General Meeting, in person, should he subsequently decide to do so.

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## EXPECTED TIMETABLE OF EVENTS

Latest time for receipt of Forms of Proxy	2.00 p.m. on 21 August 2006
Extraordinary General Meeting	2.00 p.m. on 23 August 2006
Expected date of Completion	September 2006

## DEFINITIONS

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

“Alphagary”	Alphagary Limited
“AIM”	AIM, a market operated by London Stock Exchange
“Annual General Meeting” or “AGM”	the annual general meeting of the Company held on 25 July 2006
“Board or Directors”	the directors of the Company whose names appear on page 21 of this document
“Companies Act” or “Act”	the Companies Act 1985, as amended
“Completion”	completion of the Proposed Disposal
“Continuing Group”	the Group as comprised after the Proposed Disposal has taken place
“EGM” or “Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held at 2.00 p.m. on 23 August 2006 at the offices of Addleshaw Goddard LLP, 100 Barbirolli Square, Manchester M2 3AB, notice of which is set out at the end of this document
“ESOP”	the share option scheme operated by the Company and known as the Scapa Group 1994 Approved Executive Share Option Scheme and the 1994 Unapproved Executive Share Option Scheme
“Form of Proxy”	the form of proxy accompanying this document for use in connection with the Extraordinary General Meeting
“JPMorgan Cazenove”	JPMorgan Cazenove Limited of 20 Moorgate, London EC2R 6DA
“Listing Rules”	the Listing Rules of the UK Listing Authority
“LTIP”	the share option scheme operated by the Company and known as the Scapa Group Long Term Incentive Plan
“London Stock Exchange”	London Stock Exchange PLC
“Megolon Division” or “Megolon”	the division of the Group that develops and manufactures a range of halogen free, fire retardant, low smoke and fume compounds used in cable sheathing and installation
“Official List”	the official list of the UK Listing Authority
“Ordinary Shares”	the ordinary shares of 5 pence each in the capital of the Company
“PD Regulation”	regulation number 809/2004 of the European Commission
“Proposed Disposal”	the proposed disposal of the business and assets of the Megolon Division pursuant to the Sale Agreement and on the terms summarised in this document
“Sale Agreement”	the conditional agreement dated 28 July 2006 between, <i>inter alia</i> , Scapa UK, the Company and Alphagary, relating to the Proposed Disposal, the principal terms of which are summarised in Part V of this document
“Scapa” or “Company”	Scapa Group plc, registered in England and Wales with Company No. 826179
“Scapa Group” or “Group”	the Company and its subsidiaries
“Scapa Optionholders”	the persons who are entitled to acquire Ordinary Shares pursuant to outstanding options granted pursuant to the Group’s Share Option Schemes
“Scapa UK”	Scapa UK Limited, a wholly owned subsidiary of the Company
“Shareholders”	holders of Ordinary Shares

“Share Option Schemes	the share option schemes operated by the Group namely the ESOP, the LTIP, the Sharesave and the US SOP
“Sharesave”	the share option schemes operated by the Group and known as the Scapa Group 2001 Sharesave Scheme and the Scapa Group 1991 Sharesave Scheme
“Trading Profit”	operating profit, excluding impairment of assets, reorganisation charges and exceptional provision movements
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purpose of Part VI of the Financial Services and Markets Act 2000
“US SOP”	the share option scheme operated by the Group and known as the Scapa US Stock Option Plan

## PART I

### LETTER FROM THE CHAIRMAN OF THE COMPANY



# Scapa Group plc

*(Incorporated and registered in England and Wales with registered no. 826179)*

*Directors:*

K G G Hopkins (*Chairman*)  
C J O'Connor  
C M White  
S D Lennon  
R J Perry

997 Manchester Road  
Ashton-under-Lyne  
Greater Manchester  
OL7 0ED

Telephone 0161 301 7400

1 August 2006

*To Shareholders and, for information only, to Scapa Optionholders*

Dear Shareholder

### **Proposed Disposal of Scapa's Megolon Division**

#### **1. Introduction**

Following the announcement on 8 June 2006 of the proposed sale of the Group's Megolon Division, subject to due diligence, the Board of Scapa announced on 31 July 2006 that Scapa UK has entered into a conditional agreement to sell the business and assets of the Megolon Division to Alphagary for a consideration of £16.75 million in cash (before transaction costs and taxation), subject to possible adjustment by reference to stock value at Completion. Paragraph 5 of this letter and Part V of this document set out the principal terms of the Proposed Disposal in more detail.

In view of the size of the Proposed Disposal relative to the Group, the Proposed Disposal is conditional upon the approval of Shareholders. This approval is to be sought at the Extraordinary General Meeting of the Company to be held on 23 August 2006.

A notice convening the Extraordinary General Meeting, at which a resolution to approve the Proposed Disposal will be proposed, is set out at the end of this document.

The purpose of this document is to provide you with further details of the Proposed Disposal, and to explain why the Board believes it is in the best interests of the Company and its Shareholders as a whole.

#### **2. Background to and reasons for the Disposal**

During the second half of the year ended 31 March 2006 the Board completed a major review of the Company. Scapa has good technology in the specialist adhesive tape market where technical performance and service are paramount and good margins are attained. Unfortunately, a number of poorly performing acquisitions and investments in past years give us little room for manoeuvre and as a first step we have decided to sell a number of our peripheral operations to pay down our debt and improve our financial position.

Whilst the performance of the Megolon compounding operations has continued to be satisfactory, it is not a core part of the Group's ongoing business and the Board has concluded that the Proposed Disposal is in the best interests of Shareholders.

### **3. Use of proceeds**

It is the intention that the cash proceeds from this transaction will be applied to repay secured borrowings in full ahead of the expiry of the medium term facility in September 2007.

### **4. Information on Megolon**

The Megolon business supplies halogen free compounds with fire retardant and low smoke properties for sheathing and insulation. Products are sold internationally with over 80 per cent. of sales made outside the UK.

In the year to 31 March 2006 the Megolon Division had sales of £20.3 million and Trading Profit of £1.1 million. Assets to be sold as part of the Proposed Disposal had a book value of £6.7 million as at 31 March 2006. This financial information is extracted without material adjustment from Part III of this document, which also sets out further financial information on the Megolon Division. Shareholders should read all of this document and not rely solely on this summarised information.

### **5. Principal terms of the Proposed Disposal**

Pursuant to the terms of the Sale Agreement, Alphagary is to pay £16.75 million in cash to Scapa UK, on Completion. This consideration may be increased (or decreased) by reference to the value of the stock of the Megolon Division at Completion.

Since the Proposed Disposal is conditional not only on the approval of Shareholders, but also on receipt of various merger control clearances, the timing of Completion is not yet fixed. However, the Board anticipates that Completion will take place no later than the end of September 2006.

Alphagary is to acquire the fixed assets, intellectual property, stock and goodwill in the Megolon Division, together with the Group's freehold property at Columbine Street, Openshaw, Manchester and will take over the orders and contracts of the Megolon Division which are outstanding at Completion. The Group is to grant a short-term licence to Alphagary in respect of that part of the property at Manchester Road, Ashton-under-Lyne occupied by the Megolon Division. The Group is also to provide post-Completion support to Alphagary pursuant to a transitional services arrangement. Further details of these arrangements are summarised in Part V of this document.

### **6. Financial effects of the Proposed Disposal**

The Proposed Disposal is expected to be earnings neutral in the short term after taking account of management actions planned to reduce operating costs further, following Completion of the Proposed Disposal.

An unaudited pro forma statement of net assets of the Continuing Group as at 31 March 2006 is set out, for illustrative purposes only, in Part IV of this document. At that date the Group had consolidated net assets prior to the Proposed Disposal of £8.2 million.

As shown in that statement, the illustrative consolidated net assets of the Continuing Group as at 31 March 2006, on a *pro forma* basis and adjusted to reflect the Proposed Disposal as if Completion had occurred at that date, would have been £17.8 million before taking account of the costs associated with additional management actions planned to reduce operating costs.

In the period since the issue of our Preliminary Results for 2005/06, little has changed to the general trading climate reported at that time. Sales for the first quarter have been in line with expectations and, on an underlying basis, are 3 per cent. up on last year. This gain relates to our European operations and reflects the improvement initiatives put into place last year.

Upward pressure on raw materials linked to the current high price of crude oil has continued through the quarter with full margin recovery an ongoing area of focus. Relentless cost reduction continues to be the way of life at Scapa with the already announced third phase of the major cost reduction programme to be put into place following the Proposed Disposal. This will bring total expenditure on the full programme to date to £3.8 million, with projected annual savings of the same amount.

## **7. Risk factors**

Shareholders should consider fully the risk factors associated with the Continuing Group and the Megolon Division. Your attention is drawn to the risk factors set out in Part II of this document

## **8. Extraordinary General Meeting**

You will find set out at the end of this document a notice convening an Extraordinary General Meeting to be held at the offices of Addleshaw Goddard LLP, 100 Barbirolli Square, Manchester M2 3AB at 2.00 p.m. on 23 August 2006, at which an ordinary resolution will be proposed to approve the Proposed Disposal.

## **9. Additional information**

Your attention is drawn to the additional information set out in Parts II to VI of this document. You are advised to read the whole of this document and not to rely solely on the information contained within this letter.

## **10. Proposed move to AIM**

As a further result of the review of the Company the Board concluded that the AIM market was a more appropriate one for a company of Scapa's size and resources. Accordingly, the Board notified Shareholders, in a circular dated 19 June 2006, of its intention to seek shareholder approval for a delisting of the Company's Ordinary Shares from the Official List and a move to AIM and this approval was given at the Annual General Meeting. It is anticipated that trading in Ordinary Shares on the Official List will cease at close of business on 22 August 2006, with cancellation of the listing on the Official List, together with admission of the Ordinary Shares to AIM and the commencement of dealings in Ordinary Shares on AIM, taking place at 8.00 a.m. on 23 August 2006.

## **11. Action to be taken**

A Form of Proxy for use by Shareholders in connection with the Extraordinary General Meeting is enclosed with this document.

Whether or not you propose to attend the meeting in person, you are requested to complete the Form of Proxy in accordance with the instructions printed on it and to return it to the Company's Registrars, Capita Registrars (Proxies) at PO Box 25, 34 Beckenham Road, Beckenham, Kent BR3 4BR **as soon as possible and in any event so as to arrive no later than 2.00 p.m. on 21 August 2006**. Completion of the Form of Proxy will not preclude you from attending the meeting and voting in person should you so wish.

## **12. Recommendation**

**The Board considers the Proposed Disposal to be in the best interests of the Company and of Shareholders as a whole. Accordingly, the Board unanimously recommends that you vote in favour of the resolution to be proposed at the Extraordinary General Meeting as the Directors intend to do in respect of their own beneficial interests.**

Yours sincerely

KGG Hopkins  
*Chairman*



## PART II

### RISK FACTORS

This Part II addresses certain risks to which the Continuing Group and the Megolon Division are exposed, which could materially affect the business, results of operations, cash flow, financial condition, turnover, profits, assets, liquidity and capital resources of the Continuing Group and/or the Megolon Division, as appropriate.

Additional risks and uncertainties currently unknown to the Group, or which the Group currently deems immaterial, may also have an adverse effect on the financial condition or business of the Continuing Group and/or the Megolon Division.

#### PART A: RISKS ASSOCIATED WITH THE CONTINUING GROUP

##### *The Continuing Group faces competition that could reduce its margins and revenue growth*

The Continuing Group operates in competitive markets. The Continuing Group invests in research and development to sustain competitive advantage, and also works continually to ensure that its cost base remains competitive. However, if the Group's businesses fail to keep pace with technological changes and delivery and product requirements, the Group may experience competitive disadvantage. This may result in lower margins and loss of market share.

##### *The price volatility of raw materials could adversely affect the results of the Continuing Group*

The Continuing Group's profit is impacted by the price of its raw materials. The Continuing Group has some ability to pass on higher input prices to its customers, but this ability is, to some extent, dependent upon market conditions and could lag the price input movements. There may be periods of time in which the Continuing Group is not able to fully recover increases in the cost of raw materials due to weakness in demand for its products or the actions of its competitors. This may adversely affect the Continuing Group's results.

##### *The Continuing Group is reliant on its ability to attract and retain key employees*

There are a small number of directors and key employees whose departure from the Continuing Group could, in the short term, adversely affect the Continuing Group. Whilst the Continuing Group has entered into service agreements with each of these individuals, the retention of their services cannot be guaranteed.

Equally, the ability to attract new employees with the appropriate expertise and skills cannot be guaranteed. The Continuing Group may experience difficulties in hiring appropriate employees and the failure to do so may have a detrimental effect upon the trading performance of the Continuing Group.

##### *The occurrence of major operational problems could have an adverse effect on the results and the cash flow of the Continuing Group*

The Continuing Group's revenues are dependent on the continued operations of its various manufacturing facilities. Operational risks include equipment failure, failure to comply with applicable regulations and standards, raw material supply disruptions, labour force shortages or work stoppages, events impeding or increasing the cost of transporting the Continuing Group's products and natural disasters.

##### *The Continuing Group has a potential exposure if it is not adequately insured*

The Continuing Group maintains insurance at levels that it believes are appropriate for its industry. However, the occurrence of major operational problems resulting from the above or other events may have an adverse effect on the results of operations of a particular manufacturing facility and may affect the results and the cash flow of the Continuing Group as a whole.

##### *The Continuing Group has a potential exposure to product liability claims arising from the manufacture of faulty products*

Although the Continuing Group has robust quality control procedures, it has a potential exposure to product liability claims arising from the manufacture of faulty products. The Continuing Group has insurance coverage which it believes to be appropriate for the size and nature of its businesses. However, it is

possible that a claim could arise and fall outside the insurance cover currently in place that could have an adverse effect on the Continuing Group's operational results and financial condition.

***The Continuing Group continues to have a potential exposure in relation to alleged personal injury claims as a result of claimed exposure to asbestos by certain former businesses of the Continuing Group***

The Continuing Group continues to defend alleged personal injury claims arising in the US as a result of alleged asbestos exposure. In the US, no Scapa Group company, nor any of its insurance carriers, has admitted liability nor made any payment to any plaintiff under Scapa's policies. However, the litigation still poses a potential risk to the Continuing Group and the costs of defending such claims continue. More detailed information on the asbestos litigation can be found in Part VI of this document.

***Violations of environmental, health and safety and other laws, regulations and standards could restrict the Continuing Group's operations, expose it to liability, increase its costs and have an adverse effect on its results, cash flow and/or financial condition***

The Continuing Group is subject to a broad range of laws, regulations and standards in each of the jurisdictions where it operates, relating to pollution, the health and safety of employees, protection of the public, protection of the environment and the storage and handling of hazardous substances and waste materials. These regulations and standards are becoming increasingly stringent.

It is the Company's policy to require that all of its subsidiaries comply with relevant laws, regulations and standards. However, violations of applicable laws, regulations and standards, in particular, provisions of environmental and health and safety laws, could result in restrictions on the operations of the Continuing Group's facilities, damages, fines or other sanctions, and increased costs of compliance as well as reputational damage.

The European Parliament is proposing to enact legislation in 2007 (known as the Registration, Evaluation and Authorisation of Chemicals (REACH)) which is expected to prescribe specific hazard testing for chemicals produced or imported into the EU. Depending upon the final form of such legislation, it may have a cost impact on the Continuing Group.

***The Continuing Group may be required to increase its contributions to cover an increase in the cost of funding future pension benefits or to cover funding shortfalls***

The Continuing Group provides retirement benefits for its former and current employees through defined benefit and defined contribution schemes. The UK pensions schemes of the Group had an aggregate deficit of £59.2 million (calculated on an IAS 19 basis at 31 March 2006). The actuaries of the pension schemes are currently engaged in a triennial valuation of the scheme's assets. Following the last triennial valuation as at April 2003, the Group agreed to make additional cash contributions of £3.3 million to the relevant defined benefit schemes.

A particular risk is the extent to which full allowance will need to be made in the assessed value of the liabilities for evidence of increased life expectancy. Although the fund is closed to new entrants, existing members in service continue to build up benefits for future service. The cost of funding these benefits in respect of active and deferred members and pensioners depends on a number of factors including the real returns that can be obtained on the assets and also the longevity of the members. If real returns fall or allowance needs to be made for increased longevity then the Continuing Group may be required to increase its contributions. This could have an adverse impact on the Continuing Group's operational results and cash flow.

***Foreign exchange risks associated with the Continuing Group's international operations could adversely affect its results of operations***

The Continuing Group, like all international businesses, faces the risk of exposure when sales and costs arise in different currencies and the risk arising from the need to translate foreign currency denominated profits into pounds sterling, its reporting currency. These currency risks could adversely affect the Continuing Group's operational results.

***Limitations on the Continuing Group's ability to fund financing requirements could adversely affect its operational results and cash flow***

The Continuing Group, like many other companies, is dependent on its ability to obtain external funding to meet a portion of its financing requirements. Whilst at 31 July 2006, the latest practicable date prior to publication of this document, the Continuing Group had access to £25 million in committed bank facilities,

the Continuing Group's principal facility expires in September 2007 and there can be no certainty that a similar facility would be obtainable. Any limitation on the Continuing Group's ability to access financing could increase its interest costs and adversely affect its operational results and cash flow.

***The ongoing restructuring of the Continuing Group may not result in the budgeted cost savings which may result in lower profitability for the Continuing Group***

The reduced size of the Continuing Group will necessitate a reduction in overheads. Should the restructuring not result in the planned reduced costs, the Continuing Group will be faced with lower profitability.

***The sale of the Megolon Division may not progress or conclude as expected and, if not concluded, may expose the Continuing Group to abortive costs***

Completion of the sale of the Megolon Division is subject to approval of Scapa's Shareholders at the Extraordinary General Meeting and to receipt of various merger control clearances. If Shareholders do not approve the Disposal or such clearances are not received, the Disposal will not complete. In addition, Alphagary is entitled to terminate the Sale Agreement at any time before Completion if certain of the warranties given by Scapa under the Sale Agreement cease to be true in all material respects if they were to be repeated immediately prior to Completion, in circumstances where such adversely affects the assets being sold in a manner which is material in the context of the Megolon Division taken as a whole, or upon the happening of certain events which are beyond the control of the Company. In the event that the Proposed Disposal does not complete, the Company will nonetheless incur transaction costs of up to approximately £500,000.

The Sale Agreement contains certain warranties and indemnities in favour of Alphagary. The extent to which the Continuing Group will be required in the future to incur costs under any of these warranties and indemnities is not predictable and, if the Continuing Group should incur such costs, these costs could have an adverse effect on its cash flow and financial condition. Further details of the Sale Agreement are set out in Part V of this document

## **PART B: RISKS ASSOCIATED WITH THE MEGOLON DIVISION**

***The price volatility of raw materials could adversely affect the results of the Megolon Division***

The Megolon Division's profit is impacted by the price of its raw materials. The Megolon Division has some ability to pass on higher input prices to its customers, but this ability is, to some extent, dependent upon market conditions and could lag the price input movements. There may be periods of time in which the Megolon Division is not able to fully recover increases in the cost of raw materials due to weakness in demand for its products or the actions of its competitors. This may adversely affect the Megolon Division's results.

***The Megolon Division has a potential exposure to product liability claims arising from the manufacture of faulty products***

Although the Megolon Division has robust quality control procedures, it has a potential exposure to product liability claims arising from the manufacture of faulty products. The Megolon Division currently has insurance cover which the Group believes to be appropriate for the size and nature of the Megolon Division businesses. However, it is possible that a claim could arise and fall outside the insurance cover currently in place that could have an adverse effect on the Megolon Division's operational results and financial condition.

***Violations of environmental, health and safety and other laws, regulations and standards could restrict the Megolon Division's operations, expose it to liability, increase its costs and have an adverse effect on its results, cash flow and/or financial condition***

The Megolon Division is subject to a broad range of laws, regulations and standards in each of the jurisdictions where it operates, relating to pollution, the health and safety of employees, protection of the public, protection of the environment and the storage and handling of hazardous substances and waste materials. These regulations and standards are becoming increasingly stringent.

It is the Group's policy to require the Megolon Division to comply with relevant laws, regulations and standards. However, violations of applicable laws, regulations and standards, in particular provisions of environmental and health and safety laws, could result in restrictions on the operations of the Megolon Division facilities, damages, fines or other sanctions and increased costs of compliance as well as damage to reputation.

The European Parliament is proposing to enact legislation in 2007 (known as the Registration, Evaluation and Authorisation of Chemicals (REACH) which is expected to prescribe specific hazard testing for chemicals produced or imported into the EU. Depending upon the final form of such legislation, it may have a cost impact on the Megolon Division.

***The occurrence of major operational problems could have an adverse effect on the results and the cash flow of the Megolon Division***

The Megolon Division's revenues are dependent on the continued operations of its various manufacturing facilities. Operational risks include equipment failure, failure to comply with applicable regulations and standards, raw material supply disruptions, labour force shortages or work stoppages, events impeding or increasing the cost of transporting the Megolon Division's products and natural disasters.

***The Megolon Division has potential exposure if it is not adequately insured***

Scapa maintains, on behalf of the Group, insurance at levels that it believes are appropriate for its industry. However, the occurrence of major operational problems resulting from the above or other events may have an adverse effect on the results of operations of a particular manufacturing facility and may affect the results and the cash flow of the Megolon Division.

***Foreign exchange risks associated with the Megolon Division's international operations could adversely affect its results.***

The Megolon Division, which realises more than 80 per cent. of its sales from outside the UK, faces the risk of exposure when sales and costs arise in different currencies and the risk arising from the need to translate foreign currency denominated profits into pounds sterling, its reporting currency. These risks could adversely affect the Megolon Division's operational results.

## PART III

### FINANCIAL INFORMATION RELATING TO THE MEGOLON DIVISION

#### Basis of preparation

The financial information for the Megolon Division has been extracted without material adjustment from the consolidation schedules which support the audited consolidated financial statements of Scapa Group plc for each of the three years ended 31 March 2006.

The financial information on Megolon comprises summarised profit and loss accounts for each of the three years ended 31 March 2006, and a summarised statement of net assets as at 31 March 2006.

The financial information for Scapa Group for the years ended 31 March 2004 and 31 March 2005 was prepared in accordance with UK Generally Accepted Accounting Principles (UKGAAP), using the accounting policies set out in the Group's Annual Report for these years. From 2005, the Group has been required under European legislation to prepare its consolidated information in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted in the European Union and with those parts of the Companies Act applicable to companies reporting under IFRS.

Accordingly, the financial information for the Megolon Division has been prepared in accordance with UKGAAP for 2004 and 2005, with the financial information for the year ended 31 March 2006 and the IFRS comparative information for the year ended 31 March 2005 extracted from the consolidation schedules prepared under IFRS. As stated above, the profit and loss information for the Megolon Division has been extracted from the Group's consolidation schedules and includes all costs that will either transfer to Alphagary, or will cease to be incurred by Scapa immediately upon Completion of the Proposed Disposal.

The financial information set out below on the Megolon Division does not constitute statutory accounts within the meaning of Section 240 of the Companies Act.

#### Profit and loss accounts

The summarised profit and loss account for the Megolon business for each of the three years ended 31 March 2006 prepared on the basis set out above, were as follows:

	<i>Year ended 31 March 2004 UK GAAP £m</i>	<i>Year ended 31 March 2005 UK GAAP &amp; IFRS* £m</i>	<i>Year ended 31 March 2006 IFRS £m</i>
Turnover	19.5	22.9	20.3
Gross Profit	6.0	5.5	4.8
Operating Expenses	(3.3)	(4.2)	(3.7)
Trading Profit	2.7	1.3	1.1

\* There were no significant differences between the profit and loss account for the Megolon Division for the year ended 31 March 2005 reported under UKGAAP and the restated amounts reported under IFRS.

It has not been possible to provide a meaningful allocation of exceptional and corporate costs, interest and tax in the above profit and loss account as the Megolon Division is a product line rather than a separate entity within the Group and, as such, these items are not allocated to the Megolon Division.

### Statement of net assets for Megolon

The summarised statement of the net assets of the Megolon Division as at 31 March 2006, prepared in accordance with the basis set out above, was as follows:

	<i>As at 31 March 2006 £m</i>
<b>Assets</b>	
<b>Non-current assets</b>	
– Property, plant & equipment (note 1)	5.1
<b>Current assets</b>	
– Inventory (note 2)	1.6
<b>Net assets</b>	<u>6.7</u>

**Notes:**

1. Non-current assets directly attributable to the Megolon Division totalled £5.1 million at 31 March 2006 and are included as part of the Proposed Disposal.
2. Inventory directly attributable to the Megolon Division totalled £1.6 million at 31 March 2006 and is included as part of the Proposed Disposal.
3. Trade debtors relating to the Megolon Division totalled £3.7 million at 31 March 2006, but these are not to be included as part of the Proposed Disposal and will remain an asset of Scapa Group.
4. Creditors relating to the Megolon Division totalled £2.9 million at 31 March 2006, but these are not to be included as part of the Proposed Disposal and will remain a liability of Scapa Group.

## PART IV

### UNAUDITED PRO FORMA FINANCIAL STATEMENTS OF THE CONTINUING GROUP

#### Unaudited pro forma statement of net assets

Set out below is an unaudited pro forma statement of net assets of the Continuing Group based on the audited balance sheet of the Group at 31 March 2006, adjusted to reflect the Proposed Disposal and other consequential items as disclosed in the notes below, as if they had occurred as at 31 March 2006. The figures have been extracted, without material adjustment, from the consolidated balance sheet of Scapa Group plc as set out in the audited results as at 31 March 2006 announced on 8 June 2006, and the figures for the Megolon Division have been extracted, without material adjustment, from Part III of this document.

This statement has been prepared for illustrative purposes only. Because of its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results.

	<i>31 March 2006 Scapa Group plc (note 1) £m</i>	<i>Megolon adjustment (note 2)</i>	<i>Sale adjustments (note 3) £m</i>	<i>Pro forma statement of the Continuing Group as at 31 March 2006 (note 4) £m</i>
<b>Assets</b>				
<b>Non-current assets</b>				
– Goodwill	11.2	—	—	11.2
– Property, plant & equipment	46.9	(5.1)	—	41.8
– Deferred tax asset	9.4	—	—	9.4
	67.5	(5.1)	—	62.4
<b>Current assets</b>				
– Inventory	21.6	(1.6)	—	20.0
– Trade and other receivables	46.5	—	—	46.5
– Financial assets – derivative financial instruments	0.2	—	—	0.2
– Current asset investments	5.7	—	—	5.7
– Cash & cash equivalents	3.4	—	0.2	3.6
	77.4	(1.6)	0.2	76.0
<b>Liabilities</b>				
<b>Current liabilities</b>				
– Borrowings & other financial liabilities	(3.0)	—	2.5	(0.5)
– Derivative financial instruments	(0.1)	—	—	(0.1)
– Trade and other payables	(33.6)	—	—	(33.6)
– Tax liabilities	(0.6)	—	—	(0.6)
– Provisions	(2.7)	—	—	(2.7)
	(40.0)	—	2.5	(37.5)
<b>Net current assets</b>	37.4	(1.6)	2.7	38.5
<b>Non-current liabilities</b>				
– Borrowings & other financial liabilities	(13.6)	—	13.6	—
– Other non-current liabilities	(2.1)	—	—	(2.1)
– Deferred tax liabilities	(5.0)	—	—	(5.0)
– Other tax liabilities	(2.7)	—	—	(2.7)
– Retirement benefit obligations	(63.4)	—	—	(63.4)
– Provisions	(9.9)	—	—	(9.9)
	(96.7)	—	13.6	(83.1)
<b>Net assets</b>	8.2	(6.7)	16.3	17.8

**Notes:**

1. The net assets of the Group as at 31 March 2006 have been extracted, without material adjustment, from the consolidated balance sheet of Scapa Group plc as set out in the audited results as at 31 March 2006.
2. The net assets of the Megolon Division have been extracted without material adjustment from the financial information set out in Part III of this document.
3. The Sale adjustments comprise:
  - a. Sale proceeds of £16.8 million – reduce committed bank borrowings by £13.6 million
  - b. Disposal costs of £0.5 million
  - c. Remaining proceeds of £2.7 million after repayment of committed borrowings used to reduce UK overdraft balance (£2.5 million) and increase cash balances (£0.2 million)
4. No account has been taken of any trading or transactions of the Group or of the Megolon Division since 31 March 2006. The costs associated with additional management actions planned to reduce operating costs further following the Completion of the Proposed Disposal have not been included in this analysis.



### Unaudited pro forma profit and loss account

Set out below is an unaudited pro forma profit and loss account of the Continuing Group based on the audited profit and loss account of the Group for the year ended 31 March 2006, adjusted to reflect the Proposed Disposal and other consequential items as disclosed in the notes below, as if they had occurred as at 31 March 2006. The figures have been extracted, without material adjustment, from the consolidated profit and loss account of the Scapa Group as set out in the audited results for the year ended 31 March 2006 announced on 8 June 2006, and the figures for the Megolon Division have been extracted, without material adjustment, from Part III of this document.

This statement has been prepared for illustrative purposes only and because of its nature, may not give a true picture of the financial position of the Continuing Group as reflected by these transactions.

	<i>Year ended 31 March 2006 Scapa Group (note 1)</i>	<i>Megolon adjustment (note 2)</i>	<i>Sale adjustments (note 3)</i>	<i>Pro forma statement of the Continuing Group for the year ended 31 March 2006 (note 4)</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
<b>Continuing operations</b>				
<b>Turnover</b>	191.5	(20.3)	—	171.2
<b>Operating (loss)/profit</b>	(11.6)	(1.1)	—	(12.7)
Trading Profit	5.5	(1.1)	—	4.4
Reorganisation costs and exceptional provision increases	(3.4)	—	—	(3.4)
Property, plant and equipment and goodwill impairment	(13.7)	—	—	(13.7)
<b>Operating (loss)/profit</b>	(11.6)	(1.1)	—	(12.7)
Interest payable	(1.3)	—	1.0	(0.3)
Interest receivable	0.3	—	—	0.3
	(1.0)	—	1.0	—
Discount on provisions	(0.5)	—	—	(0.5)
IAS 19 finance costs	(1.4)	—	—	(1.4)
Net finance costs	(2.9)	—	1.0	(1.9)
<b>Loss on ordinary activities before taxation</b>	(14.5)	(1.1)	1.0	(14.6)
Taxation	(0.8)	—	—	(0.8)
<b>Loss for the period</b>	(15.3)	(1.1)	1.0	(15.4)

#### Notes:

1. The profit and loss account of the Group for the year ended 31 March 2006 has been extracted, without material adjustment, from the consolidated profit and loss account of Scapa Group plc as set out in the audited results for the year ended 31 March 2006.
2. The profit and loss account of the Megolon Division has been extracted without material adjustment from the financial information set out in Part III of this document.
3. The Sale adjustment relates to a reduction in external interest payable of £1.0 million representing the reduction in net external borrowings as a result of the cash receivable on Completion. This has been calculated at a rate of 6 per cent. being the average rate paid by the Group on its loan during the year ended 31 March 2006. There is no taxation impact from this reduction in interest payable due to the brought forward losses relating to the Group's UK business.
4. No account has been taken of any trading or transactions of the Group or of the Megolon Division since 31 March 2006.

The Directors  
Scapa Group plc  
Manchester Road  
Ashton-under-Lyne  
Greater Manchester  
OL7 0EP

JP Morgan Cazenove Limited (the “Sponsor”)  
20 Moorgate  
London  
EC2R 6DA

1 August 2006

Dear Sirs

**Scapa Group plc (the “Company”)**

We report on the pro forma financial information (the “Pro forma financial information”) set out in Part IV of the Company’s circular dated 1 August 2006 which has been prepared on the basis described in Parts III and IV of the circular, for illustrative purposes only, to provide information about how the proposed disposal of the Megolon business might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 31 March 2006. This report is required by item 7 of Annex II of the PD Regulation and the Listing Rules and is given for the purpose of complying with that PD Regulation and the Listing Rules and for no other purpose.

**Responsibilities**

It is the responsibility of the directors of the Company to prepare the Pro forma financial information in accordance with item 20.2 of Annex I of the PD Regulation and item 13.5.31 of the Listing Rules of the UK Listing Authority (the “Listing Rules”).

It is our responsibility to form an opinion, as required by item 7 of Annex II of the PD Regulation and the Listing Rules on the Pro forma financial information as to the proper compilation of the Pro forma financial information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been

properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

**Opinion**

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

PricewaterhouseCoopers LLP  
*Chartered Accountants*

## PART V

### SUMMARY OF TERMS OF THE SALE AGREEMENT

#### Sale and Purchase Agreement

Pursuant to the terms of the Sale Agreement, which is dated 28 July 2006 and made between Scapa UK (1) Alphagary (2) the Company (3) and Rockwood Specialities Group GmbH (“Purchaser’s Guarantor”) (4), Scapa UK agreed to sell and Alphagary agreed to purchase the business and assets of the Megolon Division of the Group, as a going concern. Pursuant to the terms of the Sale Agreement, the Company unconditionally and irrevocably guarantees the obligations thereunder of Scapa UK and the Purchaser’s Guarantor unconditionally and irrevocably guarantees the payment by Alphagary of the Final Consideration (as defined in the Sale Agreement). The assets being sold include, *inter alia*, goodwill, the freehold land at Columbine Street, Openshaw, Manchester (the “Openshaw Property”), plant and machinery, stock, intellectual property and the benefit (subject to the burden) of the contracts of the Megolon Division which are outstanding at Completion (but exclude, *inter alia*, amounts receivable by Scapa UK in connection with the Megolon Division and cash in hand and at bank).

The Sale Agreement is conditional upon, *inter alia*, the following:

- (a) the passing of the resolution to approve the Proposed Disposal at the Extraordinary General Meeting;
- (b) a statement having been issued, in terms satisfactory to Alphagary and Scapa UK, by the Office of Fair Trading that the purchase by Alphagary pursuant to the Proposed Disposal will not be referred to the Competition Commission; and
- (c) receipt by Alphagary of merger control clearances in various European jurisdictions.

Completion is to take place on the date which is 5 business days after the last of the conditions is satisfied or (in the case of conditions other than that referred to in (a) above) waived (but unless Scapa UK and Alphagary agree otherwise, not later than 29 December 2006). Scapa UK has agreed to procure that the business of the Megolon Division will be carried on in the ordinary and usual course pending Completion.

The consideration payable by the Purchaser is £16.75 million, which will be paid in cash on Completion, such amount being subject to adjustment by reference to the stock of the Megolon Division as at Completion. If the value of such stock exceeds £1,575,000 the consideration will be increased by an amount equal to such excess. If the value of such stock falls short of £1,425,000 the consideration will be reduced by an amount equal to such shortfall. In addition, if the value of the raw materials in such stock exceeds 65 per cent, or falls short of 35 per cent, of the total value of such stock, the consideration will be reduced by an amount equal to such excess or, as the case may be, shortfall.

On Completion, Scapa UK will grant a licence (“Property Licence”) to Alphagary in relation to part of the premises at Manchester Road, Ashton-under-Lyne (the “Ashton Property”) and will also enter into a transitional services agreement for the provision of certain support facilities and functions to Alphagary for a period after Completion (“Transitional Services Agreement”). Further details of these two agreements are set out below.

Under the Sale Agreement, Scapa UK has given certain warranties (which in most cases are to be repeated immediately prior to Completion) and indemnities to Alphagary in connection with the Megolon Division which are normal for a transaction of this nature. Scapa UK’s liability arising pursuant to such warranties is limited in certain circumstances which are typical for a transaction of this nature, including provisions to the effect that individual claims under the warranties (in order to be recoverable) must exceed £5,000, that there must be an aggregate £100,000 of such claims before Scapa UK is liable for any amount due for breach of the warranties and that all claims for breach of warranty must (other than in relation to taxation matters or health and safety and environmental matters) be made on or before the second anniversary of Completion.

In addition, Scapa UK has:

- (i) given an indemnity in respect of any loss suffered by Alphagary arising from Alphagary’s occupation of the Ashton Property being terminated prior to the scheduled expiry of the Property Licence;
- (ii) undertaken to hold Alphagary harmless against any shortfall in the agreed value of the Openshaw Property, should it sell such property within 42 months following Completion; and

- (iii) given an indemnity in respect of any loss suffered by Alphagary arising from claims or proceedings against Alphagary during the period of 42 months following Completion in connection with environmental issues at the Openshaw Property (if any such loss exceeds, in a particular case, £20,000).

Alphagary may terminate the Sale Agreement prior to Completion in certain circumstances specified in the Sale Agreement, including:

- (i) the Megolon Division suffering significant customer loss among its major customers prior to Completion;
- (ii) either the Ashton Property or the Openshaw Property being rendered incapable of use for a period of 10 or more consecutive business days prior to Completion; or
- (iii) Scapa UK being in breach of certain warranties specified in the Sale Agreement in circumstances where such adversely affects the business of the Megolon Division in a manner which is material in the context of that business taken as a whole.

Scapa UK has undertaken to procure that no member of the Scapa Group will, during the period of 3 years after Completion, be engaged or interested in any business which is competitive to that of the Megolon Division, or solicit the custom or business of any of the Megolon Division's customers (in respect of products which compete with those of the Megolon Division).

### **Transitional Services Agreement**

Pursuant to the Transitional Services Agreement to be entered into between Scapa UK (1) and Alphagary (2), the Scapa Group will provide certain transitional services to Alphagary at both the Openshaw Property and the Ashton Property. The services are to be provided to Alphagary for a period of up to 18 months following Completion.

The services to be provided include:

- (a) access to office equipment, health and safety equipment and shared laboratory equipment;
- (b) the provision of general site services including security, building cleaning and maintenance, receptionist services and the use of fork-lifts in the high-bay warehouse as the Ashton Property;
- (c) the provision of various utilities at the Ashton Property;
- (d) the provision of support in relation to IT systems to facilitate migration to Alphagary's systems;
- (e) the provision of general advice on the use of accounting systems in the Megolon business; and
- (f) provision of payroll administration services in respect of the transferring employees.

The Transitional Services Agreement includes provision for payment for each of the services as used by Alphagary, at agreed rates, with invoices to be issued monthly.

In addition, Alphagary will provide after sales support back to Scapa UK in respect of products sold by the Megolon Division prior to Completion, on a call-out basis. The Transitional Services Agreement includes provision for payment for this service.

### **Property Licence**

Scapa UK has agreed to grant to Alphagary, on Completion, a short-term licence to occupy part of its premises at the Ashton Property. Alphagary will pay £9,167 per month in relation to such occupation.

Under the terms of the Property Licence, the Purchaser is obliged to observe all the tenant's covenants and conditions contained in Scapa UK's licence to occupy the Ashton-under-Lyne premises, save as varied by the Property Licence. Modifications to such covenants have taken into account the fact that Alphagary will not be able to assign or underlet the licensed area or make alterations or keep the premises in same standard of repair as the Seller is obliged to. Alphagary will also be granted such rights as are required by Alphagary to use and occupy the Ashton Property to carry out their business so far as Scapa UK are able to grant such rights.

The Property Licence can be terminated by Scapa UK immediately on notice to Alphagary if there has been a breach of Alphagary's obligations set out in the Property Licence and the breach has not been remedied within 10 working days of notification. Alphagary can terminate the licence at any time by giving Scapa UK 14 days' written notice expiring on the last day of any given month.

## PART VI

### ADDITIONAL INFORMATION

#### 1. Responsibility

The Directors, whose names are set out in paragraph 2 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2. Directors

The Directors of Scapa Group plc and their functions are:

K G G Hopkins	<i>Non Executive Chairman</i>
C J O'Connor	<i>Chief Executive</i>
C M White	<i>Group Finance Director</i>
S D Lennon	<i>Chief Operating Officer</i>
R J Perry	<i>Non Executive Director</i>

#### 3. Directors' and other interests

(a) As at 31 July 2006, being the latest practicable date prior to the publication of this document, the interests in the issued share capital of the Company which:

- (i) have been notified by each Director to the Company pursuant to sections 324 or 328 of the Act;
- (ii) are required to be entered in the register referred to in section 325 of the Act; or
- (iii) are interests of a connected person of a Director (within the meaning of section 346 of the Act) which would, if the connected person were a Director, be required to be disclosed under paragraph 3(a)(i) or 3(a)(ii) above, and the existence of which is known to or could with reasonable diligence be ascertained by that Director,

were as follows:

<i>Director</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital</i>
K G G Hopkins	100,000	0.069%
C J O'Connor	50,000	0.035%
S D Lennon	900	0.001%
C M White	15,000	0.010%

All of the above shareholdings represent beneficial interests.

(b) Options to subscribe for Ordinary Shares have been granted to Directors under the Share Option Scheme indicated in brackets next to their names, as follows:

<i>Director and name of scheme</i>	<i>Year of Grant</i>	<i>Options as at 31 July 2006</i>	<i>Exercise Price (£)</i>	<i>Period of Exercise</i>
C M White (ESOP)	2002	30,000	0.49	21.06.05 to 20.06.12
S D Lennon (US SOP)	1997	10,000	1.955	07.08.00 to 06.08.07
	1999	80,000	1.71	10.08.02 to 09.08.09
	2000	80,000	1.39	07.06.03 to 06.06.10
	2001	8,000	0.945	16.07.04 to 15.07.11
	2002	17,500	0.49	21.06.05 to 20.06.12
C M White (LTIP)	2004	250,000	Nil	16.08.07 to 15.08.14
S D Lennon (LTIP)	2004	150,000	Nil	16.08.07 to 15.08.14
C M White (Sharesave)	2002	35,212	0.47	01.09.07 to 29.02.08

(c) Save as disclosed in paragraphs 3(a) and 3(b) above, none of the Directors, nor any connected person (within the meaning of section 346 of the Act) of any Director, had any notifiable interest on 31 July 2006, being the latest practicable date prior to the publication of this document, in the share capital of the Company or any of its subsidiaries.

- (d) As at the close of business on 31 July 2006, being the latest practicable date prior to the publication of this document, the Directors were aware that the following persons were interested directly or indirectly in 3 per cent. or more of the issued share capital of the Company:

<i>Shareholder</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of share capital</i>
Third Advance Value Realisation Company Ltd	20,355,277	14.06
Silchester International Investors Ltd	18,252,760	12.61
UBS Global Asset Management	14,221,502	9.82
Investec Asset Management	9,525,009	6.58
Howson Tattersall Investment Counsel	8,614,141	5.95
TRW Pensions Trust	7,047,778	4.87
Discretionary Unit Fund Managers	7,000,000	4.84
Cazenove Fund Management	6,990,450	4.83
Hanover Investors	6,450,000	4.46
M&G Investment Management Ltd	4,780,390	3.30
The Wellcome Trust	4,809,273	3.32

Note: The shares in which The Wellcome Trust is interested are duplicated in the interest of UBS Global Asset Management.

- (e) Save as disclosed in paragraph 3(d) above, the Directors are not aware of any person who had, at the close of business on 31 July 2006, being the latest practicable date prior to the publication of this document, a notifiable interest, directly or indirectly, in 3 per cent. or more of the Company's issued share capital.
- (f) No Director has or has had any interest in any transaction for the period from 1 April 2003 to 31 July 2006 (being the latest practicable date prior to the publication of this document) which is or was unusual in its nature or conditions or is or was significant to the business of the Group and which was effected by any member of the Group during the current or immediately preceding financial year or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

#### **4. Directors' service agreements**

- (a) The following executive Directors have entered into service agreements with the Company:

<i>Director</i>	<i>Annual salary</i>	<i>Date of service agreement</i>
C M White	£142,000	3 December 2001
S D Lennon	US\$360,000	1 February 2005
C J O'Connor	£237,000	10 October 2005

- (b) The service agreements in respect of Mr O'Connor, Mr White and Mr Lennon are terminable on 12 months' notice in writing by either party. In addition, the Company may terminate any of these service agreements with immediate effect at any time on payment in lieu of notice of a sum equivalent to 12 months' gross basic pay. These service agreements contain restrictive covenants which are applicable for a period of 12 months after termination.
- (c) The terms and conditions of employment, including remuneration, of the executive Directors are determined by the Remuneration Committee, of which Dr. Hopkins and Mr Perry are the members (both being non-executive Directors).
- (d) In addition to the basic salary referred to above, the Company makes annual contributions equal to 35 per cent. of annual salary to the personal pension plan of Mr O'Connor, annual contributions equal to a 20 per cent. of annual salary to Mr White's personal pension plan. The Company also makes annual contributions to Mr Lennon's defined contribution plan totalling 10 per cent. of his annual salary.
- (e) The Company operates a bonus scheme for executive Directors and senior employees. Bonus payments are not pensionable and are based upon targets being attained which are reviewed annually by the Remuneration Committee. The bonus schemes that currently operate for Mr Lennon and Mr White are capped at 60 per cent. of their basic salary. Mr O'Connor's maximum bonus payment is capped at 75 per cent. of his basic salary.
- (f) Dr. Hopkins and Mr Perry (each being a non-executive Director) are paid annual fees of £80,000 and £32,500 respectively

- (g) Mr Perry has been appointed for an initial three year term, which may be renewed for two further three year terms thereafter. He does have a contract of service and his appointment may be terminated by either party by 12 months' notice in writing.
- (h) Dr Hopkins was appointed as a non-executive Director with effect from 7 January 2002, pursuant to a letter dated 29 November 2001. Dr Hopkins was subsequently appointed Chairman by an agreement dated 31 March 2002 for an initial three year term which appointment has since been extended to a rolling basis, terminable on 12 months' notice in writing by either party.

## **5. Material contracts**

### *(a) The Continuing Group*

The following is a summary of all contracts (not being a contract entered into in the ordinary course of business) which (i) have been entered into by any member of the Group within the two years immediately preceding the date of publication of this document and which are material to the Continuing Group or (ii) have been entered into by any member of the Group and which contain any provision under which any member of the Continuing Group has any obligation or entitlement which is material to the Continuing Group as at the date of this document:

- (i) the Sale Agreement, further details of which are set out in Part V of this document;
- (ii) Agreement dated 27 March 2006 between the Company (1) certain subsidiaries of the Company (2) Allied Irish Banks PLC, Barclays Bank PLC, and HSBC Bank PLC, The Governor and the Company of the Bank of Scotland and the Royal Bank of Scotland (the "Lenders") (3) HSBC Bank PLC (as Agent) (4) HSBC Bank PLC (as Overdraft Lender) (5) and HSBC Bank PLC (as Security Agent) (6) pursuant to which the terms of a facility agreement dated 10 March 2004 were amended such that the term for availability of the facilities was extended to September 2007, Acutek International and Scapa Tapes North America (Liverpool) LLC (two subsidiaries of the Company which had been merged into Scapa Tapes North America Inc., a further subsidiary of the Company) were released from their obligations as Guarantors of the Company's indebtedness to the Lenders and the financial covenants of the Group were revised, partly as a result of the adoption by the Group of International Financial Reporting Standards.

### *(b) Megolon Division*

The Megolon Division has not entered into any contract (not being a contract entered into in the ordinary course of business) which (i) has been entered into by the Megolon Division within the two years immediately preceding the date of publication of this document and which is material or (ii) has been entered into by the Megolon Division and which contain any provision under which the Megolon Division has any obligation or entitlement which is material as at the date of this document.

## **6. Litigation**

### *(a) Continuing Group*

In the US various members of the Scapa Group, together with numerous and diverse non Scapa Group parties, are named as defendants in claims in which damages are being sought for personal injury arising from alleged exposure to asbestos. As at 31 March 2006, 32,607 plaintiffs have brought claims in 20 States (Georgia, Florida, Louisiana, Mississippi, North Carolina, South Carolina, Ohio, California, New Jersey, New York, Pennsylvania, Alabama, Arkansas, Illinois, Maryland, Washington, Delaware, Oklahoma, Virginia and Texas). Members of the Scapa Group have continued to be dismissed from many cases during 2005/06.

The claims, so far as the Scapa Group defendants are concerned, primarily relate to the Waycross business carried on by Scapa Dryer Fabrics, Inc. as part of the Paper Machine Clothing business formerly owned by the Scapa Group. The Waycross business consisted of the manufacture and supply to paper manufacturers of dryer fabrics. As was common in the industry between approximately 1958 and 1978, the Waycross business used yarn containing chrysotile asbestos in some of its dryer fabrics.

The plaintiffs, who are mostly former paper mill employees (or their dependants) allege, for example, that asbestos fibres were released when they cleaned the dryer fabrics by blowing compressed air across them. It is also alleged that exposure to asbestos fibres occurred during installation and removal of dryer fabrics, during the routine maintenance, and even as a result of normal wear and tear. To date there have been 7 sets of jury trials in the US: in Louisiana and Washington State (covering 5 plaintiffs



each), in Oregon (1 plaintiff), in Arkansas (5 plaintiffs), in Maryland (2 cases covering 1 plaintiff and 1 plaintiff and wife) and Pennsylvania (1 plaintiff).

In February 2005 an adverse judgment totalling US\$162,500 (£91,300) in respect of 7 plaintiffs was entered in Washington Parish, Louisiana. Upon advice of counsel, the Board believes there are multiple grounds for appeal which should provide sufficient basis for the appellate court to reverse the judgement. The disruptive effect which Hurricane Katrina had in the State of Louisiana has included the judicial system and it is not yet known when it will be possible for the appeal to proceed. The Company believes, upon the advice of counsel, that sufficient legal error occurred before and during the trial to make it more likely than not that the judgment will not be upheld on appeal. The Company has retained an insurance coverage counsel who advises that he believes there is sufficient liability insurance to satisfy the judgement in full if it is not reversed.

In October 2003, a US\$3m (£1.7m) adverse judgment was entered in the Maryland State Court on the claims of a former paper mill employee. The Company successfully appealed the judgment and the plaintiff's further appeal has been denied. The case has been remanded to the lower court for retrial but the Company is advised by counsel that any new trial is unlikely to take place before 2007.

During May 2006, a trial before a jury took place in the Court of Common Pleas for the First Judicial District of Pennsylvania on the claims of a retired paper mill worker. During the trial the Company put evidence before the court that the plaintiff's medical conditions had been incorrectly diagnosed as mesothelioma and could not therefore have been caused by exposure to asbestos-containing materials. The jury determined that the plaintiff had failed to prove that he was suffering from an asbestos-related disease, resulting in a dismissal of the claim by the court.

Scapa Dryer Fabrics, Inc. and the other members of the Scapa Group named as defendants are vigorously defending all of the outstanding claims against them. In the US, no member of the Scapa Group or insurance carrier of any such member has to date admitted liability or made any payment to any plaintiff under our policies, either as the result of any judgment or by way of settlement. Based upon our advice from counsel, the Board believes that it is unlikely that significant uninsured liabilities will arise from this litigation.

Save as disclosed above, no member of the Continuing Group is or has been involved in any governmental, legal or arbitration proceedings which may have in the recent past, or during the twelve month period prior to the date of this document have had, a significant effect on the Continuing Group's financial position or profitability nor, so far as the Directors are aware, are any such proceedings pending or threatened.

*(b) Megolon Division*

The Megolon Division is not, nor has it been involved in any governmental, legal or arbitration proceedings which may have in the recent past, or during the twelve month period prior to the date of this document have had, a significant effect on the Megolon Division's financial position or profitability nor, so far as the Directors are aware, are any such proceedings pending or threatened.

**7. Working capital**

The Company considers that, having regard to available bank and other facilities and the net proceeds of the Proposed Disposal receivable by the Company, the Continuing Group has sufficient working capital available for its present requirements, that is for at least the 12 months following the date of this document.

**8. Significant changes**

*(a) Continuing Group*

There has been no significant change in the financial or trading position of the Continuing Group since 31 March 2006, the date to which the last audited accounts of the Company were prepared.

*(b) Megolon Division*

There has been no significant change in the financial or trading position of the Megolon Division since 31 March 2006, the date to which the last audited accounts of Scapa UK were prepared.

## **9. General**

- 9.1 PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, has given, and has not withdrawn, its written consent to the issue of this document with the inclusion of its letter and the references to such letter and to itself in the form and context in which they appear.
- 9.2 The financial information relating to the Megolon Division set out in Part III of this document does not comprise statutory accounts as referred to in section 240 of the Act. PricewaterhouseCoopers LLP has reported on the statutory accounts of the Scapa Group for the three years ended 31 March 2006 and such accounts have been (or, in the case of the statutory accounts for the year ended 31 March 2006, will be) delivered to the Registrar of Companies in England and Wales. There has been an unqualified audit report under section 235 of the Act in respect of such accounts and no report contained a statement under section 237(2) or (3) of the Act.

## **10. Documents available for inspection**

Copies of the following documents will be available for inspection during normal business hours on any business day (Saturdays and public holidays excepted) at the offices of Addleshaw Goddard, 150 Aldersgate Street, London EC1A 4EJ until and including 23 August 2006:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the consolidated audited statutory accounts of the Group for the two years ended 31 March 2006; and
- (c) the letter of consent referred to in paragraph 9.1 above.

Dated: 1 August 2006

# Scapa Group plc

## NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is given that an Extraordinary General Meeting of the Company will be held at 2.00 p.m. on 23 August 2006 at the offices of Addleshaw Goddard LLP, 100 Barbirolli Square, Manchester M2 3AB for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as an ordinary resolution:

### ORDINARY RESOLUTION

That the proposed disposal by the Company's wholly owned subsidiary, Scapa UK Limited, of its Megolon Division on or substantially on the terms and subject to the conditions of the Sale Agreement, as defined in the document sent to shareholders of the Company and dated 1 August 2006, (a copy of which agreement is produced to this meeting and signed for the purpose of identification by the Chairman) be and it is approved and the Directors be and they are authorised to do all things that are in the opinion of the Directors (or a duly authorised committee of them) necessary or desirable to give effect to and complete the Sale Agreement with such modifications, amendments, variations or waivers as they (or any such committee) consider to be necessary or desirable and not of a material nature.

By order of the Board

M R Stirzaker  
Company Secretary

*Registered Office:*  
997 Manchester Road  
Ashton-under-Lyne  
OL7 0ED

Registered in England  
No: 826179

1 August 2006

#### Notes

1. In accordance with Regulation 41(1) of the Uncertificated Securities Regulations 2001 the Company specifies that, to have the right to attend and vote at the meeting or any adjournment thereof (and also for the purposes of calculating how many votes a person may cast), a person must have his/her name entered on the Company's register of members at 6.00 p.m. on the day being two days before the date of the meeting or any such adjournment.
2. A member who is entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote in his/her stead. A proxy need not also be a member, but may vote only on a poll. A Form of Proxy is enclosed. To be valid, Forms of Proxy must be lodged with the Company's registrars not less than 48 hours before the time appointed for the meeting.
3. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the Company's agent (IDRA10) not less than 48 hours before the time appointed for the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

4. In the absence of any indication as to how he is to vote on any resolution, a proxy will (whether he is appointed by the lodging of a Form of Proxy or through the CREST electronic proxy appointment service) vote for or against such resolution, or will abstain, at his discretion, as in each case he is entitled to do in respect of any procedural matters arising at the meeting.

