PART I

ITEM 1. BUSINESS

GENERAL

Mafco Worldwide Corporation ("Mafco Worldwide"), a Delaware corporation, was formed in 1991 Prior to June 15, 1995, Mafco Worldwide was an indirect wholly owned subsidiary of Mafco Holdings Inc. ("Holdings") On June 15, 1995, Holdings and Mafco Consolidated Group Inc ("Mafco") formerly known as Abex Inc , consummated an agreement and plan of merger (the "Abex Merger") As a result of the Abex Merger, Mafco Worldwide became an indirect wholly owned subsidiary of Mafco On November 25, 1996, Mafco and Power Control Technologies, Inc , a Delaware corporation ("PCT"), consummated the transactions contemplated by a Stock and VSR Purchase Agreement (the "Purchase Agreement"), dated as of October 23, 1996, by and among Mafco, PCT and PCT International Holdings Inc , ("Purchaser") a Delaware corporation and wholly owned subsidiary of PCT Pursuant to the Purchase Agreement, Purchaser acquired from Mafco all the issued and outstanding shares (the "Shares") of capital stock of Flavors Holdings Inc., a Delaware corporation and wholly owned subsidiary of Mafco ("Flavors"), and 23,156,502 Value Support Rights (each a "VSR")

In consideration for the Shares and VSRs, Purchaser paid Mafco cash in the amount of $180 million. In addition, Purchaser will pay Mafco deferred cash payments of $3.7 million on June 30, 1997 and $3 5 million on December 31, 1997

Mafco owns approximately 29% of the outstanding shares of PCT common stock

Immediately following the acquisition of Flavors, Purchaser contributed all outstanding shares of common stock of Pneumo Abex Corporation, a Delaware corporation ("Pneumo Abex" or the "Company"), to Flavors and Flavors contributed such shares to Mafco Worldwide, which resulted in Pneumo Abex becoming a wholly owned subsidiary of Mafco Worldwide On November 25, 1996, Mafco Worldwide merged with and into Pneumo Abex (the "Merger") with Pneumo Abex being the surviving corporation, the directors of Mafco Worldwide becoming the directors of Pneumo Abex and Pneumo Abex becoming a wholly owned subsidiary of Flavors.

Since Mafco Worldwide and Pneumo Abex were under common control at the time of the Merger, the Merger has been accounted for in a manner similar to a pooling-of-interests from November 25, 1996 with Mafco Worldwide as the predecessor company. In addition, Purchaser's basis of accounting is not reflected in these financial statements due to the Company's public debt.

Pneumo Abex was incorporated in Delaware on June 30, 1986, and is an indirect wholly-owned subsidiary of PCT

PCT has been a public company since June 15, 1995 when shares of its common stock, par value $.01 per share (the "PCT Common Stock"), were publicly distributed (the "PCT Distribution") to existing stockholders of Abex Inc., PCT's former parent ("Abex"), in connection with the Abex Merger and the related transfer (the "Transfer") of substantially all of Abex's consolidated assets and liabilities to a subsidiary of Mafco with the remainder being retained by the Company On July 16, 1992, Abex was spun off (the "Abex Distribution") from the Henley Group Inc. ("Henley Group")