

18 - 09 - 97

2263726

A copy of this document, which comprises Listing Particulars in relation to Whittard of Chelsea Plc prepared in accordance with the listing rules made under section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration as required by section 149 of that Act.

Application has been made to the London Stock Exchange for all of the issued Ordinary Shares of the Company as mentioned herein to be admitted to the Official List. It is expected that Admission will become effective, and that dealings in the Ordinary Shares will commence, on 18 September 1997.

The Directors of Whittard of Chelsea Plc, whose names appear on page 4, 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.

It should be noted that in connection with the preparation and distribution of this document and the Admission, Henderson Crosthwaite Corporate Finance, a division of Guinness Mahon & Co. Limited, and Henderson Crosthwaite Institutional Brokers Limited (the latter of which is a member of the London Stock Exchange and both of which are regulated in the UK by The Securities and Futures Authority Limited) are acting for the Company and no-one else and will not be responsible to anyone other than the Company for providing the protections afforded to their customers nor for providing advice in relation to the Admission or the contents of this document.

WHITTARD OF CHELSEA PLC

(Incorporated in England and Wales under the Companies Act 1985 with registered number 2263726)

Introduction to the Official List

Sponsored by

HENDERSON CROSTHWAITE CORPORATE FINANCE

a division of Guinness Mahon & Co. Limited

Share Capital

Authorised		Issued and fully paid	
Number	£	Number	£
28,000,000	1,400,000	16,384,809	819,240.45

All of the Ordinary Shares in issue rank *pari passu* and have the right to receive all dividends and other distributions declared, paid or made on the Ordinary Shares.

Indebtedness and Cash

At the close of business on 29 August 1997, the Group had outstanding an unsecured bank overdraft of £5,700.

Save as aforesaid, and apart from intra-group indebtedness, at the close of business on that date neither Whittard of Chelsea Plc nor any of its subsidiaries had outstanding any loan capital, whether issued or created but unissued, term loans or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, finance lease obligations, mortgages, charges, guarantees or other contingent liabilities.

At the close of business on 29 August 1997, the Group had cash balances of £1,133,715.

18 - 09 - 97

CONTENTS

	<i>Page</i>
DEFINITIONS	3
DIRECTORS, SECRETARY AND ADVISERS	4
KEY INFORMATION	5
PART 1 THE BUSINESS	6
1. Introduction	6
2. History and Background	6
3. The Whittard Retail Format	6
4. Whittard Products	7
5. Product Sourcing	8
6. The UK Market	8
7. Competition	8
8. Shop Expansion	9
9. Wholesale and Export	9
10. Overseas Development	9
11. Financial Record	10
12. Management Information and Control Systems	10
13. Directors, Management and Employees	11
14. Corporate Governance	13
15. Current Trading and Prospects	13
16. Dividend Policy	14
17. Official List	14
PART 2 ANNOUNCEMENT OF RESULTS	15
PART 3 FINANCIAL INFORMATION	20
PART 4 ADDITIONAL INFORMATION	31

18 - 09 - 97

DEFINITIONS

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

"Act"	the Companies Act 1985
"Admission"	admission of the Ordinary Shares in issue to the Official List of the London Stock Exchange becoming effective
"AIM"	the Alternative Investment Market of the London Stock Exchange
"AIM Rules"	the rules set out in Chapter 16 of the rules of the London Stock Exchange
"Articles" or "Articles of Association"	the Articles of Association of the Company, a summary of which is set out in paragraph 4.2 of Part 4 of this document
"Board" or "Directors"	the board of directors or directors of the Company as set out in page 4 of this document
"Company"	Whittard of Chelsea Plc
"Granville"	Granville Private Equity Managers Limited or Gran Nominees Limited
"Group"	the Company and its subsidiaries
"Henderson Crosthwaite"	Henderson Crosthwaite Corporate Finance, a division of Guinness Mahon & Co. Limited, or Henderson Crosthwaite Institutional Brokers Limited, as the context requires
"Lawgra"	Lawgra (No. 363) Limited, a company owned by some of those who were directors of the Company at the time of the admission to AIM
"London Stock Exchange"	London Stock Exchange Limited
"Mintel"	Mintel Marketing Intelligence, a division of Mintel International Group Limited, an independent organisation which publishes, <i>inter alia</i> , an annual review of the tea and coffee market
"Montagu"	HSBC Private Equity Limited (formerly Montagu Private Equity Limited)
"Official List"	the Official List of the London Stock Exchange
"Ordinary Shares"	ordinary shares of 5p each in Whittard
"Placing"	the placing of Ordinary Shares in June 1996 pursuant to the placing agreement described in paragraph 7.1 of Part 4 of this document
"the Regulations"	the Public Offers of Securities Regulations 1995
"Share Option Schemes"	the Whittard approved 1990 and unapproved 1996 share option schemes and the Whittard 1996 employee (savings related) share option scheme, details of all of which are set out in paragraph 5 of Part 4 of this document
"UK"	the United Kingdom of Great Britain and Northern Ireland
"Whittard" or "Whittard of Chelsea"	the Company or the Group as the context requires

18 - 09 - 97

DIRECTORS, SECRETARY AND ADVISERS

Directors	David Courtenay Gladstone Gyle-Thompson (Non-Executive Chairman) William Arthur Hobhouse (Managing Director) David Vernon John Paget (Finance Director) Kathrine Belinda Collinge (Buying Director) John Phillip Giles Hilton (Product Director) David Geoffrey Hemming (Non-Executive) John Anthony Crassweller Hill (Non-Executive) all of Union Court, 22 Union Road, London SW4 6JQ
Company Secretary	Angela Margaret Hill
Registered Office	48 Moreton Street, London SW1V 2PB
Sponsor	Henderson Crosthwaite Corporate Finance a division of Guinness Mahon & Co. Limited 32 St Mary at Hill London EC3P 3AJ
Stockbroker	Henderson Crosthwaite Institutional Brokers Limited 32 St Mary at Hill London EC3P 3AJ
Registered Auditors	Clark Whitehill 25 New Street Square London EC4A 3LN
Solicitors to the Company	Lawrence Graham 190 Strand London WC2R 1JN
Principal Bankers	Midland Bank PLC Poultry and Princes Street London EC2P 2BX
Registrar	Connaught St Michaels Limited PO Box 30 Luton Bedfordshire LU1 2PZ

18 - 09 - 97

KEY INFORMATION

This information is derived from, and should be read in conjunction with, the full text of this document.

The Business

Whittard of Chelsea retails a range of premium quality teas and coffees, coffee making equipment, ceramics and confectionery through 97 outlets in the UK, and 2 in France. The Directors believe that Whittard is one of the leading tea and coffee retail specialists in the UK and aims to provide a wide range of quality products to its customers in a distinctive and attractive manner.

Whittard has a long established trading history but has grown significantly only relatively recently. Since 1988, the Group has developed from owning 3 central London shops to become a nationwide business employing 621 staff at 31 May 1997. The Company's growth has accelerated over the last three financial years with the opening of 57 additional shops in the UK.

In addition, Whittard has an expanding wholesale and export operation. Overseas, the Company distributes Whittard products for sale in Japan through 34 Whittard "corners" in department stores. A local partner has recently opened an outlet in Dubai on a franchise basis.

Key Strengths

The Directors believe that the Group's key strengths include:

- Whittard's position as the leading specialist retailer in the UK tea and coffee market;
- the management team's successful track record in developing Whittard as a quality brand name;
- the innovative approach taken towards brand development and the successful introduction of new products and retail initiatives over the last five years;
- the success in acquiring prime sites in target towns in the UK;
- the positive reception given to the brand in Japan;
- the strong potential of the Whittard brand name for further overseas development.

Prospects

The Directors believe that the future growth of the business will be achieved by:

- the development of further UK sites;
- the ability of the management team to create "retail theatre" and stores with appeal across the market place;
- the continued development of overseas territories in alliance with local partners;
- the exploitation of the Company's brand name in teas, coffees, ceramics and English products.

Official List

The Ordinary Shares of the Company were admitted to trading on AIM in June 1996. The Directors believe it is a logical step in the development of the Group to seek Admission of the Ordinary Shares to the Official List of the London Stock Exchange.

Financial Record

Set out below is a summary of the results of Whittard for the three years to 31 May 1997, which has been extracted from the financial information set out in Part 3 of this document, together with the number of stores at each year end:

	Year ended 31 May		
	1995	1996	1997
	£'000	£'000	£'000
Turnover	15,630	21,752	26,972
Profit on ordinary activities before tax	1,312	1,802	2,511
Number of stores at year end (including France)	62	82	98

18 - 09 - 97

PART 1 THE BUSINESS

1. INTRODUCTION

Whittard of Chelsea retails a range of premium quality teas and coffees, coffee making equipment, ceramics and confectionery through 97 stores which are located in high streets or shopping centres throughout the UK, and also in France. The Directors believe that Whittard is one of the leading retail tea and coffee specialists in the UK. The Group aims to buy the finest teas and coffees from around the world and to provide a wide range of quality products to its customers in a distinctive and attractive manner. Whittard also has an expanding wholesale and export operation, principally to Japan.

The Group generated profit before tax of £2.5 million in the year ended 31 May 1997, on turnover of £27.0 million, and had 621 employees at 31 May 1997.

The Company plans to continue to expand its chain of stores in the UK, and to pursue development opportunities in overseas markets in conjunction with local partners.

2. HISTORY AND BACKGROUND

Origins

Whittard has a long established trading history but has grown significantly only relatively recently. The business was founded in Fleet Street, London in 1886 by Walter Whittard, as a wholesale merchant, selling teas and coffees to local businesses, cafes and the nearby law courts. Gradually, greater emphasis was placed on the retail side of the business and teas and coffees in specially designed tins were sold. Quality products became available through Whittard mail order and scented and flavoured teas were introduced.

David Gyle-Thompson, the Chairman, acquired the business in 1973 through his private interests from the then owner, R.L. (Dick) Whittard, who remained as manager until his retirement in 1977.

Recent History

In 1988 Will Hobhouse purchased an equity stake in the Company and was appointed Managing Director. Since then, the Group has developed from 3 central London shops to become a nationwide business. With 38 stores open by early 1994, the Company's growth has accelerated over the last three completed financial years with the opening of 57 additional shops in the UK. In addition, the Group opened two stores in France in 1995 and entered into a distribution agreement for Japan under which a local partner distributes Whittard products to 34 Whittard "corners" in department stores.

The expansion of the Group was largely financed with funds raised in 1988 from venture capital backers, Granville and Montagu, who in May 1996 sold their interests to Lawgra.

AIM Flotation

In June 1996, the Ordinary Shares were admitted to trading on AIM and £8.52 million was raised, net of expenses, in a placing with institutional and other investors. Of the net proceeds of the Placing, £2.07 million was received by the Company for working capital to fund its development plans. The balance of the proceeds of the Placing was received by Lawgra, in order to repay the borrowing it had incurred when it purchased the share holdings of the Company's previous venture capital backers.

3. THE WHITTARD RETAIL FORMAT

The retail business operates from shops of up to 100 square metres in prime locations in high streets or shopping centres. Of the Group's 97 UK retail outlets, 27 branches are in central London, an additional 13 are in the M25 area, and 57 are in other cities or large towns.

18 - 09 - 97

The Company aims to ensure that each store is visually attractive with open chests of tea, displays of coffee beans and a bright colourful array of ceramics.

In its stores, Whittard promotes the quality and variety of its teas and coffees by permanent free tastings, packaging which indicates the tea's brew strength and the coffee's roast, and marketing initiatives such as "Coffee of the Month" and "Tea of the Week". As well as regular sales promotions on ceramics, there is 'The Coffee Club', a loyalty scheme which offers customers discounts for bulk purchases of coffee. The Company has a comprehensive merchandising manual and a full programme of promotions. Each store is provided with an appealing product range and effective point-of-sale displays to continuously promote the Whittard brand.

The management team has spent considerable time developing the Whittard brand, experimenting with new ideas and developing innovative approaches to the products and the stores. New products and retail initiatives have been successfully introduced over the last five years. Current trials include a store on the Kings Road, London, where green coffee is fresh roasted on site and a specialist ceramics store in Chiswick, London, where the product focus is geared to colourful china and tableware. The Directors intend to continue this process of continuous improvement.

4. WHITTARD PRODUCTS

Whittard's merchandise is separated into three main product categories: teas and related products, coffee and related products and ceramics.

The majority of products are sold under the Whittard of Chelsea brand name, with its distinctive packaging. New product introductions concentrate on the development of the brand with products as far as possible sourced direct from the factory, designed to the brand specification, negotiated with exclusivity to the Company in the UK and offered for sale with clearly defined retail techniques to promote the product.

Teas and related products

Whittard sells 86 different teas, including original house blends of English Breakfast, Earl Grey, Whittard Original and Afternoon; pure 'origin' estate teas such as Assam, Ceylon, Nilgiri; single estate Darjeelings including the best First Flush, Second Flush and Flowery Orange Pekoes; and specialist fruit teas. Teas are available loose or packed in packets, tins and gift packs.

Also offered with the teas are tea pots and cups and saucers, infusers and strainers together with other tea related items. The Company sells biscuits, jams and other gift products to complement the range with items of distinctive 'Englishness'.

Coffee and related products

The coffee range comprises 23 types of pure Arabica coffee available loose in beans or freshly ground on site for the customer. The coffee is fresh roasted for the Company under contract with green beans secured under forward contracts so that prices are stabilised. Loose coffee in the shops is guaranteed for freshness and if not sold within thirty days of roasting is given to charity.

Together with coffee the Company sells cafetieres, grinders, storage jars, espresso makers and other coffee making equipment.

Confectionery is sold for consumption with coffee and also for gift purchase. At Christmas and Easter a wider range is sold.

Ceramics

The Company offers a colourful and distinctive range of mugs, plates, bowls and other ceramic items. These are geared to the 'casual dining' market where customers want affordable purchases with distinct 'personality'. The Company has built a strong reputation in this market with items purchased both for customers' own use and also as gifts.

The buying team have built relationships direct with factories around the world to secure product, adopting an innovative approach both to design and methods of retailing these fashion items.

18 - 09 - 97

5. PRODUCT SOURCING

The Product Director visits and buys directly from tea estates in Sri Lanka and India. This enables the Company to offer an exclusive range of top quality single estate teas. Coffee is purchased either through brokers in London or direct from the quality estates where the coffee is grown. Whittard's brand is renowned for excellent quality and unusual innovations such as flavoured coffees and chocolate espresso beans. Product supplies are secured on future contracts up to six months ahead.

Packaging, ceramics and equipment are purchased to Whittard specifications from a range of established suppliers in the UK, Italy, Portugal, Hong Kong, Taiwan, Thailand and Indonesia. The Directors believe that Whittard has stable sourcing relationships built up over many years. Most products are exclusive to Whittard with unique designs commissioned to its specification from British designers and illustrators.

6. THE UK MARKET

The total UK tea market was valued at £666 million in 1996 and £647 million in 1995, with the speciality segment (in which Whittard operates) worth £31 million in 1996, an increase on the estimated £29.5 million in 1995 (*source: Mintel*). The majority of the tea sold is packed as tea bags. Growth in the tea market is concentrated in the premium sector including instant teas and caffeine free tea.

The total UK coffee market was valued at £777 million in 1996 and £713 million in 1995 (*source: Mintel*). Instant coffee accounted for the majority of these sales and the roast and ground coffee segment (Whittard's area of operation) was valued at £75 million in 1996, a 10.3 per cent. increase on £68 million in 1995 (*source: Mintel*).

Ceramics are part of the UK china and glass market which was valued at £664 million in 1996 (*source: Mintel*). Growth in this sector has been strong in 1996/7 as the increase in household spending has accelerated.

7. COMPETITION

In the UK retail market, the vast majority of teas and coffees are sold through supermarkets. The principal products competing with those of Whittard come from branded operators selling through supermarkets, such as Twinings or Taylors of Harrogate, and also from supermarket own label brands.

The drive by the main supermarket chains to develop innovative and higher margin product categories has led them to offer wider ranges of speciality teas and coffees. This has the benefit of increasing market awareness of these products which contributes to growth in sales of speciality teas and coffees.

Based on information from Mintel on the size of the market and on Whittard's sales, the Directors believe that Whittard's share of the retail speciality tea market was approximately 17.9 per cent. in 1996, an increase from 14.1 per cent. in 1995, and that Whittard's share of the retail roast and ground coffee segment was approximately 5.5 per cent. in 1996, compared to 4.9 per cent. in 1995.

Whittard competes by offering a wide range of teas and coffees, fresh products, in-store tasting and a dedicated service. As a tea and coffee specialist, Whittard focuses on sourcing the highest quality products which command premium prices. The Directors believe that once new customers have tasted different varieties and come to appreciate the benefits of fresh products, they will become regular customers. The Company further believes that as supermarkets promote the idea of experimenting with new varieties of tea and coffee, customers will be drawn to Whittard's greater choice and expertise.

The Directors believe that Whittard is the leading specialist retailer in the UK tea and coffee market. Other tea and coffee retail shops are principally single shops, although the Directors believe that there is one other chain which has seven units.

18 - 09 - 97

Starbucks is a US chain of coffee houses which has some 929 outlets in America which also sell coffee and related equipment. This formula is spreading to the UK, with the Costa Coffee Company and the Seattle Coffee Company establishing outlets, and others being likely to follow. The Directors see this trend as helpful to the Company in encouraging 'real' coffee drinking and therefore expanding Whittard's market.

The Directors accept that a concern about caffeine may cause customers to seek alternative drinks. To address this concern, Whittard offers lighter teas, containing reduced levels of caffeine, as well as caffeine-free and decaffeinated teas and coffees.

Overseas, a Whittard outlet, whether operated by the Group or by local partners, competes as an 'English' shop. Many products are bought as gifts and the focus of the outlet is maintained as an upmarket traditional English quality shop.

8. SHOP EXPANSION

The Group has rapidly expanded the number of its outlets in recent financial years, by adding 21 additional outlets in the 1994/95 financial year, 17 in 1995/96 and 19 in 1996/97. The Group plans to continue to expand the chain in the UK.

The Group has been successful in acquiring prime sites in target towns in the UK. The Directors have identified at least 80 further potential locations as possible Whittard outlets in the UK. The Company seeks new sites through UK property agents on a non-exclusive basis. The ideal Whittard site is approximately 40 square metres of trading space with 15 square metres storage and a shop front of at least three metres. Locations are sought in prime positions on high streets or in shopping centres with large numbers of shoppers and a consumer profile to suit the Company's product offering.

All of the Group's retail outlets are leasehold, with lease terms in general of between 5 and 25 years.

It is a feature of the Whittard format that new outlets usually become profitable within 12 months of opening, thereby incurring minimal initial trading losses.

9. WHOLESALE AND EXPORT

Whittard has a successful and established wholesale business supplying teas and coffees to traditional delicatessens and some department stores in the UK. In addition, Whittard has a growing wholesale export business, principally to Japan, but also to Holland, Poland, Iceland, Hungary, Taiwan and Australia.

10. OVERSEAS DEVELOPMENT

The Directors believe that the Whittard brand name has strong potential for further overseas development, as an English brand selling quality teas and coffees.

The Company has two shops in Paris. The Whittard brand has enjoyed a positive reception in Japan, where Whittard products are distributed for sale in "corners" within 34 department stores.

The Directors believe that there is potential for the number of overseas outlets to exceed that in the UK, but that the Company should not, to a significant extent, be operating additional own outlets overseas. Instead, the Directors intend to set up agreements with appropriate partners in suitable territories.

The Company has developed an international distribution agreement and master franchise whereby a partner can be granted the rights to open Whittard outlets in a particular territory. Two such franchise agreements have been entered into, one in relation to the Middle East with the first outlet opened in Dubai in March 1997 and another for Malaysia and Singapore with the first outlet due to open in October. Negotiations are being conducted for similar agreements in South Africa, Israel, Chile and Thailand.

18 - 09 - 97

11. FINANCIAL RECORD

Set out in the table below is a summary of the results of the Group for the three financial years to 31 May 1997, which has been extracted from the financial information set out in Part 3 of this document, together with the number of stores at each year end:

	Year ended 31 May		
	1995 £'000	1996 £'000	1997 £'000
Turnover	15,630	21,752	26,972
Cost of sales	(13,081)	(18,295)	(22,428)
Gross Profit	2,549	3,457	4,544
Selling and distribution costs	(197)	(390)	(534)
Administration expenses	(983)	(1,205)	(1,517)
Operating Profit	1,369	1,862	2,493
Interest payable and similar charges	(67)	(100)	(51)
Interest receivable and similar income	10	40	69
Profit on Ordinary Activities Before Taxation	1,312	1,802	2,511
Tax on profit on ordinary activities	(411)	(683)	(939)
Profit for the Financial Year	901	1,119	1,572
Premium on redemption of preference shares	(112)	—	—
Dividends	(459)	(1,132)	(504)
Retained Profit/(Loss) for the Financial Year	330	(13)	1,068
Earnings per Ordinary Share	5.5p	7.9p	9.9p
Number of stores at year end (including France)	62	82	98

Turnover increased by 39 per cent. between 1995 and 1996, and by 24 per cent. between 1996 and 1997. Whittard has generated this increase through organic growth in existing shops and the opening of new outlets.

Cost of sales includes all rent, rates, store occupation and labour costs, as well as the cost of goods sold. Gross profit margins decreased from 16.3 per cent. in 1995 to 15.9 per cent. in 1996 and increased to 16.8 per cent. in 1997.

As a result of seasonal peaks at Christmas and Easter, the Group normally generates greater profits in the second half of its financial year than in the first half.

The premium on redemption of preference shares was paid in 1995, when the share structure of the company was rationalised. The dividend paid in 1995 reflected the absence of dividends paid in prior years. The 1996 dividend was increased on a one off basis, as part of the agreement for the purchase of the shareholding of the Company's previous venture capital backers.

The 1997 dividend is 3.1 times covered by earnings.

12. MANAGEMENT INFORMATION AND CONTROL SYSTEMS

The Company's head office and warehouse is located in South London and consists of departments relating to buying, training, operations, marketing, systems, property, accounting, stock and quality control and distribution.

The Directors believe that Whittard's financial systems and management controls, both at head office and store level, are capable of fulfilling the demands of the business as it develops. In 1996, the Company installed an EPOS (Electronic Point of Sale) and stock management system to

18 - 09 - 97

facilitate tighter stock control, improve gross profit margins and save head office costs. In addition, financial and management reporting software was upgraded in 1996 to provide capacity for the expansion of the business.

13. DIRECTORS, MANAGEMENT AND EMPLOYEES

The Company's growth has been achieved under an experienced and established team of directors and senior managers, who have a successful track record in developing Whittard as a quality brand name.

Directors

The Board comprises three non-executive directors and four executive directors, being:

David Gyle-Thompson, Non-Executive Chairman (Aged 53)

David Gyle-Thompson has over thirty years' experience in commercial property. His interests acquired the business in 1973. On the formation of the Company in 1988 he became Chairman. He has been active in the development of the Company's property portfolio and other strategic initiatives. He is also Chairman of Onslow Boyd Group Limited and Beauchamp Marketing Limited which are private companies with interests in property and venture capital.

Will Hobhouse, Managing Director (Aged 40)

Will Hobhouse joined Whittard in 1988 as Managing Director, buying equity from David Gyle-Thompson before raising funds to build the business. From 1984 to 1988, he was Managing Director of Tie Rack Plc, which was floated on the London Stock Exchange in 1987. He joined Tie Rack Plc when there were 19 stores and left after opening 150 outlets in eight countries.

David Paget, ACA, Finance Director (Aged 38)

David Paget joined Whittard as Finance Director (designate) in May 1997 before formal appointment to the Board as Finance Director on 4 September 1997. Having qualified as a chartered accountant at Price Waterhouse in 1985, David was chief accountant at a subsidiary of Siemens Plc prior to five years as Finance Director at Lord Rayleigh's Dairies Ltd.

Giles Hilton, Product Director (Aged 46)

Giles Hilton joined Whittard in 1976 and has been responsible for tea and coffee procurement since 1980. Giles is an expert tea taster and has been responsible for developing the ranges of premium quality single estate teas and speciality coffee products. He joined the board as Product Director in 1989.

Belinda Collinge, Buying Director (Aged 32)

Upon graduation in 1988, Belinda Collinge joined Whittard as manager of the Northcote Road store and was promoted to Area Manager in March 1989. She was promoted to buyer in 1991 and became head of the buying department at the end of 1993. She joined the board in March 1994 as Buying Director, since when her major responsibility has been the development of the Company's sourcing partnerships.

Anthony Hill, Non-Executive Director (Aged 59)

Anthony Hill qualified as a solicitor in 1962 and practised as a lawyer, specialising in corporate law and Stock Exchange flotations before becoming an executive director of development and venture capitalists, Gresham Trust Limited in 1972 where he remained until 1978.

Until August 1997 he has managed his own specialist law practice "Shelton Cobb", concentrating on commercial law, commercial acquisitions and property. He is now a consultant to William Sturges, a firm of solicitors.

He joined the board as a non-executive director in 1988, and his wife, Angela, also a solicitor, is Company Secretary to the Company. He is also a director of Onslow Boyd Group Limited.

18 - 09 - 97

David Hemming, Non-Executive Director (Aged 55)

David Hemming was an investment director with Granville Private Equity Managers Limited until March 1997, and now provides consultancy services to Granville and others. He has been involved with Whittard since Granville's first venture capital investment in the Company in 1988 and joined the Board in September 1989 as a non-executive director.

Prior to joining Granville in 1985 he spent a number of years as a consultant with the PA Consulting Group and five years with the Wilkinson Sword Group as commercial manager of the Middle East and Africa Region.

Senior Management

The senior management team comprises the following:

Brian Hay, Retail Operations Director (Aged 36)

Brian Hay joined Whittard in April 1997 as Retail Operations Director, responsible for the profit performance of the UK shops. He runs the portfolio through Regional Managers and a support team at Head Office. After 11 years at Marks and Spencer Plc, Brian spent six years at The Body Shop Plc before joining Whittard.

Christine Craven, International Business Manager (Aged 30)

Having graduated in French and Spanish, Christine Craven joined the Shell Graduate Management Development programme in 1989. She joined Whittard in May 1994 having been Marketing Manager in Shell's UK Oils retail business. Her responsibilities include sales to UK department stores, international franchising activities and exports to Japan.

Laura Edghill, Marketing Manager (Aged 31)

Prior to joining Whittard in 1993, Laura Edghill was Sales and Marketing Manager for a conference company based in London and Singapore. She is responsible for promoting the identity of the Whittard brand through public relations and for retail marketing such as point-of-sale communications, third party and in-store promotions.

Tracey Sone, Warehouse Manager (Aged 27)

Tracey Sone joined Whittard in 1991 as Manager of the Putney store and was promoted to Warehouse Manager in 1992. She moved the operation into its present site of 1,400 square metres in 1993 and manages a team of nine.

Mark Holmes, Systems Manager (Aged 27)

Mark Holmes joined Whittard in October 1996 as Systems Manager, responsible for Information Technology, stock control and internal systems. After three years at Sanwa Bank Limited supporting financial systems, Mark was IT manager for three years at Knickerbox Limited.

Mark Sutton, FRICS, Property Manager (Aged 41)

Mark Sutton joined Whittard in May 1997 to manage the property portfolio and identify new sites. Having qualified as a chartered surveyor in 1985 with Hillier Parker, Mark had 12 years development, agency and valuation experience as a partner with Vigers and a director at J. Trevor & Webster.

Store Management

At 31 May 1997, Whittard had five Regional Managers all of whom have previously run retail shops, and ten Senior Managers who are responsible for both running a shop and assisting in managing a region. There were 91 Shop Managers and 452 shop staff including approximately 372 part-time employees.

Training and Motivation

Whittard places strong emphasis on customer service. Staff are trained in product knowledge and customer care to help the customer when purchasing from the wide range of products.

New Managers have an induction period at the Company's Training Centre in Finchley Road, London which provides shop management training, detailed information on the Company's products and concludes with a tea and coffee examination. All permanent staff are required to complete a Tea and Coffee Certificate which ensures that a high level of customer service is maintained.

The Company operates a 'Weekly Bonus' incentive scheme which rewards staff at individual stores for achieving sales and marketing objectives. The annual prize is a 'Star Trip', with last year's team winning a trip to Kenya.

Employee Share Participation

The Company has two share option schemes, one Inland Revenue approved and the other unapproved. Certain directors and senior employees participate in these schemes. The Company also has an Inland Revenue approved savings related share option scheme in which eligible employees may participate. Details of the share option schemes are given in paragraph 5 of Part 4.

The Directors intend to set up an employee share ownership trust, and this will be proposed to shareholders at the next annual general meeting.

As part of the arrangements for the AIM Flotation of the Company in June 1996, 135,000 Ordinary Shares were gifted to existing employees as a reward for long service or in recognition of significant contributions made to the success of Whittard.

14. CORPORATE GOVERNANCE

The Company complies with the Code of Best Practice issued by the Cadbury Committee on the Financial Aspects of Corporate Governance and with the Greenbury Study Group on Directors' Remuneration.

Whittard holds Board Meetings regularly throughout the year at which operating and financial reports are considered. The Board is responsible for formulating, reviewing and approving Whittard's strategy, budgets, major items of capital expenditure, acquisitions and senior personnel appointments.

An Audit Committee and a Remuneration Committee, consisting of the three non-executive Directors and chaired by the Chairman of the Company, have been established. The Audit Committee meets at least twice each year and is responsible for ensuring that the financial performance of Whittard is properly reported on and monitored, and for meeting the auditors and reviewing the reports from the auditors relating to accounts and internal control systems. The Remuneration Committee is responsible for reviewing the performance of the executive Directors and for setting the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of shareholders. The Remuneration Committee also determines the allocation of share options to Directors and other employees.

15. CURRENT TRADING AND PROSPECTS

Current Trading

Sales in the first quarter of the financial year were above budget and ahead of last year on a like for like basis.

Two new stores were opened in July. Leases are in solicitors' hands for an additional nine openings during the current financial year, and negotiations for a further five sites are nearing completion.

The Directors are confident that there will be good progress this year through organic growth, new store openings and the development of the overseas business.

18 - 09 - 97

Prospects

The Directors believe that the future growth of the business will be achieved by:

- the development of further UK sites;
- the ability of the management team to create "retail theatre" and stores with appeal across the market place;
- the continued development of overseas territories in alliance with local partners;
- the exploitation of the Company's brand name in teas, coffees, ceramics and English products.

Whittard takes an innovative approach to brand development and intends to continue to introduce new products and retail initiatives.

16. DIVIDEND POLICY

The Directors have proposed a total dividend of 3.1p per Ordinary Share for the year ended 31 May 1997, of which 1.0p per Ordinary Share has been paid as an interim dividend and 2.1p per Ordinary Share is proposed as a final dividend.

The Directors intend to continue to pursue a progressive dividend policy whilst maintaining an appropriate level of dividend cover, and pay interim and final dividends in February and November respectively. Interim dividends are generally expected to represent approximately one third of the total dividend for the year.

17. OFFICIAL LIST

The Directors believe that seeking Admission to the Official List is a logical step in the development of the Group. In particular, the Directors anticipate that the profile and status of Whittard will be enhanced and the range of potential investors in the Company will be broadened to include those precluded from investing in shares admitted to trading on AIM.

On Admission, trading in the Company's shares on AIM will be cancelled. Any reinvestment relief (under Chapter 1A of Part V of the Taxation of Chargeable Gains Act 1992) which has been obtained by shareholders in respect of the acquisition of Ordinary Shares, will not be withdrawn solely as a result of such shares being admitted to the Official List. However, the Ordinary Shares will no longer be eligible for business property relief (under Chapter I of Part V of the Inheritance Tax Act 1984) for inheritance tax purposes, once the transfer to the Official List is completed. Shareholders should seek independent professional advice.

PART 2 ANNOUNCEMENT OF RESULTS

The text of Whittard's announcement on 10 September 1997 of its results for the year ended 31 May 1997 is set out below:

"CHAIRMAN AND MANAGING DIRECTOR'S STATEMENT

Business Review

Whittard of Chelsea has completed its sixth consecutive year of consistent profit growth.

Organic growth and the opening of new units led to sales of £27 million and pre tax profit of £2.5 million. This represents sales growth of 24 per cent. and pre tax profit growth of 39 per cent.

£000's Year end 31 May	Sales	Pre-Tax Profit
1993	7,140	233
1994	9,880	719
1995	15,630	1,312
1996	21,752	1,802
1997	26,972	2,511

This satisfactory result came about as the Company exploited its growing reputation as the leading specialist retailer of teas, coffees and ceramics in the United Kingdom. Its share of the roast and ground coffee market grew to 5.5 per cent. and of the speciality tea market to 17.9 per cent. This growing market share plus increased awareness among potential customers allowed newly opened stores to move quickly to maturity while existing stores enjoyed organic growth.

Critical mass in the store portfolio has meant that the management team has opened stores without *pro rata* overhead growth. We expect this to continue in the future.

Overseas the two Paris stores are operating successfully with a clear English identity. There are now 34 Whittard corners in department stores in Japan. The first franchise store opened in Dubai in April with further openings planned in the Gulf region before Christmas. A territory franchise was recently signed covering Singapore and Malaysia with the first outlet due to open in October. Further territory franchises are under negotiation.

The brand format continues to be developed and improved. A specialist tea shop is now in place in the six main tourist locations; a coffee roasting store has been set up in the Kings Road (Chelsea); an existing store has been reopened as a specialist ceramics store in Chiswick. The team introduces new products regularly and will experiment on a continuous basis to develop the Company's product range and store formats.

The management team has been strengthened with a new Finance Director appointed to the Board on 4 September 1997. Department Heads from outside the business have been recruited to run the Operations function, Property and Systems. The combination of internal promotions and these outside appointments give the management team continuing impetus.

Current Trading

Sales in the first quarter of the financial year were above budget and ahead of last year on a like for like basis.

Two new stores were opened in July. Leases are in solicitors' hands for an additional nine openings during the current financial year, and negotiations for a further five sites are nearly completed.

We are confident that there will be good progress this year through organic growth, new store openings and the development of our overseas business.

Financial Management

The Company had positive cash balances at the year end, and it is our intention to continue our policy of conservative cash management. Growth in the UK is financed from internally generated funds. Overseas it is the policy of the Company to develop territories with a local franchisee or partner, thus avoiding capital risk to the business.

Official List

We are making application for the Company's Ordinary shares to be admitted to the Official List of the London Stock Exchange. We believe that this represents a logical step in the development of the Group, and that the profile and status of the Company will be enhanced.

Employees

The Company employed 621 people (full and part-time) at the year end.

18 - 09 - 97

The Directors recognise that the growth of the business is being achieved by the energy and commitment shown by those who work for the Company. Increasingly members of staff have bonus elements in their salary packages to align their interests with those of the shareholders. We would like to take this opportunity to thank all our employees whose hard work has led to this successful result for the year.

David Gyle Thompson
Chairman

Will Hobhouse
Managing Director

9 September 1997

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 31 May

	1997 £	1996 £
TURNOVER	26,972,002	21,751,609
Cost of sales	(22,427,558)	(18,295,151)
GROSS PROFIT	4,544,444	3,456,458
Selling and distribution costs	(534,401)	(389,506)
Administration expenses	(1,516,714)	(1,204,489)
OPERATING PROFIT	2,493,329	1,862,463
Interest payable and similar charges	(51,433)	(99,868)
Other interest receivable and similar income	69,157	39,521
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2,511,053	1,802,116
Tax on profit on ordinary activities	(938,709)	(682,802)
PROFIT FOR THE FINANCIAL YEAR	1,572,344	1,119,314
Dividends	(504,392)	(1,132,486)
RETAINED PROFIT/(DEFICIT) FOR THE FINANCIAL YEAR	1,067,952	(13,172)
EARNINGS PER SHARE	9.9p	7.9p

The profit and loss account contains all gains and losses recognised in the current and preceding financial year.

CONSOLIDATED BALANCE SHEET
At 31 May 1997

	£	1997 £	1996 £
FIXED ASSETS			
Tangible assets		4,053,009	3,721,685
Investments		956	956
CURRENT ASSETS			
Stocks	2,376,033		1,940,806
Debtors	1,007,132		755,261
Cash at bank and in hand	1,521,206		38,547
	<u>4,904,371</u>		<u>2,734,614</u>
CREDITORS			
Amounts falling due within one year	(4,209,373)		(4,876,580)
NET CURRENT ASSETS/(LIABILITIES)		694,498	(2,141,966)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,748,463</u>	<u>1,580,675</u>
CREDITORS			
Amounts falling due after more than one year		—	(4,000)
PROVISION FOR LIABILITIES AND CHARGES			
Deferred taxation		(50,000)	—
NET ASSETS		<u>4,698,463</u>	<u>1,576,675</u>
CAPITAL AND RESERVES			
Called up share capital		819,240	3,690
Share premium account		2,545,173	906,887
Capital redemption reserve		—	400,000
Profit and loss account		1,334,050	266,098
Equity Shareholders' Funds		<u>4,698,463</u>	<u>1,576,675</u>

18-09-97

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 May 1997

	£	1997 £	1996 £
NET CASH INFLOW FROM OPERATING ACTIVITIES (Note 1)		3,225,943	2,950,640
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received	69,157		39,521
Interest paid	(51,313)		(99,196)
Interest element of finance lease payments	(120)		(672)
NET CASH INFLOW/(OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		17,724	(60,347)
TAXATION		(1,151,800)	(1,356)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(1,399,314)	(1,866,222)
Proceeds from sale of fixed assets		21,500	—
EQUITY DIVIDENDS PAID		(160,311)	(1,579,496)
NET CASH INFLOW/(OUTFLOW) BEFORE USE OF LIQUID RESOURCES AND FINANCING		553,742	(556,781)
MANAGEMENT OF LIQUID RESOURCES			
Cash placed on deposit		(1,440,000)	—
FINANCING			
Capital element of finance lease rental payments	(882)		(4,741)
Issue of share capital	2,053,836		57,500
Repayment of other loans	(6,000)		(6,000)
		2,046,954	46,759
INCREASE/(DECREASE) IN CASH		960,696	(510,022)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT/FUNDS (Note 2)			
Increase/(decrease) in cash in the period		960,696	(510,022)
Cash outflow from decrease in debt and lease financing		6,882	10,741
Cash outflow from increase in liquid resources		1,640,000	—
Movement in net debt/funds in the period		2,607,578	(499,281)
Net debt at 1 June 1996		(1,092,372)	(593,091)
NET FUNDS/(DEBT) AT 31 MAY 1997		1,515,206	(1,092,372)

NOTES TO THE CASH FLOW STATEMENT

For the year ended 31 May 1997

1. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1997 £	1996 £
Operating profit	2,493,329	1,862,463
Depreciation charges	1,067,990	787,015
Increase in stocks	(435,227)	(76,680)
Increase in debtors	(170,156)	(228,338)
Increase in creditors	291,507	606,180
Profit on disposal of fixed assets	(21,500)	—
NET CASH INFLOW FROM OPERATING ACTIVITIES	3,225,943	2,950,640

2. ANALYSIS OF NET DEBT/FUNDS

	At 1 June 1996 £	Cash flow £	Non-cash changes £	At 31 May 1997 £
Cash at bank and in hand	38,547	24,063	—	62,610
Overdrafts	(1,118,037)	936,633	—	(181,404)
Debt due within one year	(8,000)	6,000	(4,000)	(6,000)
Debt due after one year	(4,000)	—	4,000	—
Finance leases	(882)	882	—	—
Current asset investments	—	1,640,000	—	1,640,000
	(1,092,372)	2,607,578	—	1,515,206

18 - 09 - 97

Notes:

1. The abridged financial information set out above has been extracted without material adjustment from financial statements approved by the Directors of Whittard of Chelsea Plc on 9 September 1997 which received an unqualified auditors report and which will be delivered to the Registrar of Companies. Financial statements for the year ended 31 May 1996, on which the auditors gave an unqualified report, have been filed with the Registrar of Companies.
2. The final dividend of 2.1p per share (1996: nil) will be proposed at the AGM on 11 November 1997, and if approved will be paid on 28 November 1997, to shareholders on the register at the close of business on 26 September 1997.
3. The calculation of the basic earnings per share is based on the profit on ordinary activities after taxation of £1,572,344 (1996: £1,119,314) divided by the weighted average number of ordinary shares in issue during the year of 15,844,419 (1996: 14,168,128) shares after adjustment for bonus issues and re-designation of shares during the current year.

The fully diluted earnings per share is not materially different to the basic earnings per share.

4. The Annual Report and Accounts will be posted to shareholders and copies will be available at the registered office at 48 Moreton Street, London SW1V 2PB."

PART 3 FINANCIAL INFORMATION

1. Introduction

The consolidated financial record of the Group covering the three years ended 31 May 1997 is set out below. The accounts of the Company do not provide any significant additional information to that contained in the consolidated financial statements.

The financial information contained in this Part 3, which is extracted or derived without material adjustment from the published audited consolidated financial statements for the three years ended 31 May 1997, does not constitute statutory accounts within the meaning of Section 240(5) of the Act. Full statutory accounts have been delivered to the Registrar of Companies for each of the two years ended 31 May 1996. Full statutory accounts for the year ended 31 May 1997 have been published and will be delivered to the Registrar of Companies. The consolidated annual accounts of the Group for the three years ended 31 May 1997 were audited in accordance with UK law by Clark Whitehill, Chartered Accountants and Registered Auditors, of 25 New Street Square, London EC4A 3LN, who gave unqualified audit reports within the meaning of Section 235 of the Act, made no statements under Section 237(2) or 237(3) of the Act and made no reference to any matter of fundamental uncertainty.

2. Consolidated Profit and Loss Accounts

	Notes	Year Ended 31 May		
		1995 £'000	1996 £'000	1997 £'000
Turnover	6.1	15,630	21,752	26,972
Cost of sales		(13,081)	(18,295)	(22,428)
Gross Profit		2,549	3,457	4,544
Selling and distribution costs		(197)	(390)	(534)
Administration expenses		(983)	(1,205)	(1,517)
Operating Profit	6.2	1,369	1,862	2,493
Interest payable and similar charges	6.5	(67)	(100)	(51)
Interest receivable and similar income	6.6	10	40	69
Profit on Ordinary Activities Before Taxation		1,312	1,802	2,511
Tax on profit on ordinary activities	6.7	(411)	(683)	(939)
Profit for the Financial Year		901	1,119	1,572
Premium on redemption of preference shares	6.17	(112)	—	—
Dividends	6.8	(459)	(1,132)	(504)
Retained Profit/(Loss) for the Financial Year	6.18	330	(13)	1,068
Earnings per share	6.9	5.5p	7.9p	9.9p

The profit and loss account contains all gains and losses recognised in each year.

3. Consolidated Balance Sheets

		1995	At 31 May 1996	1997
	Notes	£'000	£'000	£'000
Fixed Assets				
Tangible assets	6.10	2,642	3,722	4,053
Investments	6.11	1	1	1
		<u>2,643</u>	<u>3,723</u>	<u>4,054</u>
Current Assets				
Stocks	6.12	1,864	1,941	2,376
Debtors	6.13	677	755	1,007
Cash at bank and in hand		—	39	1,521
		<u>2,541</u>	<u>2,735</u>	<u>4,904</u>
Creditors: amounts falling due within one year	6.14	(3,641)	(4,877)	(4,210)
Net Current (Liabilities)/Assets		<u>(1,100)</u>	<u>(2,142)</u>	<u>694</u>
Total Assets Less Current Liabilities		<u>1,543</u>	<u>1,581</u>	<u>4,748</u>
Creditors: amounts falling due after more than one year	6.15	(11)	(4)	—
Provisions for Liabilities and Charges				
Deferred taxation	6.16	—	—	(50)
		<u>1,532</u>	<u>1,577</u>	<u>4,698</u>
Capital and Reserves				
Called up share capital	6.17	4	4	819
Share premium account	6.18	849	907	2,545
Capital redemption reserve	6.18	400	400	—
Profit and loss account	6.18	279	266	1,334
Equity Shareholders' Funds		<u>1,532</u>	<u>1,577</u>	<u>4,698</u>

18 - 09 - 97

4. Consolidated Cash Flow Statements

		Year Ended 31 May		
	Notes	1995 £'000	1996 £'000	1997 £'000
Net Cash Inflow from Operating Activities	4.1	1,596	2,951	3,226
Returns on Investments and Servicing of Finance				
Interest received		10	40	69
Interest paid		(65)	(99)	(51)
Interest element of finance lease payments		(2)	(1)	—
Premium on redemption of preference shares		(112)	—	—
Net Cash Inflow/(Outflow) from Returns on Investments and Servicing of Finance		(169)	(60)	18
Taxation		(47)	(1)	(1,152)
Capital Expenditure and Financial Investment				
Payments to acquire tangible fixed assets		(1,409)	(1,866)	(1,399)
Receipts from sale of tangible fixed assets		11	—	21
Dividend		(46)	(1,580)	(160)
Net Cash (Outflow)/Inflow Before Financing		(64)	(556)	554
Management of Liquid Resources				
Cash placed on deposit		—	—	(1,640)
Financing				
Redemption of debenture loans		(343)	—	—
Capital element of finance lease rental payments		(3)	(5)	(1)
Repayment of bank loans		(20)	—	—
Issue of share capital		—	57	2,054
Redemption of share capital		(400)	—	—
Repayment of other loans		(8)	(6)	(6)
Net Cash (Outflow)/Inflow from Financing		(774)	46	2,047
(Decrease)/Increase in Cash and Cash Equivalents		(838)	(510)	961
Reconciliation of Net Cash Flow to Movement in Net Debt/Funds				
Increase/(decrease) in cash in the year		(838)	(510)	961
Cash outflow from decrease in debt and lease financing		31	11	7
Cash outflow from increase in liquid resources		—	—	1,640
Movement in net debt/funds in the year		(807)	(499)	2,608
Net funds/(debt) at 1 June		214	(593)	(1,092)
Net funds/(debt) at 31 May	4.2	(593)	(1,092)	1,516

4.1 Reconciliation of Operating Profit to Net Cash

	Year Ended 31 May		
	1995 £'000	1996 £'000	1997 £'000
Inflow from Operating Activities			
Operating profit	1,369	1,862	2,493
Depreciation charges	606	787	1,068
Profit on sale of fixed assets	(2)	—	(21)
Increase in stocks	(795)	(77)	(435)
Increase in debtors	(228)	(227)	(170)
Increase in creditors	646	606	291
Net cash inflow from operating activities	1,596	2,951	3,226

4.2 Analysis of Net Debt/Funds

	At 1 June 1995 £'000	Cash flow £'000	Non-cash changes £'000	At 1 June 1996 £'000	Cash flow £'000	Non-cash changes £'000	At 31 May 1997 £'000
Cash at bank and in hand	—	39	—	39	24	—	63
Overdrafts	(569)	(549)	—	(1,118)	937	—	(181)
Debt due within one year	(8)	6	(6)	(8)	6	(4)	(6)
Debt due after one year	(10)	—	6	(4)	—	4	—
Finance leases	(6)	5	—	(1)	1	—	—
Current asset investments	—	—	—	—	1,640	—	1,640
	<u>(593)</u>	<u>(499)</u>	<u>—</u>	<u>(1,092)</u>	<u>2,608</u>	<u>—</u>	<u>1,516</u>

5. Accounting Policies

5.1 Accounting Convention

The financial statements are prepared under the historical cost convention, in accordance with applicable accounting standards. They consolidate the financial statements of Whittard of Chelsea and all its subsidiaries from their dates of incorporation or acquisition.

5.2 Depreciation

Depreciation is provided on all tangible fixed assets on a straight line balance basis at rates calculated to write off the cost of each asset over its expected useful life as follows:

Office equipment	25%
Plant and equipment	15%
Shop fittings	15%

Depreciation is provided on leasehold property to write off the cost over the life of the lease.

5.3 Stocks

Stocks have been valued by the Directors at the lower of cost (being purchase price including transport and handling costs) and net realisable value. Net realisable value means estimated selling price less further costs expected to be incurred to completion and disposal.

5.4 Deferred Taxation

Provision is made for deferred taxation using the liability method, on all material timing differences, to the extent that is likely that a liability will crystallise.

5.5 Leasing Contracts

Assets acquired under finance leases are included in tangible fixed assets and the obligations to pay future instalments are shown under creditors.

5.6 Foreign Currency

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences arising in the ordinary course of business are included in the trading profit. Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date.

5.7 Rent Free Periods and Landlord Contributions

The benefit arising from rent free periods and landlords contributions is spread on a straight line basis over the period to the first rent review.

6. Notes to the Financial Statements

6.1 Turnover

Turnover represents the invoiced amount of goods sold and services provided net of value added tax. The turnover and pre-tax profit is attributable to one activity; tea, coffee and associated product sales. Substantially all turnover is to UK customers.

18 - 09 - 97

6.2 Operating Profit

	Year Ended 31 May		
	1995	1996	1997
	£'000	£'000	£'000
This is stated after charging:			
Depreciation	606	787	1,068
Profit on sale of fixed assets	(2)	—	21
Hire of equipment	54	49	76
Auditors remuneration	12	25	25

In the year ended 31 May 1997 the auditors received £126,000 for services other than audit (1996: £15,000, 1995: £9,000).

6.3 Staff Costs

The average weekly number of persons including directors employed by the Group was:

	Year Ended 31 May		
	1995	1996	1997
	No	No	No
Working directors	5	5	4
Administration staff	14	17	19
Sales and warehouse staff (full time and part time)	307	402	436
	<u>326</u>	<u>424</u>	<u>459</u>

Staff costs including directors amounted to:

	Year Ended 31 May		
	1995	1996	1997
	£'000	£'000	£'000
Wages and salaries	2,306	3,138	3,989
Social security costs	177	241	281
Other pension costs	2	1	1
	<u>2,485</u>	<u>3,380</u>	<u>4,271</u>

6.4 Directors' Emoluments

The emoluments of the directors, excluding pension contributions, were:

	Year Ended 31 May		
	1995	1996	1997
	£'000	£'000	£'000
Chairman	19	21	—
Consultancy fees — Onslow Boyd Group Limited	9	—	39
Highest paid director	77	71	109
Other directors' emoluments, excluding pension contributions, fell within the following ranges:			
Nil — £5,000	2	2	—
£5,001 — £10,000	—	—	1
£10,001 — £15,000	1	1	—
£15,001 — £20,000	1	—	—
£20,001 — £25,000	—	1	1
£25,001 — £30,000	—	1	—
£30,001 — £35,000	1	—	1
£35,001 — £40,000	—	—	1
£40,001 — £45,000	—	—	—
£45,001 — £50,000	—	—	—
£50,001 — £55,000	—	—	—
£55,001 — £60,000	—	—	—
£60,001 — £65,000	—	—	—
£65,001 — £70,000	—	—	—
£70,001 — £75,000	—	—	—
£75,001 — £80,000	—	—	—
£80,001 — £85,000	—	—	—

18 - 09 - 97

	Year Ended 31 May							
	Salary/ Fees £'000	Bonus £'000	Pension Contributions £'000	Benefits £'000	Compensation for Loss of Office £'000	Total 1997 £'000	1996 £'000	1995 £'000
<i>Executives</i>								
WA Hobhouse	75	24	—	9	—	108	71	77
JPG Hilton	28	9	1	6	—	44	33	32
DC Boys	56	—	—	11	18	85	58	61
KB Collinge	44	14	—	4	—	62	46	36
<i>Non Executives</i>								
DCG Gyle-Thompson	40	—	—	—	—	40	21	28
JAC Hill	10	—	—	—	—	10	10	10
DGHemming	15	—	—	—	—	15	15	15
	<u>268</u>	<u>47</u>	<u>1</u>	<u>30</u>	<u>18</u>	<u>364</u>	<u>254</u>	<u>259</u>

Included above are:

Consultancy fees to Onslow Boyd Group Limited, a company which is a shareholder in Whittard and of which David Gyle-Thompson is a director and in which he is beneficially interested, for £39,500 (1996: £nil, 1995: £9,000) in respect of the services of David Gyle-Thompson as a Director of Whittard.

Consultancy fees from Granville Private Equity Managers Limited of £15,000 (1996: £15,000, 1995: £15,000) in respect of the services of David Hemming as a Director of Whittard.

6.5 Interest Payable and Similar Charges

	Year Ended 31 May		
	1995 £'000	1996 £'000	1997 £'000
Bank loans and overdrafts	49	87	20
Other loans repayable within five years	16	—	—
Finance charges payable	2	1	—
Other interest	—	12	31
	<u>67</u>	<u>100</u>	<u>51</u>

6.6 Other Interest Receivable and Similar Income

	Year Ended 31 May		
	1995 £'000	1996 £'000	1997 £'000
Money market and bank deposit interest	<u>10</u>	<u>40</u>	<u>69</u>

6.7 Taxation

	Year Ended 31 May		
	1995 £'000	1996 £'000	1997 £'000
The charge comprises:			
UK Corporation tax at 32.7% (1996: 33.0%, 1995: 33.0%)	419	636	891
Deferred taxation	—	—	50
(Over)/under provision in previous years	(8)	47	(2)
	<u>411</u>	<u>683</u>	<u>939</u>

18-09-97

6.8 Dividends

	Year Ended 31 May		
	1995	1996	1997
	£'000	£'000	£'000
Dividend paid of Nil (1996: Nil, 1995: 1.5p) per 1994 cumulative redeemable preference share	3	—	—
Dividend paid of Nil (1996: Nil, 1995: 4.5p) per 1995 cumulative redeemable preference share	9	—	—
Dividend paid of Nil (1996: 171.4p, 1995: 123.7p) per Ordinary 1p share	194	282	—
Dividend paid of Nil (1996: 416.3p, 1995: 123.7p) per Ordinary 1p "B" share	253	850	—
Dividend paid of 1.0p (1996: Nil, 1995: Nil) per Ordinary 5p share	—	—	160
Dividend payable of 2.1p (1996: Nil, 1995: Nil) per Ordinary 5p share	—	—	344
	<u>459</u>	<u>1,132</u>	<u>504</u>

The ordinary dividend for the year ended 31 May 1996 was paid to shareholders registered on 31 May 1996 and included an exceptional element.

6.9 Earnings per Share

The calculation of the basic earnings per share is based on the profit on ordinary activities after taxation, preference dividends and premium on redemption of preference shares of £1,572,000 (1996: £1,119,000, 1995: £777,000) divided by the weighted average number of ordinary shares in issue during the year of 15,844,419 (1996: 14,168,128, 1995: 14,168,128, after adjustment for bonus issues and re-designation of shares during the year ended 31 May 1997).

The fully diluted earnings per share is not materially different to the basic earnings per share.

6.10 Tangible Fixed Assets

	Short Leasehold Property £'000	Shop Fittings £'000	Plant and Equipment £'000	Office Equipment £'000	Total £'000
Cost					
At 1 June 1995	545	3,312	452	231	4,540
Additions	210	1,005	524	127	1,866
31 May 1996	<u>755</u>	<u>4,317</u>	<u>976</u>	<u>358</u>	<u>6,406</u>
Additions	288	710	197	204	1,399
Disposals	(41)	(193)	(9)	—	(243)
31 May 1997	<u>1,002</u>	<u>4,834</u>	<u>1,164</u>	<u>562</u>	<u>7,562</u>
Depreciation					
At 1 June 1995	98	1,470	248	82	1,898
Charge for the year	55	588	71	72	786
31 May 1996	<u>153</u>	<u>2,058</u>	<u>319</u>	<u>154</u>	<u>2,684</u>
Charge for the year	109	686	196	77	1,068
Disposals	(41)	(193)	(9)	—	(243)
31 May 1997	<u>221</u>	<u>2,551</u>	<u>506</u>	<u>231</u>	<u>3,509</u>
Net Book Value					
31 May 1995	<u>447</u>	<u>1,842</u>	<u>204</u>	<u>149</u>	<u>2,642</u>
31 May 1996	<u>602</u>	<u>2,259</u>	<u>657</u>	<u>204</u>	<u>3,722</u>
31 May 1997	<u>781</u>	<u>2,283</u>	<u>658</u>	<u>331</u>	<u>4,053</u>

18 - 09 - 97

6.11 Investments

	1995	At 31 May 1996	1997
	£'000	£'000	£'000
Listed investments	<u>1</u>	<u>1</u>	<u>1</u>

Subsidiary undertakings, include:

	Activity	Country of Incorporation	Proportion of capital owned %
Whittard of Chelsea SARL	Sale of tea and coffee	France	100
Whittard Trading Company Ltd	Dormant	UK	100
Whittard and Company Ltd	Dormant	UK	100
Rigadoon Limited	Project development	UK	90

The registered office of the UK subsidiaries is 48 Moreton Street, London SW1V 2PB, and that of the French subsidiary is 38 Rue de la Carnoy, 59130 Lambersart, France.

6.12 Stocks

	1995	At 31 May 1996	1997
	£'000	£'000	£'000
Finished goods	<u>1,864</u>	<u>1,941</u>	<u>2,376</u>

6.13 Debtors

	1995	At 31 May 1996	1997
	£'000	£'000	£'000
Trade debtors	94	360	277
Other debtors	203	46	190
ACT receivable	160	9	91
Prepayments and accrued income	<u>220</u>	<u>340</u>	<u>449</u>
	<u>677</u>	<u>755</u>	<u>1,007</u>

6.14 Creditors: amounts falling due within one year:

	1995	At 31 May 1996	1997
	£'000	£'000	£'000
Bank loans and overdraft	569	1,118	—
Trade creditors	1,033	1,419	1,606
Corporation tax	580	1,111	930
Other taxation and social security payable	79	73	181
Other creditors	80	46	52
Dividend payable	447	—	344
Accruals and deferred income	840	1,101	1,091
Obligations under finance leases	5	1	—
Other loans	<u>8</u>	<u>8</u>	<u>6</u>
	<u>3,641</u>	<u>4,877</u>	<u>4,210</u>

6.15 Creditors: amounts falling due after more than one year:

	1995	At 31 May 1996	1997
	£'000	£'000	£'000
Other loans	10	4	—
Obligations under finance leases	<u>1</u>	<u>—</u>	<u>—</u>
	<u>11</u>	<u>4</u>	<u>—</u>

The other loan was repayable in equal quarterly instalments of £2,000 and was interest free.

6.16 Deferred taxation

The maximum potential liability for deferred taxation was:

	1995	At 31 May 1996	1997
	£'000	£'000	£'000
Accelerated capital allowances	47	97	91
Deferred income	(29)	(29)	(22)
Short term timing differences	(2)	2	—
	<u>16</u>	<u>70</u>	<u>69</u>

The amounts provided for deferred tax were:

	1995	At 31 May 1996	1997
	£'000	£'000	£'000
Accelerated capital allowances	—	—	50
Deferred income	—	—	—
Short term timing differences	—	—	—
	<u>—</u>	<u>—</u>	<u>50</u>

At 1 June 1994

£'000

At 31 May 1995

At 31 May 1996

Profit and loss account

At 31 May 1997

£'000

—

—

—

50

50

6.17 Called-Up Share Capital

	1995	At 31 May 1996	1997
	£'000	£'000	£'000
Authorised			
40,000,000 Ordinary shares of 1p each	400	400	—
40,000,000 Ordinary "B" shares of 1p each	400	400	—
300,000 1994 Cumulative redeemable preference shares of £1 each	300	300	—
300,000 1995 Cumulative redeemable preference shares of £1 each	300	300	—
28,000,000 Ordinary Shares of 5p each	—	—	1,400
	<u>1,400</u>	<u>1,400</u>	<u>1,400</u>

	1995	At 31 May 1996	1997
	£'000	£'000	£'000
Allotted and fully paid			
164,800 (1995: 157,300) Ordinary shares of 1p each	2	2	—
204,200 (1995: 204,200) Ordinary "B" shares of 1p each	2	2	—
16,384,809 Ordinary Shares of 5p each	—	—	819
	<u>4</u>	<u>4</u>	<u>819</u>

18 - 09 - 97

	Year ended 31 May		
	1995	1996	1997
	£'000	£'000	£'000
Allotted and fully paid			
At 1 June			
164,800 (1995: 157,300) Ordinary shares of 1p each	2	2	2
204,200 (1995: 204,200) Ordinary 'B' shares of 1p each	2	2	2
200,000 1994 Cumulative redeemable preference shares of £1 each	200	—	—
200,000 1995 Cumulative redeemable preference shares of £1 each	200	—	—
	<u>404</u>	<u>4</u>	<u>4</u>
26 June 1994: Redemption of cumulative redeemable preference shares of £1 each	(200)	—	—
28 September 1994: Redemption of cumulative redeemable preference shares of £1 each	(200)	—	—
3 June 1996: Bonus issue of 275,074 Ordinary shares of 1p each	—	—	3
17 June 1996: All shares redesignated as Ordinary shares of 1p each	—	—	—
17 June 1996: Bonus issue of 70,204,066 Ordinary shares of 1p each	—	—	702
17 June 1996: Consolidation of shares into Ordinary shares of 5p each	—	—	—
20 June 1996: Issue of 1,700,000 Ordinary shares of 5p each	—	—	85
Issued to employees on exercise of options – 515,181 Ordinary shares of 5p each (1996: 7,500 Ordinary shares of 1p each)	—	—	25
At 31 May	<u>4</u>	<u>4</u>	<u>819</u>

In addition to bonus issues, 2,215,181 ordinary shares were allotted during the year ended 31 May 1997, for which the total consideration was £2,561,373. In 1994, all of the cumulative redeemable preference shares were redeemed at a premium of £112,000, which was charged to the profit and loss account in the year ended 31 May 1995.

The Company operates an approved executive share option scheme and an unapproved executive share option scheme. In addition there is an approved savings related share option scheme for employees. Details of options outstanding as at 9 September (being the latest practicable date prior to the publication of this document) are given below:

	Number
Approved executive scheme	152,000
Unapproved executive scheme	178,000
Approved savings related share option scheme	129,019

The options under the Approved and Unapproved executive schemes are exercisable from June 1999 to June 2007 (June 1999 to June 2004 for unapproved share options) at between £1.48 and £1.815 per share. The options under the approved savings related share option scheme are exercisable from September 1999 to March 2002 at £1.184 per share.

6.18 Movements On Reserves

	Share premium account	Capital redemption reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000
At 1 June 1994	849	—	349	1,198
Retained profit for the year	—	—	330	330
Redemption of preference shares	—	400	(400)	—
At 31 May 1995	<u>849</u>	<u>400</u>	<u>279</u>	<u>1,528</u>
Retained loss for the year	—	—	(13)	(13)
Arisin ^g on shares issued	58	—	—	58
At 31 May 1996	<u>907</u>	<u>400</u>	<u>266</u>	<u>1,573</u>
Bonus issue of shares	(305)	(400)	—	(705)
Issue of shares	2,450	—	—	2,450
Expenses of share issue	(507)	—	—	(507)
Retained profit for the year	—	—	1,068	1,068
At 31 May 1997	<u>2,545</u>	<u>—</u>	<u>1,334</u>	<u>3,879</u>

18 - 09 - 97

6.19 Reconciliation of Movements in Shareholders' Funds

	Year Ended 31 May		
	1995	1996	1997
	£'000	£'000	£'000
Profit for the financial year	901	1,119	1,572
Dividends	(459)	(1,132)	(504)
	<u>442</u>	<u>(13)</u>	<u>1,068</u>
New share capital subscribed less expense of issue	—	38	2,053
Redemption of cumulative redeemable preference shares	(400)	—	—
Premium on redemption of cumulative redeemable preference shares	(112)	—	—
	<u>(70)</u>	<u>45</u>	<u>3,121</u>
Opening shareholders' funds	1,602	1,532	1,577
Closing shareholders' funds	<u>1,532</u>	<u>1,577</u>	<u>4,698</u>

6.20 Operating Leases and Equipment Hire Agreements

- (a) The following payments are due in the following year in respect of operating leases and hire agreements which expire in the following periods from the balance sheet date:

	1996	1997
	£'000	£'000
Less than one year	37	5
2 to 5 years	<u>22</u>	<u>36</u>
	<u>59</u>	<u>41</u>

- (b) In addition, the Company has numerous leasehold properties with terms varying up to 25 years. The rental terms vary considerably and can relate directly to the turnover of individual outlets. In view of this, the directors consider it inappropriate and commercially disadvantageous to disclose information regarding annual rental payments as required by Statement of Standard Accounting Practice No. 21 - "Accounting for Leases and Hire Purchase Contracts".

6.21 Capital Commitments

	At 31 May		
	1995	1996	1997
	£'000	£'000	£'000
Contracted but not provided for	<u>300</u>	<u>—</u>	<u>45</u>

6.22 Other Commitments

Forward foreign exchange contracts at 31 May 1997 amounted to £2,093,000 (1996: £157,157, 1995: £1,257,158).

6.23 Related Party Transactions

The Company retained the services of Shelton Cobb, of which J A C Hill, a non-executive director of the Company, was the proprietor, to act as solicitor to the Company. The firm's charges have been in line with expected charges given the type of work involved, and they totalled £40,000 during the year to 31 May 1997.

18 - 09 - 97

PART 4 ADDITIONAL INFORMATION

1. Incorporation

- 1.1 The Company was incorporated and registered in England and Wales on 1 June 1988 under the name of Lettint Limited with registered number 2263726 as a private company with limited liability under the Act.
- 1.2 On 5 December 1988 the Company changed its name to Whittard of Chelsea Limited and on 18 June 1996 it was re-registered as a public limited company.
- 1.3 The registered office of the Company is 48 Moreton Street, London, SW1V 2PB. The head office is at Union Court, 22 Union Road, London SW4 6JQ.

2. Subsidiary Companies

- 2.1 The Company is a member of the Group of which it is the holding company. Its wholly owned subsidiaries are:
 - 2.1.1 Whittard and Company Limited which was incorporated in England and Wales on 19 February 1973;
 - 2.1.2 Whittard of Chelsea SARL which was incorporated in France on 18 August 1995; and
 - 2.1.3 Whittard Trading Company Limited which was incorporated in England and Wales on 23 December 1972.
- 2.2 Rigadoon Limited is also a subsidiary, which is 90 per cent. owned by the Company. It was incorporated in England and Wales on 19 March 1997.
- 2.3 The principal activity of the Company and its subsidiaries is the retail of prime quality teas and coffees, brewing equipment, ceramics and confectionery.

3. Share Capital

- 3.1 The Company was incorporated with an authorised share capital of £1,000,000 divided into 1,000,000 ordinary shares of £1 each, of which two were issued at par to the subscribers to the Memorandum of Association.
- 3.2 The following alterations in the authorised and issued share capital of the Company have taken place during the 3 years preceding the date of this document:
 - 3.2.1 On 26 September 1994 the 200,000 1995 Cumulative Redeemable Preference Shares of £1 each were repaid at par together with the premiums due on redemption of £32,000.
 - 3.2.2 On 31 May 1996 7,500 ordinary shares of 1p each were allotted fully paid for cash at a price of 766.67p per ordinary share.
 - 3.2.3 On 3 June 1996 the sum of £2,750.74 being part of the monies standing to the credit of the Company's capital redemption reserve account was capitalised and applied in paying up in full at par 275,074 ordinary shares of 1p each to existing holders of ordinary shares of 1p each in the proportion of 1.669138 new ordinary shares of 1p each for each ordinary share of 1p each held.
 - 3.2.4 On 17 June 1996 the sum of £702,040.66 standing to the credit of the Company's share premium account and capital redemption reserve was capitalised and applied in paying up 70,204,066 ordinary shares of 1p each to existing holders of ordinary shares of 1p each in the proportion of 109 new ordinary shares of 1p each for every ordinary share of 1p each held.
 - 3.2.5 On 17 June 1996 each of the issued and unissued "B" ordinary shares of 1p each were redesignated as an ordinary share of 1p each ranking *pari passu* in all respects and forming one class of share with the ordinary shares of 1p each in the Company.
 - 3.2.6 On 17 June 1996 each of the issued and unissued 1994 and 1995 cumulative redeemable preference shares of £1 each were sub-divided into 100 ordinary shares of 1p each ranking *pari passu* in all respects and forming one class of share with the ordinary shares of 1p each in the Company.
 - 3.2.7 On 17 June 1996 every 5 of the 70,848,140 issued and every 5 of the 69,151,860 unissued ordinary shares of 1p each were consolidated into one Ordinary Share.
 - 3.2.8 On 27 June 1996 1,700,000 Ordinary Shares were allotted fully paid for cash at a price of £1.48 per share.

- 3.2.9 On 5 February 1997, 117,436 Ordinary Shares were allotted and issued at a price of 8.52p per share following the exercise of options under the approved share option scheme.
- 3.2.10 On 10 February 1997, 44,044 Ordinary Shares were allotted and issued at a price of 8.52p per share following the exercise of options under the approved share option scheme.
- 3.2.11 On 14 March 1997, 1,371 Ordinary Shares were allotted and issued at a price of 118.4p per share following the exercise of options under the savings related share option scheme.
- 3.2.12 On 13 May 1997, 264,242 Ordinary Shares were allotted and issued at a price of 8.52p per share following the exercise of options under the approved share option scheme.
- 3.2.13 On 13 May 1997, 88,088 Ordinary Shares were allotted and issued at a price of 8.52p per share following the exercise of options under an unapproved share option scheme.
- 3.3 At the date of publication of this document, the authorised share capital of the Company is £1,400,000 divided into 28,000,000 Ordinary Shares of which 16,384,809 are in issue and fully paid.
- 3.4 The directors have the following authorisations to allot Ordinary Shares pursuant to resolutions passed on 25 October 1996:
- 3.4.1 to allot relevant securities pursuant to section 80 of the Act up to an aggregate nominal amount of £238,044 such authority to expire at the date of the Annual General Meeting of the Company in 1997;
- 3.4.2 to allot equity securities pursuant to section 95 of the Companies Act 1985 for cash as if section 89(1) did not apply to such allotment but limited to the allotment of equity securities (i) in connection with an offer by way of rights in favour of the holders of equity securities in proportion (as nearly as may be possible) to the respective number of ordinary shares held by them but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems in respect of overseas holders or otherwise and (ii) the allotment of equity securities (otherwise than pursuant to (i) above) up to an aggregate minimal amount of £39,674 such power to expire at the date of the Annual General Meeting of the Company in 1997.
- 3.5 Save as disclosed in this paragraph 3, during the 3 years preceding the date of this document:
- 3.5.1 there has been no change in the amount of the issued share capital of the Company and no material change in the amount of the issued share or loan capital of its subsidiaries;
- 3.5.2 no discounts or other special terms have been granted by the Company or by any of its subsidiaries in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries.
- 3.6 As at 9 September 1997 (being the latest practical date prior to the publication of this document) the following options over Ordinary Shares are outstanding under the Share Option Schemes:

Approved Share Option Scheme

<i>Number of options</i>	<i>Exercise price</i>	<i>First exercise date</i>	<i>Expiry date</i>
20,000	148p	26 June 1999	25 June 2006
132,000	181.5p	11 June 2000	10 June 2007

No. 2 Unapproved Share Option Scheme

<i>Number of options</i>	<i>Exercise price</i>	<i>First exercise date</i>	<i>Expiry date</i>
20,000	148p	26 June 1999	25 June 2003
158,000	181.5p	11 June 2000	10 June 2004

Savings Related Share Option Scheme

<i>Number of options</i>	<i>Exercise price</i>	<i>First exercise date</i>	<i>Expiry date</i>
71,224	118.4p	1 September 1999	1 March 2000
57,795	118.4p	1 September 2001	1 March 2002

- 3.7 Save as disclosed in this paragraph 3, no share or loan capital of the Company or its subsidiaries is under option or agreed conditionally or unconditionally to be put under option.
- 3.8 Other than in connection with the Share Option Schemes, there is no present intention to issue any of the authorised but unissued share capital of the Company.
- 3.9 The Ordinary Shares are in registered form.

18 - 09 - 97

4. Memorandum and Articles of Association

4.1 Memorandum of Association

The Company's principal objects are set out in clause 4 of its Memorandum of Association and are to carry on business, *inter alia*, as traders, purchasers and vendors in or for tea, coffee, provisions generally and all forms of goods.

4.2 Articles of Association

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

4.2.1 Voting rights of members

Subject to any special terms as to voting upon which any shares may for the time being be held, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by its duly appointed representative shall have one vote and on a poll every member present in person or by representative or proxy shall have one vote for every share in the capital of the Company held by him. A proxy need not be a member of the Company.

4.2.2 Variation of rights

If at any time the capital of the Company is divided into different classes of shares all or any of the rights or privileges attached to any class of shares in the Company may be varied or abrogated with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class.

4.2.3 Alteration of capital

The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of a larger nominal value, sub-divide all or any of its shares into shares of a smaller nominal value and cancel any shares not taken, or agreed to be taken, by any person.

The Company may by special resolution reduce or cancel its share capital or any capital redemption reserve or share premium account in any manner and with and subject to any conditions, authorities and assets required by law.

4.2.4 Transfer of shares

The instrument of transfer of any share shall be in any usual or common form or in such other form as may be approved by the Directors and shall be executed by or on behalf of the transferor and, if the share is not fully paid, by or on behalf of the transferee. The Directors may in their absolute discretion refuse to register a transfer of any share which is not fully paid, provided always that the Directors shall not exercise their discretion in such a way as to prevent dealings in shares taking place on an open and proper basis. Save for penalties for non-compliance with a statutory disclosure notice served in accordance with section 212 of the Act, the Articles contain no restrictions on the free transferability of fully paid shares provided that the transfer is in favour of no more than four persons jointly, is in respect of only one class of share and is accompanied by the share certificate and any other evidence of title required by the Directors and that the provisions in the Articles relating to the deposit of instruments for transfer have been complied with. Subject to the Act and every other Act for the time being in force concerning companies and affecting the Company, the Company may issue shares in uncertificated form and permit the same (whether or not in such form) to be transferred without production of written forms of transfer or the creation of certificates and the Board may from time to time lay down regulations governing such issue and transfer, which regulations shall (to the extent they specify) operate in substitution for the relevant provisions of the Articles of Association governing certificates and the transfer of shares.

4.2.5 Dividends

4.2.5.1 The Company may by ordinary resolution in general meeting declare dividends provided that no dividend shall be paid otherwise than out of profits and no dividend shall exceed the amount recommended by the Directors. The Directors may from time to time declare and pay such interim dividends as appear to the Directors to be justified.

4.2.5.2 Subject to the rights of persons, if any, holding shares with special dividend rights, all dividends shall be apportioned and paid *pro rata* according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid or credited as paid in advance of calls shall be regarded as paid on shares for this purpose.

4.2.5.3 All dividends unclaimed for a period of 12 years after having been declared or become due for payment shall be forfeited and shall revert to the Company.

4.2.5.4 The Company may cease to pay any dividend on any share if in respect of at least two consecutive dividends payable on that share the payment of such dividends has failed or, following one such occasion, reasonable enquiries have failed to establish any new address of the registered holder.

18 - 09 - 97

4.2.5.5 There is no fixed date on which an entitlement to dividend arises.

4.2.6 *Suspension of rights*

If a member or any other person appeared to be interested in shares held by such shareholder has been duly served with notice under section 212 of the Act and is in default in supplying to the Company within 14 days the information thereby required, then (if the Directors so resolve) such member shall not be entitled to vote or to exercise any right conferred by membership at meetings of the Company in respect of the shares which are the subject of such notice, and where the holding represents more than 0.25 per cent. of the issued shares of that class the payment of dividends may be withheld and such member shall not be entitled to transfer such shares otherwise than by an arms length sale.

4.2.7 *Distribution of assets on liquidation*

If the Company shall be wound up, the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Act, divide amongst the members *in specie* or in kind the whole or any part of the assets of the Company, those assets to be set at such value as he deems fair. The liquidator may also vest the whole or any part of the assets of the Company in trustees on trusts for the benefit of the members.

4.2.8 *Directors*

4.2.8.1 *Restrictions on voting*

Save as otherwise provided in the Articles of Association, a Director shall not vote on any resolution in respect of any contract or arrangement in which he has an interest which (together with any interest of any person connected with him) is to his knowledge a material interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company, or in relation to which he has a duty which conflicts or may conflict with the interests of the Company and if he shall do so his vote shall not be counted. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting. If any question arises at any meeting as to the materiality of the interest of a Director or as to entitlement to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the Chairman of the meeting and his ruling in relation to any other Director shall be final and conclusive except in a case where the nature or extent of the interests of the Director concerned have not been fairly disclosed.

4.2.8.2 *Remuneration*

The remuneration and other terms and conditions of appointment of any Director appointed to any office or employment under the Company shall be fixed by the Directors. In addition, the Directors (other than any Director who shall for the time being hold any executive office or employment under the Company or any subsidiary of the Company) shall be paid out of the funds of the Company by way of remuneration for their services as Directors such sums not exceeding in the aggregate £75,000 per annum or as the Company in general meeting shall from time to time determine by ordinary resolution. The Directors may also grant special remuneration to any Director who, being called upon, shall perform any special or extra services to or at the request of the Company. The Directors shall also be paid out of the funds of the Company all their reasonable travelling, hotel and other expenses incurred by them in and about the discharge of their duties.

4.2.8.3 *Pensions*

The Directors may give or award pensions, annuities, gratuities and superannuation or other allowances or benefits to any persons who are or have at any time been Directors of or employed by or in the service of the Company or of any company which is a subsidiary company of or allied to or associated with the Company or any such subsidiary and to the wives, widows, children and other relatives and dependants of such persons and may establish, maintain, support, subscribe to and contribute to all kinds of schemes, trusts and funds for the benefit of such persons or any of them or any class of them, and so that any Director shall be entitled to receive and retain for his own benefit any such pension, annuity, gratuity, allowance or other benefit (whether under such fund or scheme or otherwise).

4.2.8.4 *Other offices*

A Director may hold any other office or place or profit under the Company except that of auditor in conjunction with the office of Director and may act in a professional capacity to the Company and in any such case on such terms as to remuneration and otherwise as the Directors may arrange. No Director shall be disqualified by his office from contracting with the Company either with regard to such other office or place of profit or as vendor, purchaser or otherwise nor subject to section 320 of the Act shall any such contract nor any contract or arrangement entered into by or on behalf of the Company in which any Director shall be in any way interested, be avoided, nor subject also to section 320 of the Act, shall any Director so contracting or being interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason of such Director

holding that office or of the fiduciary relationship thereby established, provided that the nature of a Directors interest shall be disclosed by him in accordance with the Act and every other Act for the time being in force concerning companies and affecting the Company. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or in which the Company may be interested and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director or officer of, or from his interest in, such other company.

4.2.8.5 *Qualification shares*

There is no requirement for Directors to hold qualification shares in the Company.

4.2.8.6 *Retirement under age limit*

Unless otherwise determined in general meeting in accordance with the Act no person shall be appointed as a Director who has attained the age of 70 years and a Director shall vacate his office at the next annual general meeting after he attains the age of 70 years and be ineligible for re-appointment.

4.2.9 *Borrowing powers*

Subject as otherwise provided in the Articles of Association and to the Act, the Directors may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Directors 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 the subsidiaries so far as by such exercise they can secure) that the aggregate amount for the time being owing by the Company and its subsidiaries in respect of moneys borrowed (exclusive of moneys borrowed by the Company or any of its subsidiaries from any other such companies) shall not without the previous sanction of an ordinary resolution of the Company exceed a sum equal to three times the aggregate of the nominal share capital of the Company for the time being issued and paid up and the amounts standing to the credit of the consolidated capital and revenue reserves of the Company and its subsidiaries including share premium account, capital redemption reserve fund and profit and loss account, as shown by the latest audited consolidated balance sheet, but after such adjustments as are specified in the Articles of Association.

4.2.10 *Pre-emption rights*

There are no rights of pre-emption under the Articles of Association of the Company in respect of transfers of issued Ordinary Shares.

In certain circumstances, the Company's shareholders may have statutory pre-emption rights under the Act in respect of the allotment of new Ordinary Shares. These statutory pre-emption rights would require the Company to offer new Ordinary Shares for allotment by existing shareholders on a *pro rata* basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to the Company's shareholders.

5. *Share Option Schemes*

The principal terms of the Approved 1990 Share Option Scheme (for which approval by the Inland Revenue under Schedule 9 of the Income and Corporation Taxes Act 1988 ("ICTA") has been granted), the Unapproved 1996 Share Option Scheme and the Employee (Savings Related) Share Option Scheme (also approved by the Inland Revenue under Schedule 9 ICTA) may be summarised as follows:

5.1 *Approved 1990 Share Option Scheme*

- 5.1.1 Invitations to apply for options may be made to such of those who are eligible to participate as the Board or a duly constituted committee thereof of the Company may in its absolute discretion decide. Those eligible to participate in the scheme are directors and employees of the Company or of its participating subsidiaries who work for the group for not less than 25 hours (in the case of a director) or 20 hours (in the case of the employee who is not a director) per week (excluding meal breaks).
- 5.1.2 Each invitation may be made at any time and shall specify, *inter alia*, the subscription price at which each share subject to an option may be acquired which shall be the higher of the nominal value of a share and the market value of a share (determined in accordance with the provisions of part VIII of the Capital Gains Tax Act 1979) on the day of issue of the invitation.
- 5.1.3 No option may be granted to a person if immediately following such grant he would hold options (to include those granted under this scheme or any other scheme established by the Company or any associated company, not being a savings related share option scheme) with an aggregate subscription price exceeding the greater of £100,000 or four times his relevant emoluments (as defined in paragraph 28(4) of Schedule 9

18 - 09 - 97

of ICTA) for the current or preceding year of assessment. Pursuant to Schedule 16 of the Finance Act 1996 and with effect from 29 April 1996 the maximum aggregate subscription price has been reduced to £30,000.

- 5.1.4 Options must be granted not later than the twenty first day following the issue of the invitation. No options may be granted after the tenth anniversary of adoption of the scheme.
- 5.1.5 £1 is payable on each application for options as consideration for the option to be granted. Options may not be transferred, assigned or charged.
- 5.1.6 No option shall be granted if such grant when aggregated with the number of shares issued or remaining issuable under the scheme or any other share option scheme or employee share option scheme during the period of 10 years ending on the date of grant would exceed 10 per cent. of the number of shares then in issue. This restriction applies only to options granted after 17 June 1996 and any options unexercised at that date.
- 5.1.7 Options may be exercised in whole or in part for a period of six months following the death of the option holder or during the period commencing on the third anniversary of their grant and finishing on the tenth anniversary of their grant. If a participant ceases to be eligible by reason of injury, disability, redundancy or retirement, any unexercised options must be exercised within six months of the cessation. An option will lapse if the option holder ceases to be eligible other than by reason of death, injury, disability, redundancy or retirement.
- 5.1.8 If a person obtains control of the Company as a result of a general offer to acquire the whole of the issued share capital of the Company or to acquire all of the shares of the Company of the same class as the shares any unexercised option must be exercised within six months of control being obtained and any condition precedent being satisfied.

If a court sanctions a scheme of reconstruction or amalgamation under Section 425 of the Act options may be exercised within six months following such sanction.

If any person becomes bound or entitled to acquire the shares under sections 428 to 430 of the Act options may be exercised while that person remains bound or entitled to acquire the shares.
- 5.1.9 On the happening of any event referred to in subparagraph 5.1.8 above, subsisting and unexercised options may, by arrangement with the acquiring company and subject to the satisfaction of certain conditions, be released in consideration for the grant of new options (equivalent to the options) in the acquiring company or in another company in the same group as the acquiring company whose shares are eligible to be scheme shares.
- 5.1.10 With the prior approval of the Inland Revenue and subject to the satisfaction of certain other conditions, the number of shares comprised in an option and the subscription price may be adjusted in such manner as the Company's auditors consider to be fair and reasonable if any capitalisation, consolidation, sub-division or reduction in the capital of the Company occurs.
- 5.1.11 The scheme is administered by the Board or a committee of the board. The board may amend the scheme in any way provided that:
 - (a) no amendment shall be effective which would materially prejudice the interests of option holders in relation to options already granted to them;
 - (b) no amendment shall be made which would make the terms on which options are granted materially more generous or which would increase the limit specified in paragraph 5.1.6 above;
 - (c) no amendment shall have effect until approved by the Inland Revenue.
- 5.1.12 The Company in general meeting or the board may terminate the scheme at any time with the effect that no further options may thereafter be granted although in all other respects the scheme will remain in force.

5.2 Unapproved 1996 Share Option Scheme

The rules of the Unapproved 1996 Share Option Scheme which was adopted by Ordinary Resolution of the Company on 17 June 1996 are similar to the rules of the Approved 1990 Share Option Scheme save that:

- 5.2.1 all references to Schedule 9 ICTA and all references to the approval of the Inland Revenue have been deleted;
- 5.2.2 eligibility is not dependent on employees and directors working for a minimum number of hours per week;
- 5.2.3 there is no equivalent provision to that specified in paragraph 5.1.3 above;
- 5.2.4 options cease to be exercisable on the seventh anniversary of their grant;
- 5.2.5 the subscription price at which each share subject to an option may be acquired shall not be less than the nominal value of a share.

5.3 *Employee (Savings Related) Share Option Scheme (the "SAYE Scheme")*

The principal features of the SAYE Scheme are similar to the Approved Share Option Scheme save for the following:

- 5.3.1 Under the terms of the SAYE Scheme, employees (whether full-time or part-time) and full-time directors of the Group may be invited to apply for options. Full-time, in relation to directors, means that they are normally required to devote 25 hours or more per week to their employment by the Group. Invitations may be issued to all (but not some only) employees and full-time directors who have been employed for a minimum period of between 1 year (ending on 31 May prior to the date of invitation) and 5 years (as determined by the Board) except that employees or directors are excluded from participating under the Scheme if they have (or have had within the preceding twelve months) a material interest in a close company.
- 5.3.2 Options may normally only be granted within 42 days after announcement of the Group's preliminary or interim results.
- 5.3.3 Options must be granted at a subscription price per Ordinary Share which is at least the greater of:
 - (i) (a) 80 per cent. of the average middle market quotation of an Ordinary Share as derived from the Stock Exchange Daily Official List over the five dealing days immediately preceding the day of invitation to apply for an option; or
 - (b) if (a) above does not apply, 80 per cent. of the market value of an Ordinary Share as determined in accordance with Part VIII of the Taxation of Chargeable Gains Act 1992 and agreed with the Board of Inland Revenue, and
 - (ii) its nominal value.
- 5.3.4 An employee who wishes to participate must enter into a Save As You Earn savings contract with a building society nominated by the Board. The monthly contribution under the savings contract must not be less than £5 nor more than £250. No consideration will normally be payable for the grant of an option and options are not transferable or assignable.
- 5.3.5 A participating employee can choose between a three year savings contract or a five year savings contract.
- 5.3.6 The number of Ordinary Shares over which options may be granted under the SAYE Scheme may not exceed 5 per cent. of the issued share capital of the Company from time to time.
- 5.3.7 The number of Ordinary Shares in respect of which an option may be exercised may not exceed the number which may be subscribed for at the option price out of the proceeds of the related employee savings contract (including, if the Board shall so decide, any bonus element of such proceeds).
- 5.3.8 An option is normally exercisable, in whole or in part, during the six month period following the earliest date on which a bonus is payable under the relevant employee savings contract (either three or five years from commencement of the contract). In certain circumstances an option may be exercised earlier, (for example on death or redundancy or where the participant otherwise involuntarily ceases to be employed by the Group; or on a take-over, reconstruction or voluntary winding up of the Company) but if not then so exercised will generally lapse. An option will also lapse if the holder voluntarily resigns or is dismissed for cause less than three years from the date of grant.

6. Directors' and other Interests

- 6.1 As at 9 September 1997 (being the latest practicable date prior to the publication of this document), the interests of the Directors and their immediate families (all of which are beneficial unless otherwise stated) in the issued ordinary share capital of the Company which (i) have been notified to the Company pursuant to section 324 or 328 of the Act or which (ii) are required to be entered in the register maintained under section 325 of the Act, or which (iii) are interests of a person connected (within the meaning of section 346 of the Act) with a Director which would, if the connected person were a Director, be required to be disclosed under (i) or (ii) above, and the existence of which is known to or could with reasonable diligence be ascertained by that Director were as follows:

<i>Name</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of the issued ordinary share capital</i>	<i>Number of Ordinary Shares under option</i>
David Gyle-Thompson	4,804,910 ⁽¹⁾	29.3%	—
Will Hobhouse	4,492,030 ⁽²⁾	27.4%	—
David Paget	—	—	50,000
Giles Hilton	159,698 ⁽³⁾	1.0%	50,769
Belinda Collinge	202,615	1.2%	48,234
David Henning	—	—	—
Anthony Hill	—	—	—

(1) The Ordinary Shares in which David Gyle-Thompson is interested are held by Onslow Boyd Group Limited, a company of which approximately 97 per cent. is ultimately beneficially owned by a family trust in which David-Gyle-Thompson is beneficially interested.

(2) The Ordinary Shares in which Will Hobhouse is interested comprises 766,854 Ordinary Shares beneficially owned by Mr. Hobhouse. 2,507,384 Ordinary Shares registered in the names of trustees of a family trust in which Mr. Hobhouse is beneficially interested and 1,217,792 beneficially owned by Mrs. A. Hobhouse.

(3) The Ordinary Shares in which Giles Hilton is interested comprises 156,198 Ordinary Shares beneficially owned by Mr. Hilton and 3,500 Ordinary Shares beneficially owned by Mrs. V Hilton.

6.2 Save as set out above, no Director has any interest in any share capital of the Company or any of its subsidiaries.

6.3 In addition to the interests disclosed in paragraph 6.1 above, as at 9 September 1997 (the latest practicable date prior to the publication of this document) the Company is aware of the following interests in the Company's Ordinary Share capital which amount to 3 per cent. or more of the Company's capital.

<i>Name</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of the issued ordinary share capital</i>
FMR Corp. and its direct and indirect subsidiaries and Fidelity International Limited and its direct and indirect subsidiaries	1,399,600	8.5%
Westpool Investment Trust plc	962,000	5.9%
Johnson Fry Unit Trust Managers Limited	575,000	3.5%

6.4 Save as disclosed in paragraphs 6.1 and 6.3 above, the Company is not aware of any person who directly or indirectly will immediately following Admission, be interested in 3 per cent. or more of the capital of the Company or who directly or indirectly, jointly or severally, will or could exercise control over the Company.

6.5 Save as disclosed at Paragraph 6.4 and Paragraph 6.23 of Part 3, no Director has any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company and its subsidiaries taken as a whole and which was effected during the current or immediately preceding financial year, or during any earlier financial year and which remains in any respect outstanding or unperformed.

Each of the Directors is free of conflicts between duties to the Company and private interests and other duties.

6.6 None of the Directors has, or has had, any interest in any assets which have been, within the two years preceding the publication of this document, acquired or disposed of by or leased to the Company or any of its subsidiaries or are prepared to be acquired, disposed of or leased to the Company or any of its subsidiaries.

6.7 There are no outstanding loans granted by the Company or any of its subsidiaries to the Directors nor are there any guarantees provided by the Company or any of its subsidiaries for its or their benefit.

6.8 The following Directors have entered into service agreements with the Company each of which is dated 21 June 1996 (except for David Paget whose contract is dated 9 September 1997), under which their roles and current annual basic salaries are as follows:

<i>Director</i>	<i>Role</i>	<i>Annual Salary</i>
Will Hobhouse	Managing Director	£90,000
David Paget	Finance Director	£70,000
Belinda Collinge	Buying Director	£60,000
Giles Hilton	Product Director	£32,000

Will Hobhouse's service agreement is terminable by 12 months' notice given by either the Company or the Director. The agreements in respect of Giles Hilton and Belinda Collinge are terminable by six months' notice. David Paget's service agreement is terminable by three months' notice prior to 31 March 1998 and thereafter by six months' notice.

Each of the Directors' service agreements includes an extended period of notice of termination of 24 months, in the event of any person obtaining control of the Company or any person who has control of the Company making a general offer to acquire all the shares of the Company.

In addition to their salary each of the above Directors is entitled to participate in bonus arrangements under the terms of which senior management are entitled to receive between them an annual bonus of a sum equal to 15 per cent. of any increase in annual pre-tax profits over the preceding year up to a maximum aggregate sum of £150,000 (increasing in future years as specified by the remuneration committee of the Board). This bonus is divided between those entitled to receive it by reference to the proportion that their salary bears to the total salaries of those entitled to participate in the bonus arrangements.

Each Director shall also be entitled to be provided with a car of such make and value as determined by the Board the general running expenses for which shall be paid by the Company. Each agreement also provides that the Company shall bear the cost of Permanent Health Insurance cover and annual health screening for each Director, and, for each Director and his or her dependants, membership of a private medical insurance scheme.

Giles Hilton is entitled to a contribution from the Company into his personal pension of £910 per annum and the Company bears the cost of a life insurance policy.

Under the terms of a consultancy agreement dated 21 June 1996 and made between the Company, David Gyle-Thompson and Onslow Boyd Group Limited ("Onslow Boyd"), Onslow Boyd has agreed to make available to the Company the services of David Gyle-Thompson as non-executive Chairman for an annual fee of £33,500 exclusive of VAT payable monthly in arrears together with a contribution of £6,000 towards the cost of the provision of a car for his use. This agreement is subject to 12 months' notice given by either party.

Save as provided above, there are no service agreements in existence between any of the Directors and the Company or any other member of the Group which cannot be determined by the employing company without payment of compensation (other than statutory compensation) within one year.

- 6.9 David Gyle-Thompson was a non-executive director of Kember Smith Limited representing an investor, and resigned in January 1997. The company maintained optical storage systems and went into liquidation in May 1997 with an estimated deficiency as regards creditors of £0.1 million.

David Paget was a director of Lord Rayleigh's Dairies Limited, a dairy processing and distribution company, when it was placed in administration in August 1996 and in liquidation in November 1996, with an estimated deficiency as regards creditors of £10 million.

David Hemming was a director of RFS Industries Limited, a holding company for a group engaged in the refurbishment of railway equipment and similar activities, when it went into receivership in December 1993 with an estimated deficiency as regards creditors of £1.95 million and of Lydney Holdings Limited, which manufactured laminated panels, when it went into receivership in December 1993 with an estimated deficiency as regards creditors of £0.6 million. He was also a non-executive director of Lydney (EBT) Limited, which was dissolved in 1995, with no material deficiency as regards creditors. He joined the board of these companies as a non-executive director representing the interests of venture capital investors.

- 6.10 Will Hobhouse has been a non-executive director of The British Museum Company Limited (which is engaged in fund raising for the British Museum), since 7 June 1997. David Paget has been a partner (but has no executive role) since 1981 in Haygrass Cider Orchards, which is engaged in cider apple growing.

- 6.11 The total aggregate remuneration paid and benefits in kind, including pension contributions, granted to the directors for the financial year ended 31 May 1997 was £364,889 and on the basis of the arrangements in force at the date of publication this document the aggregate remuneration and benefits including pension contributions to be paid or granted to the directors for the current financial year ending 31 May 1998 is estimated to be £402,000.

7. Material contracts

The following contracts have been entered into by the Company and its subsidiaries, otherwise than in the ordinary course of business during the two years preceding the date of this document, and are or may be material:

- 7.1 A placing agreement dated 17 June 1996 between the Company (1) Henderson Crosthwaite (2) certain of the Directors (3) and a vendor shareholder, Lawgra (No. 363) Limited ("Vendor Shareholder") (4) under the terms of which Henderson Crosthwaite conditionally agreed, as agent for the Company and the Vendor Shareholder (as appropriate), to use its reasonable endeavours to procure places for 6,057,400 Ordinary Shares. Under these arrangements Henderson Crosthwaite, procured places pursuant to placing letters (the "Placing Letters") and received the confirmations issued in response thereto in respect of 6,057,400 Ordinary Shares.

For its services under the placing agreement, Henderson Crosthwaite received a commission (out of which commissions to places were to be paid) equal to 1 per cent. of the aggregate value of the placing price of 148p per Ordinary Share multiplied by the number of new Ordinary Shares placed by Henderson Crosthwaite as well as an advisory fee of £177,000 together with all its expenses and where applicable VAT. The placing agreement contained

certain warranties and indemnities by the Company, certain of the Directors and the Vendor Shareholder in favour of Henderson Crosthwaite. The placing agreement also contained restrictions on certain of the Directors from selling any of their Ordinary Shares for the period of twelve months following the admission to trading on AIM of the Ordinary Shares without the prior consent of Henderson Crosthwaite.

- 7.2 A facilities agreement dated 3 June 1996 made between Lawgra (No. 363) Limited, the Directors at that time (other than Anthony Hill and David Hemming), various parties connected with such Directors, the Company and Midland Bank plc ("Midland") under the terms of which Midland advanced £6,000,000 to Lawgra (No. 363) Limited to enable it to complete the purchase of the shares in the Company previously owned by its venture capital shareholders. Under the terms of this agreement the Company agreed to use its best endeavours to procure that admission of the Ordinary Shares to trading on AIM would take place thereby, pursuant to the terms of the Placing, enabling Lawgra (No. 363) Limited to realise sufficient funds to repay the amount borrowed from Midland. Pursuant to the terms of this agreement the Company also entered into a separate guarantee, also dated 3 June 1996, of the obligations of Lawgra (No. 363) Limited to Midland.

The entering into of this agreement, and the giving of the guarantee referred to above, by the Company, were sanctioned in accordance with the provisions of section 155 of the Act.

Under the terms of the placing agreement the necessary proceeds of sale of the placing shares being sold by Lawgra (No. 363) Limited were remitted directly to Midland and upon receipt the Company had no further obligations or liabilities to Midland under the terms of this facilities agreement or the guarantee given to Midland.

8. Premises

Details of the Company's head office are as follows:

<i>Address</i>	<i>Tenure</i>	<i>Date of Lease</i>	<i>Approx Square Feet</i>
Union Court 22 Union Street London SW4 6JQ	Leaschold	Various, but all expiring in 2003	24,785

None of the Group's individual sites account for a significant part of its turnover and activities.

9. Financial and trading position

There has been no significant change in the financial or trading position of the Group since 31 May 1997, the date to which the most recent audited consolidated accounts of the Group were made up.

10. Working capital

The Company is of the opinion that, taking into account existing bank facilities, the working capital available to the Group is sufficient for its present requirements.

11. Investments

There have been no significant acquisitions or other investments made by the Company during the past three financial years or the current financial year, being made or on which the Directors have already made firm commitments. The Company does not hold any significant investments.

12. Litigation

Neither the Company nor any of its subsidiaries is involved in any material legal or arbitration proceedings and (so far as the Company is aware) there are no legal or arbitration proceedings pending or threatened which may have or have had during the twelve months immediately preceding the publication of this document a significant effect on the financial position of the Group.

13. Taxation

Under current United Kingdom legislation, when making dividend payments to UK residents no tax will be withheld by the Company, but the Company will have to account to the United Kingdom Inland Revenue for advance corporation tax at the rate of 20/80ths of the amount of any dividend paid.

A United Kingdom resident individual shareholder will be entitled to a tax credit in respect of any dividend received. The cash dividend received by such shareholder and the associated tax credit (at the rate of 20/80ths) are aggregated in arriving at the shareholder's total income for United Kingdom taxation purposes. The tax credit is then set against the shareholder's overall tax liability (and thereby satisfies any liability to income tax of a shareholder subject to the lower rate of basic rate of income tax) and may be wholly or partly repaid by the Inland Revenue in appropriate cases. Where the shareholder is subject to the higher rate of income tax, additional tax will be payable on the dividend. A United Kingdom resident corporate shareholder will not be chargeable to United Kingdom taxation on dividends received and

18-09-97

may effectively use the related tax credit to set against its own liability to account for advance corporation tax on dividends which it pays. United Kingdom pension funds will no longer be entitled to reclaim the tax credit on dividends paid by the Company on or after 2 July 1997.

Measures were also announced by the Chancellor of the Exchequer on 2 July 1997 which will reduce the rate of tax credits on dividends paid by the Company to 10 per cent. of the gross dividend. These measures will take effect from 6 April 1999. United Kingdom resident individual shareholders who are not liable to income tax in respect of the gross dividend will not be entitled to payment of the tax credit after that date. In the case of the United Kingdom resident individual shareholders liable to income tax at only the lower basic rate, the tax credit will continue to satisfy in full such shareholders' liability to income tax on the dividend. United Kingdom resident individual shareholders liable to income tax at the higher rate will be subject to income tax on the gross dividend at 32.5 per cent., but will be able to set the tax credit off against part of this liability. Shareholders resident outside the United Kingdom should consult an appropriate professional adviser on the effect of these changes for them.

Subject to a number of exceptions for Commonwealth citizens, nationals of the European Economic Areas, individuals resident in the Isle of Man and the Channel Islands and certain others, the ability of shareholders who are resident in countries other than the United Kingdom to claim repayment from the United Kingdom Inland Revenue of the whole or part of the tax credit in respect of dividends (less any withholding tax thereon) depends in general upon the provisions of any double tax treaty or agreement which exists between such countries and the United Kingdom. Non-resident shareholders should consult their own advisers on the possible application of such provisions, the procedure for claiming repayment and what relief or credit for United Kingdom tax may be claimed in the appropriate overseas jurisdiction.

On Admission trading in the Company's shares on AIM will be cancelled. Any reinvestment relief (under Chapter 1A of Part V of the Taxation of Chargeable Gains Act 1992) which has been obtained by shareholders in respect of the acquisition of Ordinary Shares will not be withdrawn solely as a result of such shares being admitted to the Official List. However, the Ordinary Shares will no longer be eligible for business property relief (under Chapter 1 of Part V of the Inheritance Tax Act 1984) for inheritance tax purposes, once the transfer to the Official List is completed. Shareholders should seek independent professional advice.

The provisions of this paragraph are intended only as a general guide to the current position. Any person who is in any doubt as to his, her or its tax position or is resident in a jurisdiction other than the United Kingdom should consult his, her or its tax advisers.

14. General

- 14.1 The expenses of Admission are estimated to be £110,000, excluding VAT, and are payable by the Company.
- 14.2 The Company has not received any public takeover offer in respect of its shares during either the last or the current financial years, nor made any such offer in respect of another company's shares.
- 14.3 There is no arrangement under which any Director has waived or has agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.
- 14.4 There have been no interruptions to the business of the Group which may have, or have had, a significant effect on its financial position in the last 12 months.
- 14.5 No shares have been marketed or are available in whole or part to the public in connection with the application for Admission, otherwise than by purchase in the stockmarket (AIM prior to Admission and thereafter the Official List).
- 14.6 The Directors are not aware of any arrangement under which future dividends are waived or agreed to be waived.
- 14.7 Neither the Company nor its subsidiaries has acquired and is holding any of its own shares.

15. Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Lawrence Graham, 190 Strand, London, WC2R 1JN during normal business hours on any weekday (Saturdays and public holidays excepted) for the period of 14 days from the date of this document:

- 15.1 the memorandum and articles of association of the Company;
- 15.2 the service agreements and the consultancy agreement referred to in paragraph 6.8 of Part 4 above;
- 15.3 the material contracts referred to in paragraph 7 of Part 4 above;
- 15.4 the rules of the Share Option Schemes described in paragraph 5 of Part 4;
- 15.5 the consolidated audited accounts of the Company for the two years ended 31 May 1997; and
- 15.6 extracts of reports from Mintel, referred to in Section 6 and Section 7 of Part 1 of this document.

Dated 10 September 1997