

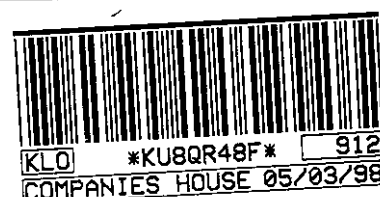
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**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to what action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services Act 1986 immediately.

If you have sold or otherwise transferred all or part of your holding of Ordinary Shares in T. J. Hughes plc prior to 25 February 1998, you should complete Box H on the accompanying Application Form and deliver it together with this document and the accompanying Form of Proxy to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected who will arrange for the Application Form to be split or transmitted to the purchaser(s) or transferee(s) as appropriate. This document and the accompanying documents should not be forwarded or transmitted by you in or into the United States of America, Canada, Australia, Japan or the Republic of Ireland.

In connection with the Placing and Open Offer, Charterhouse Tilney Securities Limited, which is regulated by The Securities and Futures Authority Limited, is acting exclusively for T. J. Hughes plc. Charterhouse Tilney Securities Limited is not acting for any other persons and will not be responsible to such persons for providing the protections afforded to customers of Charterhouse Tilney Securities Limited nor for advising them in relation to the Placing and Open Offer. Qualifying Shareholders are advised to consult their independent professional advisers before deciding whether to apply for their entitlement to New Ordinary Shares under the Open Offer.

✓ **T. J. Hughes plc**



**Placing and  
Open Offer to Qualifying Shareholders of  
5,297,778 New Ordinary Shares at 125p per share  
by  
Charterhouse Tilney Securities Limited**

A copy of this document, which comprises a prospectus relating to T. J. Hughes 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 in accordance with Section 149 of that Act. ✓

Application has been made to the London Stock Exchange for the New Ordinary Shares in T. J. Hughes plc to be admitted to the Official List. It is expected that Admission will become effective and that dealings will commence in the New Ordinary Shares on 2 April 1998.

Notice of an Extraordinary General Meeting to be held at 10.00am on 31 March 1998 is set out at the end of this document. To be valid, the enclosed Form of Proxy for use in connection with the meeting should be completed in accordance with the instructions printed thereon and returned by post or by hand to the Company's Registrars, Lloyds Bank Registrars, The Causeway, Worthing, West Sussex BN99 6DA as soon as possible, but in any event so as to arrive not later than 10.00am on 26 March 1998.

The latest time for application and payment in full under the Open Offer will be 3.00pm on 27 March 1998. The procedure for application and payment is set out in Part II of this document and on the Application Form which accompanies this document.

The New Ordinary Shares have not and will not be registered under the United States Securities Act 1933 (as amended), or any securities laws of Canada, Australia, Japan or the Republic of Ireland and may not be offered, sold, resold or delivered directly or indirectly within the United States of America, Canada, Australia, Japan or the Republic of Ireland.

Qualifying Shareholders should be aware that New Ordinary Shares not applied for under the Open Offer will not be sold in the market for the benefit of Qualifying Shareholders but will be taken up by placees or by Charterhouse Tilney Securities Limited in accordance with its commitments under the Placing Agreement.

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

1998

Record Date for the Open Offer	close of business on 25 February
Latest time and date for receipt of Forms of Proxy	10.00 am on 26 March
Latest time and date for splitting of Application Forms (only to satisfy <i>bona fide</i> market claims)	3.00pm on 25 March
<b>Latest time and date for receipt of completed Application Forms and payment in full</b>	<b>3.00pm on 27 March</b>
<b>Extraordinary General Meeting</b>	<b>10.00 am on 31 March</b>
Dealings commence in New Ordinary Shares	2 April
Definitive share certificates for the New Ordinary Shares expected to be despatched by	7 April

## DEFINITIONS

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

"Act"	the Companies Act 1985, as amended
"Admission"	the admission of the New Ordinary Shares, to be issued pursuant to the Placing and Open Offer, to the Official List becoming effective
"Application Form"	the application form accompanying this document for use by Qualifying Shareholders in relation to the Open Offer
"Board" or "Directors"	the directors of the Company, whose names appear on page 4 of this document
"Charterhouse Tilney"	Charterhouse Tilney Securities Limited
"Company" or "Group" or "T. J. Hughes"	T. J. Hughes plc
"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of the Company convened for 10.00 am on 31 March 1998 pursuant to the notice set out at the end of this document (or any adjournment thereof)
"Form of Proxy"	the form of proxy accompanying this document for use in connection with the Extraordinary General Meeting
"London Stock Exchange"	London Stock Exchange Limited
"New Ordinary Shares"	new Ordinary Shares to be issued pursuant to the Placing and Open Offer, which will rank <i>pari passu</i> in all respects with the existing Ordinary Shares.
"Official List"	the Official List of the London Stock Exchange
"Open Offer"	the conditional invitation by Charterhouse Tilney, as agent for the Company, to Qualifying Shareholders to subscribe for 5,297,778 New Ordinary Shares on the terms and subject to the conditions set out in this document and the Application Form
"Optionholders"	the holders of options to subscribe for Ordinary Shares granted pursuant to the Share Option Schemes
"Ordinary Shares"	ordinary shares of 10p each in the capital of T. J. Hughes
"Placing"	the conditional cash placing by Charterhouse Tilney of Placing Shares, subject to recall to satisfy valid applications under the Open Offer, pursuant to the Placing Agreement
"Placing Agreement"	the conditional agreement dated 5 March 1998 between (1) the Company (2) Charterhouse Tilney and (3) the Directors relating to the Placing and Open Offer, the principal terms and conditions of which are summarised in paragraph 10 of Part VI of this document
"Placing Price"	125p per New Ordinary Share
"Placing Shares"	4,926,279 New Ordinary Shares which are not the subject of irrevocable undertakings from Qualifying Shareholders to accept the Open Offer
"Qualifying Shareholders"	Shareholders on the register of members of T. J. Hughes at the Record Date, other than Shareholders with registered addresses in the United States of America, Canada, Australia, Japan and the Republic of Ireland
"Record Date"	close of business on 25 February 1998
"Resolutions"	the special resolutions to be proposed at the Extraordinary General Meeting which are set out in the notice convening the Extraordinary General Meeting
"Shareholders"	the holders of Ordinary Shares
"Share Option Schemes"	the T. J. Hughes plc executive share option scheme adopted on 18th December 1990, the T. J. Hughes plc executive share option scheme adopted on 22nd April 1992, the T. J. Hughes plc employee savings related share option scheme adopted on 22nd April 1992 and the T. J. Hughes plc unapproved share option scheme adopted on 31st October 1997

## DIRECTORS, SECRETARY AND ADVISERS

Directors	Eric Hodges <i>Non-Executive Chairman</i> David S. Winterbottom <i>Non-Executive Deputy Chairman</i> George W. Foster <i>Chief Executive</i> Anthony P. Potter <i>Finance Director</i> John M. Robertson <i>Non-Executive Director</i> John L. Beckwith <i>Non-Executive Director</i>
Secretary	Anthony P. Potter
Registered and Head Office	Audley House, London Road, Liverpool L69 3BD
Financial Adviser and Stockbroker	<b>Charterhouse Tilney Securities Limited,</b> 1 Paternoster Row, St. Paul's, London EC4M 7DH
Auditors and Reporting Accountants	<b>Price Waterhouse,</b> 101 Barbirolli Square, Lower Mosley Street, Manchester M2 3PW
Solicitors to the Company	<b>Berrymans Lace Mawer,</b> Castle Chambers, 43 Castle Street, Liverpool L2 9SU
Solicitors to Charterhouse Tilney	<b>Dibb Lupton Alsop,</b> India Buildings, Water Street, Liverpool, Merseyside L2 0NH
Registrars and Receiving Agents	<b>Lloyds Bank Registrars,</b> The Causeway, Worthing, West Sussex BN99 6DA
Principal Bankers	<b>The National Westminster Bank plc</b> P.O. Box 138, 22 Castle Street, Liverpool L69 2BE

## PART I – LETTER FROM THE CHAIRMAN OF T. J. HUGHES

# T. J. Hughes plc

(Registered in England and Wales under the Companies Act 1985 Registered no: 224422)



### Directors

Eric Hodges *Non-Executive Chairman*  
David S. Winterbottom *Non-Executive Deputy Chairman*  
George W. Foster *Chief Executive*  
Anthony P. Potter *Finance Director*  
John M. Robertson *Non-Executive Director*  
John L. Beckwith *Non-Executive Director*

### Registered and Head Office

Audley House  
London Road  
Liverpool  
L69 3BD

5 March 1998

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

Dear Shareholder,

## Placing and Open Offer

### Introduction

Your Board announced today a Placing and Open Offer of 5,297,778 New Ordinary Shares to raise approximately £6.1 million (net of expenses) to enable T. J. Hughes to finance new store openings, introduce Electronic Point of Sale ("EPOS"), improve its warehousing capabilities, and facilitate its further growth.

The Placing and Open Offer has been fully underwritten by Charterhouse Tilney, financial adviser and stockbroker to T. J. Hughes and is conditional, *inter alia*, on the passing of Resolution 1 of the Resolutions. The Placing and Open Offer has been underwritten in full by Charterhouse Tilney, financial adviser and stockbroker to T. J. Hughes and is conditional, *inter alia*, on the passing of Resolution 1 of the Resolutions. 371,499 New Ordinary Shares are the subject of irrevocable undertakings from certain Directors to accept the Open Offer and a further 3,901,693 New Ordinary Shares will be conditionally placed with certain of the existing Qualifying Shareholders in respect of their entitlement to such New Ordinary Shares under the Open Offer. The balance of the New Ordinary Shares which are the subject of the Placing and Open Offer comprising 1,024,586 New Ordinary Shares will be conditionally placed subject to clawback in favour of Qualifying Shareholders to satisfy valid acceptances under the Open Offer. Qualifying Shareholders are being given the opportunity to apply for the New Ordinary Shares at the issue price of 125p per share. Further details relating to the Open Offer are summarised below and are set out in Part II of this document.

The principal purpose of this document is to give Shareholders details of the Placing and Open Offer and to explain why your Directors believe that the Placing and Open Offer is in the best interests of the Company and its Shareholders as a whole and to recommend that you vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting convened by the notice set out at the end of this document.

### Background to the Company

The principal activity of the Company is retailing through specialist department stores in the North West of England and the Midlands.

In the period since flotation in May 1992 T. J. Hughes has grown from operating 11 department stores to operating 18 department stores. This growth has been achieved at a capital cost of approximately £10.60 million which has been financed through both the Company's own resources and bank facilities. The

trading and marketing policy of T. J. Hughes is based on a well established formula which involves the provision of a broad, well-presented range of quality goods, many comprising well known brand names, at low prices in an attractive shopping environment. T. J. Hughes' ability to be flexible and innovative in identifying, purchasing and promoting products, often in short time periods, is important to its success.

T. J. Hughes' senior management has been strengthened by the appointment in May 1997 of George Foster, the new Chief Executive. The Company has experienced and well trained staff with a good knowledge of its chosen market place.

In March 1997 one new store was opened in Rochdale which has performed ahead of the Board's expectations. There is now an accelerated store development programme in place which will involve a number of new store openings. Such stores will carry a complete range of merchandise including ladies, mens and childrens wear, shoes, fashion accessories, cosmetics, furnishings, linens, housewares, electrical goods, gardening products and toys, many of which bear famous brand names and are sold at discount prices.

### **T. J. Hughes' Strategy and Reasons for the Placing and Open Offer**

The proceeds of the Placing and Open Offer will enhance the capital base from which the Directors can implement their growth strategy by opening more stores. Although the business is cash generative, the Directors feel that the expenditure involved in meeting the anticipated rate of growth would, in the absence of the new equity currently being sought, result in an unacceptable level of gearing. The proceeds will also help to fund the establishment of a sound administrative infrastructure involving integrated computerisation, Electronic Point of Sale (EPOS), and improved warehousing capability across the Group.

Notwithstanding the fact that T. J. Hughes' operating activities are, on an annual basis, typically cash generative, there will be a requirement for borrowing at certain times of the year because of the seasonality of retailing. The Board's policy is to monitor gearing levels continuously and a prudent approach to gearing will continue in the future.

### **T. J. Hughes' capital expenditure programme**

As part of its total capital expenditure programme, T. J. Hughes has currently contracted to spend £6.75 million comprising:

#### ***Store Openings***

Stores already contracted to open progressively during 1998 together with the planned expansion of the London Road store in Liverpool will increase the Company's net selling floor space by 21 per cent. The total cost of the related capital expenditure programme is expected to amount to £4.75 million. In addition these new stores would require additional working capital of £1.5 million.

Contracts have been signed for a new store in Blackburn with approximately 42,000 square feet of net selling space (57,000 square feet gross), which is due to open in April 1998. The new Blackburn store is sited within the main central shopping precinct, which has benefited from a major refurbishment over the past two years.

A new store with approximately 27,000 square feet of net selling space (34,000 square feet gross) is scheduled to open during March 1998 within the Pride Mill Riverside Mall in Shrewsbury.

A 23,000 square feet expansion at London Road, Liverpool, will open in early Autumn 1998, expanding the complex to some 90,000 square feet of net selling space. An additional floor is being refurbished as retail space and the existing administration offices will be relocated elsewhere on T. J. Hughes' substantial freehold site at London Road.

Contracts have been exchanged for the lease of a major new store in Sheffield, taking T. J. Hughes into South Yorkshire for the first time. This new store will provide the Company with a platform to open further stores within Yorkshire and the North East by reapplying the strategy which has enabled T. J. Hughes to successfully expand in the North West through its flagship store in Liverpool. The store will have approximately 85,000 square feet of net selling space (155,000 square feet gross) over four trading floors and is due to open in June 1998.

At present, as part of the Company's 1999 capital expenditure programme, a further store has been contracted for. This 27,000 square feet of net selling space (36,000 square feet gross) store is planned for opening in Burnley during the Autumn of 1999 and is expected to cost £500,000.

When these new stores and the London Road extension are open, T. J. Hughes will have approximately 645,000 square feet of net selling space in a total of 22 stores.

In line with the criteria laid down by the Board, the Directors would expect to open typically three to four new full-line stores in a normal year. The Directors are currently actively considering an extensive list of further opportunities.

#### ***Electronic Point of Sale (EPOS)/Computerisation***

The Board wishes to introduce a "fast-track" programme of computer development. A new central computer and EPOS system is to be introduced to provide the management with improved information systems and the business with a platform for further development in the future. The transition will involve a complete upgrade of the current hardware and software with a view to ensuring compatibility with millennium and EMU requirements. It is envisaged that a complete solution will be installed in an 18 month timeframe, in a phased manner, building to a complete unit stock control operation fully integrated with back office systems. The total capital cost of this development is expected to be approximately £1.5 million spread over 18 months.

#### ***Warehousing Capability***

To support the planned store expansion programme and to maintain an efficient supply chain to existing stores, additional storage and merchandise handling capacity is required at the Company's central distribution centre in Liverpool, close to the M62 motorway.

A phased programme creating additional storage commenced in December 1997. The first phase involves an estimated expenditure of £150,000. The second phase, involving the erection of further pallet racking and a mezzanine area, is planned for January 1999 at an expected cost of £350,000.

#### **The Placing and Open Offer**

Charterhouse Tilney, as agent for the Company, has conditionally agreed to procure subscribers for or, failing which, to itself subscribe as principal at the Placing Price, for 4,926,279 New Ordinary Shares to be issued pursuant to the Placing and Open Offer of which 1,024,586 are subject to clawback to satisfy valid applications by Qualifying Shareholders pursuant to the Open Offer.

In order to provide Qualifying Shareholders with the opportunity to acquire New Ordinary Shares at the Placing Price, Charterhouse Tilney, as agent for the Company, has conditionally agreed with the Company to make the Open Offer to Qualifying Shareholders inviting them to apply for 5,297,778 New Ordinary Shares at the issue price of 125p per share, free of expenses. Qualifying Shareholders are being invited to apply under the Open Offer for New Ordinary Shares on the following basis:

##### **1 New Ordinary Share for every 4 existing Ordinary Shares**

held on the Record Date and so in proportion for any other number of Ordinary Shares then held, rounded down to the nearest whole number of New Ordinary Shares. Qualifying Shareholders may apply for any number of New Ordinary Shares up to their maximum entitlement as set out on the Application Form. Fractions of Ordinary Shares will not be allocated to Qualifying Shareholders but will be aggregated and

allotted under the Placing and the proceeds retained for the benefit of the Company. Qualifying Shareholders should be aware that New Ordinary Shares not applied for under the Open Offer will not be sold in the market for the benefit of Qualifying Shareholders but will be taken up by placees or by Charterhouse Tilney in accordance with its commitments under the Placing Agreement.

The Executive Directors, Mr. Beckwith, Mr. Robertson and Mr. Winterbottom, will be taking up all their entitlements under the Open Offer in respect of an aggregate of 371,499 New Ordinary Shares. Following completion of the Placing and Open Offer the Directors of T. J. Hughes will in aggregate retain an interest in 7.1% of the enlarged issued ordinary share capital of the Company.

The New Ordinary Shares will, when issued, rank *pari passu*, in all respects with the existing Ordinary Shares.

Details of the Open Offer and the terms and conditions on which it is being made, including the procedure for acceptance and payment are contained in the letter from Charterhouse Tilney set out in Part II of this document and on the accompanying Application Form.

The Placing and Open Offer are conditional, *inter alia*, upon (i) the Placing Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms; (ii) the passing of Resolution 1 of the Resolutions; and (iii) Admission.

### **Interim Results**

The interim results for the six months ended 26 July 1997 showed further strong growth: turnover increased by 13% from £28.5 million to £32.2 million and profits before tax more than doubled from £361,000 to £753,000. Earnings per share for the period were 2.52p (1996: 1.20p).

The Board declared an interim dividend of 0.97p (net) per Ordinary Share (1996: 0.84p), which was paid on 31 December 1997 to Shareholders on the register at the close of business on 17 October 1997.

Investors are advised to read the financial information included in Part IV of this document which has been extracted from the interim results which were announced on 6 October 1997 and not just rely on the summarised information in this section.

### **Second Interim Dividend**

In connection with the Placing and Open Offer, the Board is proposing a second interim dividend of 2.40p (net) per Ordinary Share to be paid on 4 May 1998 to Shareholders on the register at the close of business on 27 March 1998. For the avoidance of doubt the proposed New Ordinary Shares will not rank for the second interim dividend. The proposed second interim dividend is (i) conditional upon approval at the Extraordinary General Meeting; and (ii) a one-off payment in lieu of any final dividend for the year ended 31 January 1998.

### **Current Trading and Future Prospects**

As stated in the Company's Christmas trading statement the Company enjoyed an excellent improvement in sales across all departments and continued to hold gross margins steady despite intense competition. This strong performance continued throughout January. The Directors estimate that the profit before tax of the Company was not less than £2.85 million for the 53 weeks ended 31 January 1998 as shown in Part V of this document. The new financial year has also started well, and, assuming no materially adverse economic changes and the implementation of the Group's store opening programme, the Board is optimistic regarding future prospects.

### **Extraordinary General Meeting**

To enable the Placing and Open Offer to proceed, it is necessary for Shareholders to confer upon the Directors authority to allot New Ordinary Shares and to disapply the statutory pre-emption rights in respect of the allotment of New Ordinary Shares. In addition, it is proposed to authorise the Directors to



allot further Ordinary Shares and to disapply the statutory pre-emption rights in respect of the allotment of a limited number of Ordinary Shares and to authorise the Company to make market purchases of a limited number of Ordinary Shares after Admission, if the Directors believe that it is in the best interests of the Company to do so. The Directors currently do not have any intention of making such market purchases. Accordingly Shareholders will find set out at the end of this document a notice convening an Extraordinary General Meeting of the Company to be held at 10.00am on 31 March 1998 at which resolutions will be proposed to:

- conditional upon Admission, confer upon the Directors authority to allot up to 5,297,778 New Ordinary Shares pursuant to the Placing and Open Offer;
- conditional upon Admission, confer upon the Directors authority to allot relevant securities with an aggregate nominal value of up to £700,000;
- conditional upon Admission, confer upon the Directors authority to allot equity securities for cash pursuant to a rights issue or other pre-emptive offer and otherwise equity securities with an aggregate nominal value of up to £132,444;
- conditional upon Admission, declare a second interim dividend of 2.40p per Ordinary Share;
- conditional upon Admission, authorise the Company to make market purchases of up to 1,324,444 Ordinary Shares (representing 5% of the enlarged issued share capital of the Company after Admission);
- amend the Company's Articles to facilitate the holding of the Company's shares in electronic form within the CREST system; and
- amend the Company's Articles to ensure compliance with Stock Exchange rules.

Following Admission and assuming that the relevant resolutions are passed at the Extraordinary General Meeting, the Directors will have the authority to issue 7,000,000 authorised but unissued Ordinary Shares (representing approximately 26% of the Company's issued ordinary share capital following Admission). 1,324,444 Ordinary Shares (representing approximately 5% of the issued ordinary share capital of the Company following Admission) will be reserved for issue on the exercise of options granted under the Share Option Schemes. In addition, the Directors will have authority to allot equity securities up to an aggregate nominal value of £132,444 (representing approximately 5% of the issued ordinary share capital of the Company following Admission) for cash otherwise than *pro rata* to existing Shareholders. These authorities will expire at the conclusion of the next annual general meeting of the Company. The Directors consider it appropriate to maintain this level of available share capital to allow for flexibility but currently have no intention of issuing any Ordinary Shares, other than in connection with the exercise of share options pursuant to the Share Option Schemes.

#### **Action To Be Taken**

**A Form of Proxy for use by Shareholders in connection with the Extraordinary General Meeting is enclosed. Whether or not you propose to attend the Extraordinary General Meeting, you should complete the Form of Proxy and return it in accordance with the instructions thereon so that it is received by the Company's registrars Lloyds Bank Registrars, The Causeway, Worthing, West Sussex BN99 6DA as soon as possible and in any event not later than 10.00 am on 26 March 1998. Completion of the Form of Proxy will not affect your right to attend and vote at the Extraordinary General Meeting in person if you so wish.**

## **Open Offer**

**Qualifying Shareholders wishing to apply for all of their entitlement to New Ordinary Shares pursuant to the Open Offer should complete and return the Application Form together with a remittance for the full amount payable in accordance with the instructions set out on the Application Form and also under the section entitled "Procedure for Application" in the letter from Charterhouse Tilney set out in Part II of this document.**

**Duly completed Application Forms and remittances must be received by 3.00 pm on 27 March 1998. If you do not wish to apply for any of the New Ordinary Shares you should not complete or return an Application Form. Shareholders are nevertheless requested to complete and return the Form of Proxy.**

## **CREST**

On 4 November 1996 CRESTCo granted permission for the Ordinary Shares to be admitted to the CREST system. Shareholders may decide to retain their share certificates and transfer shares in the usual way rather than holding shares in electronic form within the CREST system. In the event that you have decided to hold your shares in electronic form, you will not be sent definitive share certificates for New Ordinary Shares applied for pursuant to the Open Offer but your CREST account will be altered accordingly.

Shareholders' banks or stockbrokers should be able to provide Shareholders with information about the CREST system. Shareholders can also obtain more information by writing directly to CRESTCo Limited, Trinity Tower, 9 Thomas More Street, London E1 9YN.

## **Further information**

Your attention is drawn to the further information set out in Parts II to VI of this document.

## **RECOMMENDATION**

**The Directors, who have received financial advice from Charterhouse Tilney, consider the Placing and Open Offer to be in the best interests of the Company and its Shareholders as a whole. In providing advice to the Directors, Charterhouse Tilney has relied on the Directors' commercial assessment of the proposals concerning the Placing and Open Offer. Your Directors therefore unanimously recommend Shareholders, whether or not they intend taking up their entitlements under the Open Offer, to vote in favour of the Resolutions, as they have irrevocably undertaken to do in respect of their own beneficial holdings, which together represent approximately 7.1% of the existing issued ordinary share capital of the Company.**

Yours faithfully

**Eric Hodges**  
*(Chairman)*

**PART II – LETTER FROM CHARTERHOUSE TILNEY  
RELATING TO THE OPEN OFFER**



**CHARTERHOUSE**

**Charterhouse Tilney  
Securities Limited**

1 Paternoster Row  
St Paul's  
London EC4M 7DH

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

5 March 1998

Dear Qualifying Shareholder

**OPEN OFFER TO QUALIFYING SHAREHOLDERS**

It was announced today that T. J. Hughes is proposing to raise approximately £6.1 million (net of expenses) by a Placing and Open Offer to Qualifying Shareholders of 5,297,778 New Ordinary Shares at 125p per share. The Placing and Open Offer has been underwritten in full by Charterhouse Tilney, financial adviser and stockbroker to T. J. Hughes and is conditional, *inter alia*, on the passing of Resolution 1 of the Resolutions. 371,499 New Ordinary Shares are the subject of irrevocable undertakings from certain Directors to accept the Open Offer and a further 3,901,693 New Ordinary Shares will be conditionally placed with certain of the existing Qualifying Shareholders in respect of their entitlement to such New Ordinary Shares under the Open Offer. The balance of the New Ordinary Shares which are the subject of the Placing and Open Offer comprising 1,024,586 New Ordinary Shares will be conditionally placed subject to clawback in favour of Qualifying Shareholders to satisfy valid acceptances under the Open Offer. Your attention is drawn to the letter from your Chairman which sets out the background to and reasons for the Placing and Open Offer.

**1. The Open Offer**

On behalf of, and as agent for the Company, we hereby invite Qualifying Shareholders to apply for up to a total of 5,297,778 New Ordinary Shares at a price of 125p per share, free of all expenses, payable in full in cash on application. The Open Offer is made on the terms and subject to the conditions set out in this Part II and in the Application Form enclosed with this document and subject to the Memorandum and Articles of Association of the Company. Qualifying Shareholders may apply for as many New Ordinary Shares as they wish, up to their maximum allocation, as set out in their Application Form, calculated on the following basis:

**1 New Ordinary Share for every 4 existing Ordinary Shares**

held by them at the close of business on the Record Date and so in proportion for any greater or lesser number of existing Ordinary Shares then held. Qualifying Shareholders' maximum entitlements are shown on their Application Form. Fractional entitlements to New Ordinary Shares will not be allocated to Qualifying Shareholders but will be aggregated and allotted under the Placing Agreement and the net proceeds will be retained for the benefit of the Company.

The New Ordinary Shares will be issued fully paid and will rank *pari passu* in all respects with the existing Ordinary Shares. Application has been made to the London Stock Exchange for the New Ordinary Shares to be admitted to the Official List and it is expected that Admission will become effective and dealings will commence in the New Ordinary Shares on 2 April 1998.

The Placing and Open Offer are conditional on the Placing Agreement becoming unconditional in all respects not later than 9.30am on 2 April 1998 or such later time or date as the Company and Charterhouse Tilney may agree, being not later than 5.00pm on 11 April 1998 and Charterhouse Tilney not having terminated its obligations thereunder. The Placing Agreement is conditional, *inter alia*, on:

- the passing without amendment not later than 31 March 1998 of Resolution 1 of the Resolutions, as set out on page 51 of this document; and
- Admission.

Further details of the Placing Agreement are set out in paragraph 10 of Part VI of this document.

Qualifying Shareholders may only apply for New Ordinary Shares on the enclosed Application Form which may not be assigned or transferred except to satisfy *bona fide* market claims in relation to purchases of Ordinary Shares through the market pursuant to the rules of the London Stock Exchange prior to close of business on 25 March 1998. Applications may be split but only to satisfy *bona fide* market claims up to 3.00pm on 25 March 1998. Qualifying Shareholders who have sold or otherwise transferred all or part of their registered holding of Ordinary Shares should complete Box H on the accompanying Application Form and deliver it together with this document and the Form of Proxy to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected who will arrange for the Application Form to be split or transmitted to the purchaser(s) or transferee(s) as appropriate. **Qualifying Shareholders should be aware that in an open offer, unlike a rights issue, New Ordinary Shares not applied for will not be sold in the market for the benefit of those who do not apply under the Open Offer but instead will be taken up at the Placing Price of 125p per share by persons procured by Charterhouse Tilney or by Charterhouse Tilney itself in accordance with the Placing Agreement.**

Qualifying Shareholders who do not wish to apply for any New Ordinary Shares under the Open Offer should not complete or return the Application Form.

## **2. Procedure for application**

The Application Form sent to each Qualifying Shareholder shows the number of existing Ordinary Shares on which the relevant Qualifying Shareholder's entitlement has been based (being the number of existing Ordinary Shares registered in such Qualifying Shareholder's name at the Record Date) and the maximum *pro rata* entitlement attributable to such Qualifying Shareholder's holding, on the basis described above.

Valid applications for up to a Qualifying Shareholder's maximum entitlement will be accepted in full. Applications for more than a Qualifying Shareholder's maximum entitlement will not be accepted and will be treated as a valid application for that Qualifying Shareholder's maximum entitlement. A Qualifying Shareholder may apply for less than his maximum allocation of New Ordinary Shares should he so wish.

**Qualifying Shareholders wishing to apply for any of the New Ordinary Shares should complete the enclosed Application Form in accordance with the instructions thereon and send or deliver it in the reply-paid envelope provided, to Lloyd's Bank Registrars, The Causeway, Worthing, West Sussex BN99 6DA or by hand only to Lloyds Bank Registrars, Antholin House, 71 Queen Street, London EC4N 1SL in each case together with a remittance for the full amount payable to Lloyds Bank Plc—A/C T. J. Hughes plc so as to arrive not later than 3.00pm on 27 March 1998 at which time the Open Offer will close. Application Forms received after this time will not be accepted. Applications, once made, will be irrevocable and will not be acknowledged. If an Application Form is sent by post, Qualifying Shareholders are recommended to allow at least four working days for delivery.**

The verification of identity requirements of the Money Laundering Regulations 1993 will apply and verification of the identity of the applicant(s) may be required. Failure to provide the necessary evidence of identity may result in your application being treated as invalid or in delays in accepting your application.

In order to avoid this, if the value (at the issue price) of the New Ordinary Shares for which you are applying exceeds £10,000, payment should be made by means of a cheque drawn by the person named in the Application Form (or one of the joint applicants). If this is not practicable and you use a cheque drawn by a third party (for example, a building society cheque or a bankers' draft), you should:

- (i) write the name, address and date of birth of the person named in the Application Form (or one of the joint applicants) on the back of the cheque, building society cheque or bankers' draft;
- (ii) if a building society cheque or bankers' draft is used, ask the building society or bank to endorse on the cheque or bankers' draft the name and account number of the person whose building society or bank account is being debited; and
- (iii) if you are making the application as agent for one or more persons, indicate on the Application Form whether you are a UK or EC regulated person or institution (e.g. a bank or broker) and specify your status. If you are not a UK or EC regulated person or institution, you should contact Lloyds Bank Registrars and seek guidance.

If you deliver your Application Form personally by hand, you should ensure that you have with you evidence of identity bearing your photograph (e.g. your passport).

In any event, if it appears to Lloyds Bank Registrars that an applicant is acting on behalf of some other person, further verification of the identity of any person on whose behalf the applicant appears to be acting may be required. In relation to any application in respect of which the necessary verification of the identity of the applicant or the person on whose behalf the applicant appears to be acting has not been received on or before the latest application date (or such later date as the Company may in its absolute discretion determine), the Company may, in its absolute discretion, elect to treat the relevant application as invalid and/or delay allotting New Ordinary Shares until the necessary verification has been provided.

All payments must be made by cheque or bankers' draft in pounds sterling drawn on a bank or building society in the United Kingdom or the Channel Islands, which is either a member of the Cheque & Credit Clearing Company Limited or the CHAPS & Town Clearing Company Limited or a member of the Committees of the Scottish or Belfast Clearing Houses or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided for the members of any of those companies or associations and must bear the appropriate sort code in the top right-hand corner. Cheques should be made payable to "Lloyds Bank Plc - A/C T. J. Hughes plc" and should be crossed "A/C Payee only". No interest will be allowed on payments made before they are due.

The Company reserves the right to have cheques presented on receipt and to instruct Lloyds Bank Registrars to seek special clearance of cheques to allow the Company to obtain value for remittances at the earliest opportunity. Any person returning an Application Form with a remittance in the form of a cheque thereby warrants that the cheque will be honoured on first presentation.

The Company may (in its sole discretion) treat an application as valid and binding on the person(s) by whom or on whose behalf it is lodged even if not completed in accordance with the relevant instructions or not accompanied by a valid power of attorney where required.

The Company and Charterhouse Tilney reserve the right (but shall not be obliged) to accept applications in respect of which remittances are received prior to 3.00pm on 27 March 1998 from an authorised person (as defined in the Financial Services Act 1986) specifying the New Ordinary Shares concerned and undertaking to lodge the relevant Application Form in due course.

All enquiries in connection with the procedure for application and completion of the Application Form should be addressed to Lloyds Bank Registrars, The Causeway, Worthing, West Sussex BN99 6DA.

### **3. Overseas Shareholders**

#### **(a) General**

No person receiving a copy of this document or an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him, nor should he in any event use such an Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or such an Application Form could lawfully be used without contravention of any registration or other legal or regulatory requirement.

Any person outside the United Kingdom wishing to make an application under the Open Offer must satisfy himself as to the full observance of the laws of any relevant territory in connection therewith, including any requisite governmental or other consents which may be required and compliance with any other requisite formalities, and paying any issue, transfer or other taxes due in such territory. Shareholders resident outside the United Kingdom should consult their professional advisers to ascertain whether any governmental or other consents may be required or any other formalities need to be observed to enable them to apply for New Ordinary Shares under the Open Offer.

The Company and Charterhouse Tilney reserve the right to treat as invalid any application for New Ordinary Shares under the Open Offer if it appears to the Company or its agents that such application may involve a breach of the laws or regulations of any jurisdiction or, if in respect thereof, the Company is not given the warranty set out in the Application Form. Notwithstanding any other statement in this document, the Company reserves the right to permit a Qualifying Shareholder to take up New Ordinary Shares under the Open Offer if the Company and Charterhouse Tilney are satisfied that such action would not result in the contravention of any applicable legal or regulatory requirements.

#### **(b) United States of America, Canada, Australia, Japan and Republic of Ireland**

The New Ordinary Shares and the Application Forms have not been, and will not be, registered under the United States Securities Act of 1933, as amended ("the Securities Act") or under securities laws of any State of the United States of America or under the securities legislation of any province of Canada or under the Corporations Law of Australia or under the securities legislation of Japan or the Republic of Ireland and, except in a transaction which is exempt under the Securities Act or the relevant Canadian securities law, or under the Corporations Law of Australia, or under the securities legislation of Japan or the Republic of Ireland, those shares and the Application Forms will not be directly or indirectly offered, sold, resold, renounced or delivered in or into the United States of America, Canada, Australia, Japan or the Republic of Ireland. Application Forms will not be sent to any Shareholder with a registered address in the United States of America, Canada, Australia, Japan or the Republic of Ireland.

The making of an application under the Open Offer will constitute a warranty that the applicant is not a resident of the United States of America, Canada, Australia, Japan or the Republic of Ireland and is not applying on behalf of such person with a view to re-offer, re-sale, renunciation, transfer or delivery of New Ordinary shares directly or indirectly, in or into the United States of America, Canada, Australia, Japan or the Republic of Ireland.

The Company reserves the right to treat as invalid any Application Form which appears to the Company or its agents to have been executed in or despatched from the United States of America, Canada, Australia, Japan or the Republic of Ireland or which provides an address in the United States of America, Canada, Australia, Japan or the Republic of Ireland for delivery of definitive certificates for New Ordinary Shares allotted pursuant to the Open Offer.

As used in this document and the Application Form, the "United States of America" means the United States of America, its territories and possessions, any State of the United States of America and the District of Columbia.

**(c) *The Republic of South Africa***

Qualifying Shareholders registered in South Africa will require the approval of the South African Exchange Control Authorities if they wish to take up their entitlements under the Open Offer.

**(d) *Other overseas territories***

Qualifying Shareholders registered in other overseas territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their entitlements.

**4. Taxation**

**(a) *Capital gains tax***

The Inland Revenue takes the view in relation to offers of this kind that the issue of New Ordinary Shares by the Company to its shareholders, up to and including a Qualifying Shareholder's *pro rata* entitlement, will amount to a reorganisation of the share capital of the Company for the purposes of the United Kingdom taxation of capital gains. Accordingly, New Ordinary Shares issued to a Qualifying Shareholder by the Company should be treated for these purposes as the same asset as his existing holding of Ordinary Shares and the price paid by a Qualifying Shareholder for such New Ordinary Shares issued by the Company will be added to the base cost of his holding. For the purpose of calculating the indexation allowance on a subsequent disposal of Ordinary Shares, the expenditure incurred in subscribing for New Ordinary Shares, will be treated as being incurred when the Qualifying Shareholder pays the subscription price for his New Ordinary Shares.

**(b) *Stamp duty and stamp duty reserve tax***

No stamp duty or stamp duty reserve tax should be charged on the allotment or issue of New Ordinary Shares pursuant to the Open Offer.

**(c) *United Kingdom taxation on dividends***

Under the current United Kingdom tax legislation:

- (i) there is no withholding tax on dividends, but whenever the Company pays a dividend it will be liable to account to the Inland Revenue for advance corporation tax ("ACT") in respect of the dividend. The rate of ACT is currently equal to one-quarter of the dividend. ACT paid by the Company can be set off against its liability to mainstream corporation tax, subject to certain limits and restrictions;

The above treatment is expected to change from 6 April 1999. Provided that the changes announced by the Chancellor of the Exchequer on 25 November 1997 are enacted as announced, the Company will not have to account for ACT when it pays a dividend. The amount of tax credit on a dividend will fall to one-ninth of the dividend paid. For example, on a dividend of £80, the tax credit will be £8.89; the individual will be liable to income tax on £88.89, but there will be corresponding adjustments to the rate of income tax payable by individuals and trusts, so that their after-tax position remains the same. However, individuals whose overall income is such that they would previously have been able to reclaim the tax credit will no longer be able to do so. It is proposed that charities should receive compensation for the loss of tax credits such that their entitlement to reclaim tax credits will effectively be phased out over five years from 6 April 1999.

- (ii) a Shareholder who is an individual resident (for tax purposes) in the United Kingdom and who receives a dividend paid by the Company will be entitled to a tax credit of an amount equal to one-quarter of the dividend. The individual will be taxable on the total of the dividend and the related tax credit, which will be regarded as the top slice of the individual's income. The tax credit will, however, be treated as discharging the individual's liability to income tax in respect of the dividend, unless and except to the extent that the dividend and related tax credit fall above the

threshold for the higher rate of income tax, in which case the individual will, to that extent, pay tax on the dividend and related tax credit at a rate equal to the excess of the higher rate (currently 40%) over the lower rate (currently 20%). United Kingdom resident trustees of discretionary trusts liable to account for income tax at a rate of 35% on the trust's income may also be required to account for additional tax. If the tax credit exceeds the individual's liability to income tax on the total of the dividend and the tax credit, he will be able to claim payment of the excess;

- (iii) subject to certain exceptions for some insurance companies with overseas business, a Shareholder that is a company resident (for tax purposes) in the United Kingdom and that receives a dividend paid by the Company will be entitled to a tax credit in respect of the dividend. The Company will not be taxable on the dividend and the dividend and related tax credit will be treated as franked investment income. The value of the tax credit will be an amount equal to one-quarter of the dividend;
- (iv) subject to special provisions which apply to Commonwealth citizens of the Republic of Ireland, residents of the Isle of Man or the Channel Islands and certain others, Shareholders not resident in the United Kingdom are not generally entitled to the benefit of a tax credit in respect of any dividend received. Such Shareholders are treated as receiving gross income of an amount which, when reduced by income tax at 20%, is equal to the cash dividend. However, no assessment is made on such Shareholders in respect of lower or basic rate income tax and a non-resident individual's liability, if any, to pay income tax in respect of that gross income is limited to the excess of higher rate (currently 40%) over lower rate (currently 20%) liability. Special rules apply to non-resident discretionary trusts in respect of United Kingdom dividends;
- (v) subject as mentioned below, Shareholders who are resident (for tax purposes) in countries other than the United Kingdom may be entitled to a tax credit in respect of a dividend received from the Company and to claim payment from the Inland Revenue of a portion of that tax credit if there is an appropriate provision granting such entitlement in a double tax convention or agreement between the country concerned and the United Kingdom. Persons who are not resident in the United Kingdom should consult their own tax advisers on the possible application of such provisions and what relief or credit may be claimed in the jurisdiction in which they are resident for any such tax credit; and
- (vi) a different treatment from that outlined above applies in respect of dividends which the paying company elects to be Foreign Income Dividends.

**(d) General**

The Directors have been advised that the Company is not a close company.

**The above statement does not constitute tax advice and is of a general nature only. It is based on United Kingdom legislation currently in force and currently understood Inland Revenue practice. Qualifying Shareholders who are in any doubt as to their taxation position should consult their independent professional advisers.**

## **5. Admission, settlement and dealings**

Application has been made to the London Stock Exchange (but not to any other exchange) for the New Ordinary Shares to be admitted to the Official List. Subject to the satisfaction of the conditions of the Placing and Open Offer, it is expected that Admission will take place and dealings will commence in the New Ordinary Shares on 2 April 1998. Definitive share certificates in respect of New Ordinary Shares are expected to be sent to Qualifying Shareholders who do not hold their existing Ordinary Shares in CREST and who have made valid applications not later than 7 April 1998.



For those Qualifying Shareholders who do hold their existing Ordinary Shares in CREST, the New Ordinary Shares are expected to be credited to their Stock Account as soon as possible after 2 April 1998. Notwithstanding any other provision of this document, the Company reserves the right to issue any New Ordinary Shares the subject of the Open Offer in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST), or on the part of the facilities and/or systems operated by the Company's registrars in connection with CREST. This right may also be exercised if the correct details (such as participant ID and member ID details) are not provided as requested on the Application Form in respect of *bona fide* market claims.

No temporary documents of title will be issued and pending the issue of definitive certificates, transfers will be certified against the register.

In the event that any of the conditions of the Placing and Open Offer is not satisfied by 2 April 1998 or such later date as the Company and Charterhouse Tilney may agree being not later than 11 April 1998, the Placing and Open Offer will not proceed and any application monies received will be returned to Shareholders without interest.

All documents or remittances sent by or to a Qualifying Shareholder, or as he or she may otherwise direct, will be sent through the post at such person's risk.

Any instructions with regard to payments or notices which have been recorded by the Company or its Registrars in respect of existing Ordinary Shares held by a Qualifying Shareholder will apply to any New Ordinary Shares taken up by such holder under the Open Offer.

## **6. Further information**

Your attention is drawn to the further information set out in Part I and Parts III to VI inclusive of this document and to the terms and conditions set out in the enclosed Application Form.

Yours faithfully  
for Charterhouse Tilney Securities Limited

**S J Roberts**  
*Director*

## PART III – FINANCIAL INFORMATION RELATING TO T. J. HUGHES

### Nature of financial information

The financial information contained in this Part III has been extracted without material adjustment from the published audited consolidated accounts for the three financial years ended 25 January 1997 and does not constitute statutory accounts within the meaning of section 240 of the Act. Statutory accounts have been delivered to the Registrar of Companies for each of the three years up to and including the year ended 25 January 1997. The accounts for each year have been reported on by Price Waterhouse, Chartered Accountants and Registered Auditors of 101 Barbirolli Square, Lower Mosley Street, Manchester M2 3PW. Their reports were unqualified and did not contain a statement under section 237(2) or (3) of the Act.

### PROFIT AND LOSS ACCOUNTS

	<i>52 weeks ended 28 January 1995 £'000</i>	<i>52 weeks ended 27 January 1996 £'000</i>	<i>52 weeks ended 25 January 1997 £'000</i>
<b>TURNOVER</b>			
Continuing activities (Note 2)	48,536	50,941	62,971
Cost of sales	<u>(33,751)</u>	<u>(35,268)</u>	<u>(43,565)</u>
<b>GROSS PROFIT</b>	14,785	15,673	19,406
Distribution costs (Note 3)	(11,118)	(12,353)	(14,946)
Administrative expenses	<u>(1,745)</u>	<u>(1,920)</u>	<u>(2,168)</u>
<b>OPERATING PROFIT</b>			
Continuing activities (Note 3)	1,922	1,400	2,292
Net interest payable (Note 4)	<u>(296)</u>	<u>(484)</u>	<u>(475)</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	1,626	916	1,817
Taxation (Note 6)	<u>(510)</u>	<u>(256)</u>	<u>(546)</u>
<b>PROFIT FOR THE FINANCIAL PERIOD</b>	1,116	660	1,271
Dividends (Note 8)	<u>(545)</u>	<u>(548)</u>	<u>(606)</u>
<b>PROFIT RETAINED (Note 14)</b>	<u>571</u>	<u>112</u>	<u>665</u>
Earnings per Ordinary share (Note 7)	5.43p	3.20p	6.14p
Dividends per Ordinary share (Note 8)	<u>2.65p</u>	<u>2.65p</u>	<u>2.92p</u>

### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Profit for the financial period	1,116	660	1,271
Unrealised surplus on revaluation of freehold properties	<u>434</u>	<u>—</u>	<u>—</u>
Total recognised gains and losses for the financial period	<u>1,550</u>	<u>660</u>	<u>1,271</u>

## BALANCE SHEETS

	<i>As at 28 January 1995 £'000</i>	<i>As at 27 January 1996 £'000</i>	<i>As at 25 January 1997 £'000</i>
<b>FIXED ASSETS</b>			
Tangible assets (Note 9)	<u>11,306</u>	<u>13,792</u>	<u>14,362</u>
<b>CURRENT ASSETS</b>			
Stocks (Note 1)	12,411	11,660	13,395
Debtors (Note 10)	1,692	1,567	1,776
Cash at bank and in hand	<u>583</u>	<u>542</u>	<u>1,032</u>
	14,686	13,769	16,203
<b>CREDITORS - Amounts falling due within one year (Note 11)</b>	<u>(12,329)</u>	<u>(13,058)</u>	<u>(13,415)</u>
<b>NET CURRENT ASSETS</b>	<u>2,357</u>	<u>711</u>	<u>2,788</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	13,663	14,503	17,150
<b>CREDITORS - Amounts falling due after more than one year (Note 11)</b>	(2,716)	(3,128)	(4,898)
<b>PROVISIONS FOR LIABILITIES AND CHARGES (Note 12)</b>	<u>(881)</u>	<u>(1,176)</u>	<u>(1,368)</u>
	<u>10,066</u>	<u>10,199</u>	<u>10,884</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital (Note 13)	2,057	2,063	2,075
Share premium account (Note 14)	4,701	4,716	4,724
Revaluation reserve (Note 14)	434	434	434
Profit and loss account (Note 14)	<u>2,874</u>	<u>2,986</u>	<u>3,651</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>	<u>10,066</u>	<u>10,199</u>	<u>10,884</u>

# **CASH FLOW STATEMENTS**

	<i>52 weeks ended 28 January 1995 £'000</i>	<i>52 weeks ended 27 January 1996 £'000</i>	<i>52 weeks ended 25 January 1997 £'000</i>
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>			
(Note 16 (a))	<u>527</u>	<u>4,543</u>	<u>4,279</u>
<b>RETURNS ON INVESTMENT AND SERVICING OF FINANCE</b>			
Interest paid	<u>(251)</u>	<u>(440)</u>	<u>(507)</u>
<b>TAXATION</b>	<u>(290)</u>	<u>(489)</u>	<u>(28)</u>
<b>CAPITAL EXPENDITURE</b>			
Purchase of tangible fixed assets	<u>(2,754)</u>	<u>(3,259)</u>	<u>(1,400)</u>
<b>EQUITY DIVIDENDS PAID</b>	<u>(525)</u>	<u>(546)</u>	<u>(556)</u>
<b>FINANCING</b>			
Issue of ordinary share capital	—	21	20
Receipt of bank loan	—	—	2,000
Capital element of finance lease payments	<u>(14)</u>	<u>(20)</u>	<u>(6)</u>
	<u>(14)</u>	<u>1</u>	<u>2,014</u>
<b>(DECREASE)/INCREASE IN CASH (Note 16 (c))</b>	<u>(3,307)</u>	<u>(190)</u>	<u>3,802</u>

The comparatives for 1996 and 1995 have been adjusted for the application of FRS1 (Revised).

## **NOTES TO THE FINANCIAL INFORMATION**

### **1. ACCOUNTING POLICIES**

The principal accounting policies adopted by the Company are set out below:-

#### **(a) Basis of preparation**

The financial information has been prepared under the historical cost convention as modified by the revaluation of freehold premises, and in conformity with applicable accounting standards.

#### **(b) Stocks**

Retail stocks are valued at the lower of cost and net realisable value. Cost is computed on the basis of current selling prices less the appropriate departmental gross profit margin.

#### **(c) Deferred taxation**

Provision is made for deferred taxation to take account of timing differences between the treatment of certain items for accounts purposes and their treatment for taxation purposes. The provision is maintained to the extent that timing differences are expected to crystallise within the foreseeable future.

#### **(d) Depreciation**

Depreciation is provided on all tangible fixed assets, other than freehold and long leasehold land and buildings, at rates calculated to write off each asset over its expected life, as follows:-

- (i) Fixed plant in freehold and long leasehold premises - 2.5% to 10% per annum.
- (ii) Short leasehold buildings and fixed plant - over the remaining period of the lease.
- (iii) Fixtures, fittings and equipment - 10% to 20% per annum.

No depreciation is provided on freehold and long leasehold properties. It is the Company's policy to maintain its properties in a continual state of sound repair, the cost being written off to the profit and loss account as incurred. As a result of this policy the Directors believe that the lives of these properties are so long and their residual values are so high that depreciation is not significant.

#### **(e) Leased assets**

Operating lease rentals charges are taken to the profit and loss account in the year in which they arise.

Assets obtained under finance leases are included at cost less depreciation and the related obligations are included in creditors.

#### **(f) Pre-opening expenses and capital contributions**

Store pre-opening expenses are charged to the profit and loss account in equal instalments over three years from the date each store is opened. Contributions and any other incentives receivable towards the costs of fitting out new stores are credited to the profit and loss account in equal instalments over the period prior to the first rent review to market rates.

#### **(g) Goodwill**

Goodwill arising on the acquisition of businesses is written off immediately against reserves.

#### **(h) Pensions**

The cost of the Company's defined benefit pension fund is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees (see Note 18). The pension cost is assessed in accordance with the advice of qualified actuaries.

### **2. Turnover and profit on ordinary activities before taxation**

Turnover consists of the amounts receivable for goods and services supplied by the Company as principal and through lease and concession operations within the Company's stores, excluding value added tax. Turnover and profit on ordinary activities relate wholly to continuing retailing activities in the United Kingdom.

### 3. Operating profit

Distribution costs include the following:

	1995 £'000	1996 £'000	1997 £'000
Recurring items	11,274	12,353	14,946
Exceptional item: net receipt arising from the determination of a sub-tenancy agreement at the new Distribution Centre in Liverpool	(156)	—	—
	<u>11,118</u>	<u>12,353</u>	<u>14,946</u>

	1995 £'000	1996 £'000	1997 £'000
Operating profit has been stated after charging/(crediting):			
Depreciation of tangible fixed assets			
- owned assets	623	752	918
- leased assets	18	21	6
Operating lease rentals			
- plant and equipment	176	205	211
- land and buildings	1,998	2,098	2,610
Store pre-opening expenses	289	183	283
Capital contributions	(462)	(678)	(650)
Fees payable to auditors			
- for audit services	33	33	34
- for other services	12	32	30

### 4. Net interest payable

	1995 £'000	1996 £'000	1997 £'000
On bank loans and overdrafts	291	524	478
On finance lease	8	8	2
Interest receivable	(3)	(48)	(5)
	<u>296</u>	<u>484</u>	<u>475</u>

### 5. Employees

The average number of persons employed by the Company was:

	1995	1996	1997
Full time	418	460	475
Part time	615	675	760
	<u>1,033</u>	<u>1,135</u>	<u>1,235</u>
Total expressed in terms of full time equivalent employees	<u>678</u>	<u>745</u>	<u>810</u>
	£'000	£'000	£'000

The aggregate payroll costs of these persons were as follows:

	1995	1996	1997
Wages and salaries	5,673	6,401	7,715
Social security costs	518	584	707
Pensions	—	21	25
	<u>6,191</u>	<u>7,006</u>	<u>8,447</u>

## Directors' Emoluments

(i) Employment costs relating to the Directors comprise:

	<i>Salary or fees £'000</i>	<i>Bonus £'000</i>	<i>Benefits £'000</i>	<i>Pension Contributions £'000</i>	<i>1997 Total £'000</i>	<i>1996 Total £'000</i>	<i>1995 Total £'000</i>
<b>Executive directors</b>							
E. Hodges*	50	150	6	—	206	19	99
R. P. Howard	55	—	8	—	63	63	30
A. P. Potter	50	—	8	—	58	57	—
Former Directors	20	—	4	—	24	93	131
<b>Non-Executive Directors</b>							
D. S. Winterbottom (Deputy Chairman)	26	—	—	—	26	6	—
J. M. Robertson	13	—	—	—	13	6	2
J. L. Beckwith	7	—	—	—	7	—	—
Former Director	—	—	—	—	—	11	25
	<u>221</u>	<u>150</u>	<u>26</u>	<u>—</u>	<u>397</u>	<u>255</u>	<u>287</u>

\*In 1995/1996 Mr E. Hodges was a Non-Executive Director.

- (ii) Benefits above comprise taxable non-cash emoluments mainly in respect of the provision of company cars.
- (iii) Pension contributions are the amounts paid by the Company to secure future benefits for each Director. Currently the Company is enjoying the benefit of a pensions contribution holiday.
- (iv) On the resignation of Mr S.A. Boyfield (the former Managing Director) the Board requested that Mr E. Hodges take up Executive responsibilities. Whilst his salary was not adjusted appropriately, an incentive bonus was paid which was directly related to the year on year increase in profitability. In the event the Company's actual profits exceeded the capped bonus level of profits.
- (v) In addition to their fees received as Directors, Mr E. Hodges and Mr J. M. Robertson respectively received £20,000 (1996: £20,000; 1995: £nil) and £25,000 (1996: £29,121; 1995: £35,000) in respect of work carried out under consultancy agreements.

## 6. Taxation

	<i>1995 £'000</i>	<i>1996 £'000</i>	<i>1997 £'000</i>
Corporation tax charge/(credit) at 33% based on the taxable profit for the period	330	(18)	379
Deferred tax	180	274	167
	<u>510</u>	<u>256</u>	<u>546</u>

## 7. Earning per ordinary share

Earnings per share are based upon the profits after tax and the weighted average number of shares in issue. The weighted average number of shares in issue for the 52 weeks ended 25 January 1997, 27 January 1996, and 28 January 1995 were 20,710,546, 20,629,841, and 20,571,014 respectively. The fully diluted earnings per share are not materially different from the earnings per share shown on page 18.

## 8. Dividends

	1995 £'000	1996 £'000	1997 £'000
Interim ordinary dividend at 0.84p (1996 - 0.80p, 1995 - 0.80p) per share - paid	165	166	174
Final ordinary dividend at 2.08p (1996-1.85p, 1995 - 1.85p) per share - proposed	380	382	432
	<u>545</u>	<u>548</u>	<u>606</u>

## 9. Tangible Fixed Assets

	<i>Freehold properties and fixed plant £'000</i>	<i>Long leasehold properties and fixed plant £'000</i>	<i>Short leasehold properties and fixed plant £'000</i>	<i>Fixtures, fittings, and equipment £'000</i>	<i>Total £'000</i>
<b>Cost or valuation:</b>					
At 28 January 1995	3,677	227	5,305	4,373	13,582
Additions	66	—	2,082	1,111	3,259
At 27 January 1996	3,743	227	7,387	5,484	16,841
Additions	66	15	793	620	1,494
At 25 January 1997	<u>3,809</u>	<u>242</u>	<u>8,180</u>	<u>6,104</u>	<u>18,335</u>
<b>Comprising:</b>					
Valuations - 1994/1995	3,265	—	—	—	3,265
Cost	544	242	8,180	6,104	15,070
	<u>3,809</u>	<u>242</u>	<u>8,180</u>	<u>6,104</u>	<u>18,335</u>
<b>Depreciation:</b>					
At 28 January 1995	47	1	592	1,636	2,276
Charge for year	35	—	249	489	773
At 27 January 1996	82	1	841	2,125	3,049
Charge for year	39	—	323	562	924
At 25 January 1997	<u>121</u>	<u>1</u>	<u>1,164</u>	<u>2,687</u>	<u>3,973</u>
<b>Net book amount:</b>					
At 25 January 1997	<u>3,688</u>	<u>241</u>	<u>7,016</u>	<u>3,417</u>	<u>14,362</u>
At 27 January 1996	<u>3,661</u>	<u>226</u>	<u>6,546</u>	<u>3,359</u>	<u>13,792</u>
At 28 January 1995	<u>3,630</u>	<u>226</u>	<u>4,713</u>	<u>2,737</u>	<u>11,306</u>

The net book amount of fixtures, fittings and equipment includes an amount of £16,000 (1996 - £22,000, 1995 - £43,000) in respect of assets held under finance leases.

In 1994/95 the Company's two freehold properties were revalued on open market existing use bases and the aggregate surplus of £434,000 was credited to a revaluation reserve. Under the historical cost convention freehold properties would have been included at a cost of £3,375,000 (1996 - £3,309,000, 1995 £3,243,000) less accumulated depreciation of £121,000 (1996-£82,000, 1995 - £47,000).



## 10. Debtors

	1995 £'000	1996 £'000	1997 £'000
Trade debtors	237	138	339
Prepayments and deferred costs	1,455	1,429	1,437
	<u>1,692</u>	<u>1,567</u>	<u>1,776</u>

Deferred costs which will be expensed after more than one year amounted to £240,000 (1996-£300,000, 1995 - £120,000).

## 11. Creditors

	1995 £'000	1996 £'000	1997 £'000
<b>Amounts falling due within one year:</b>			
Bank overdraft	3,163	3,312	—
Trade creditors	5,944	6,265	8,524
Taxation and social security	1,258	1,323	1,729
Accruals and deferred income	1,562	1,770	2,724
Obligations under finance lease	22	6	6
Proposed dividend	380	382	432
	<u>12,329</u>	<u>13,058</u>	<u>13,415</u>

### Amounts falling due after more than one year:

Bank loan	2,000	2,000	4,000
Accruals and deferred income	695	1,111	887
Obligations under finance lease	21	17	11
	<u>2,716</u>	<u>3,128</u>	<u>4,898</u>

The £4.0 million term loan is secured by a fixed charge on the Company's Distribution Centre. The loan, on which interest at 0.95 per cent. above LIBOR is charged, is repayable in equal annual instalments between January 1999 and January 2003.

## 12. Provisions for liabilities and charges

	1995 £'000	1996 £'000	1997 £'000
Deferred taxation	881	1,155	1,322
Pension obligations	—	21	46
	<u>881</u>	<u>1,176</u>	<u>1,368</u>
Deferred taxation has been provided in full in respect of:			
Accelerated capital allowances	798	994	1,188
Other short-term timing differences	83	161	134
	<u>881</u>	<u>1,155</u>	<u>1,322</u>

No provision has been made for deferred taxation in respect of any future disposals of revalued properties as the Directors do not envisage any such liability crystallising in the foreseeable future.

## 12. Provisions for liabilities and charges (continued)

The movements in provisions is as follows:

	<i>Deferred Taxation £'000</i>	<i>Pension obligations £'000</i>
At 28 January 1995	881	—
Charged to profit and loss account	274	21
At 27 January 1996	1,155	21
Charged to profit and loss account	167	25
At 25 January 1997	<u>1,322</u>	<u>46</u>

## 13. Called up share capital

	<i>Number</i>	<i>1995 £'000</i>	<i>Number</i>	<i>1996 £'000</i>	<i>Number</i>	<i>1997 £'000</i>
Authorised share capital	47,900,000	<u>4,790</u>	47,900,000	<u>4,790</u>	47,900,000	<u>4,790</u>
Allotted, called up and fully paid share capital:						
Ordinary shares of 10p each	20,571,681	<u>2,057</u>	20,630,718	<u>2,063</u>	20,754,210	<u>2,075</u>

During the period to 25 January 1997 the Company issued 123,492 ordinary shares of 10p each for a total consideration of £20,000. The resulting premium of £8,000 has been credited to the share premium account.

The Company operates three share option schemes; the executive share option scheme adopted on 18 December 1990 ("first option scheme"), the executive share option scheme adopted on 22 April 1992 ("second option scheme"), and the employee savings related share option scheme adopted on 22 April 1992 ("SAYE option scheme"), as follows:

	<i>Average Option price</i>	<i>Ordinary shares of 10p each Number reserved</i>
First option scheme - exercisable not later than 1998	25.5p	52,739
Second option scheme - exercisable not later than 2005	66.0p	458,173
SAYE option scheme - exercisable not later than 1999	<u>60.0p</u>	<u>425,625</u>

## 14. Reserves

	<i>Share premium account £'000</i>	<i>Revaluation reserve £'000</i>	<i>Profit and loss account £'000</i>
At 28 January 1995	4,701	434	2,874
Retained profit for the period	—	—	112
Premium on share issue	15	—	—
At 27 January 1996	4,716	434	2,986
Retained profit for the period	—	—	665
Premium on share issue	8	—	—
At 25 January 1997	<u>4,724</u>	<u>434</u>	<u>3,651</u>

The cumulative amount of goodwill written off directly against reserves amounts to £416,000 (1996-£416,000, 1995 - £416,000).

# 15. Reconciliation of movements in equity shareholders' funds

	1995 £'000	1996 £'000	1997 £'000
Profit for the financial period	1,116	660	1,271
Dividends	(545)	(548)	(606)
	571	112	665
Net proceeds of issue of shares	—	21	20
Unrealised surplus on revaluation of freehold properties	434	—	—
Net addition to equity shareholders' funds	1,005	133	685
Opening equity shareholders' funds	9,061	10,066	10,199
Closing equity shareholders' funds	10,066	10,199	10,884

# 16. Notes to the Cash Flow Statement

## (a) Reconciliation of operating profit to net cash inflow from operating activities

	1995 £'000	1996 £'000	1997 £'000
Operating profit	1,922	1,400	2,292
Depreciation	641	773	924
(Increase)/decrease in stocks	(3,099)	751	(1,735)
(Increase)/decrease in debtors	(129)	398	(255)
Increase in creditors	1,010	930	3,131
Net effect of store openings	182	291	(78)
Net cash inflow from operating activities	527	4,543	4,279

## (b) Reconciliation to net debt

	1995 £'000	1996 £'000	1997 £'000
(Decrease)/increase in cash in the period	(3,307)	(190)	3,802
Decrease/(increase) in debt and lease financing	(16)	20	(1,994)
Movements in net debt in period	(3,323)	(170)	1,808
Opening net debt	(1,300)	(4,623)	(4,793)
Closing net debt	(4,623)	(4,793)	(2,985)

## (c) Analysis of net debt

	28 January 1995 £'000	Cashflow £'000	27 January 1996 £'000	Cashflow £'000	25 January 1997 £'000
Cash in hand and at bank	583	(41)	542	490	1,032
Overdrafts	(3,163)	(149)	(3,312)	3,312	—
	(2,580)	(190)	(2,770)	3,802	1,032
Debt due after more than one year	(2,000)	—	(2,000)	(2,000)	(4,000)
Finance leases	(43)	20	(23)	6	(17)
	(4,623)	(170)	(4,793)	1,808	(2,985)

# **17. Capital and operating lease commitments**

Capital expenditure contracted but not provided at 25 January 1997 amounted to £585,000 (1996 - £589,000, 1995 - £858,000).

Operating lease commitments:

At 25 January 1997 the Company had commitments under operating leases to make payments in the following financial year as follows:

	1995		1996		1997	
	<i>Land and buildings £'000</i>	<i>Others £'000</i>	<i>Land and buildings £'000</i>	<i>Others £'000</i>	<i>Land and buildings £'000</i>	<i>Others £'000</i>
Leases expiring: within one year	—	10		27	—	28
in the second to fifth year						
inclusive	132	277	132	154	123	160
over five years	1,553	—	1,853	—	2,321	—
	<u>1,685</u>	<u>287</u>	<u>1,985</u>	<u>181</u>	<u>2,444</u>	<u>188</u>

# **18. Pension arrangements**

The Company operates a defined benefit pension scheme which is available to full time employees including the Executive Directors. The scheme is administered through a separate trustee administered fund.

The pension costs relating to the scheme are assessed in accordance with the advice of independent qualified actuaries using the projected unit method. The latest actuarial review of the scheme considered the position as at 31 March 1994. The principal actuarial assumptions were that over the long term the rate of return on investments would be 9% per annum, the annual increase in pensionable remuneration 7%, the annual rate of a dividend growth on UK equities 5%, and the annual increase in pensions in payment 4½%. At 31 March 1994 the value of the scheme's asset was £4.101 million, which was sufficient on the stated assumptions to cover 130% of the accrued benefits based on expected final salary levels. The surplus assets are being spread over the average remaining service lives of current employees.

On the advice of the actuaries a provision of £46,000 (1996 - £21,000, 1995 - £nil) was made under the requirements of SSAP 24. On the recommendations of an interim review carried out by the actuaries no Company contributions will be made to the scheme before 31 March 1998 at the earliest.

## PART IV – INTERIM RESULTS FOR THE HALF YEAR ENDED 26 JULY 1997

The following is an extract, without material adjustment, of the interim results for the half year ended 26 July 1997, which were announced on 6 October 1997:

### “ INTERIM RESULTS FOR THE 26 WEEK ENDED 26 JULY 1997

	<i>26 weeks ended 26 July 1997 (Unaudited) £'000</i>	<i>26 weeks ended 27 July 1996 (Unaudited) £'000</i>	<i>52 weeks ended 25 January 1997 (Audited) £'000</i>
<b>Turnover (excluding VAT)</b>	32,160	28,500	62,971
<b>Cost of sales</b>	(22,070)	(19,698)	(43,565)
<b>Gross profit</b>	10,090	8,802	19,406
<b>Distribution costs</b>	(7,905)	(7,141)	(14,946)
<b>Administrative costs</b>	(1,151)	(1,027)	(2,168)
<b>Operating profit</b>	1,034	634	2,292
<b>Net interest payable</b>	(281)	(273)	(475)
<b>Profit on ordinary activities before taxation</b>	753	361	1,817
<b>Taxation</b>	(226)	(113)	(546)
<b>Profit for the financial period</b>	527	248	1,271
<b>Dividends</b>	(205)	(174)	(606)
<b>Profit retained</b>	322	74	665
<b>Earnings per ordinary share</b>	2.52p	1.20p	6.14p
<b>Dividends per ordinary share</b>	0.97p	0.84p	2.92p

#### Notes

- (1) Earnings per share are based upon the profits after tax and the weighted average number of shares in issue for the 26 weeks ended 26 July 1997 and 27 July 1996 which were 20,894,172 and 20,660,421 respectively.
- (2) Financial information set out above does not constitute full accounts within the meaning of Section 240 of the Companies Act 1985. The amounts shown in respect of the 52 weeks ended 25 January 1997 have been extracted from the full Financial Statement on which the Auditors have given an unqualified report. The Financial Statement has been filed with the Registrar of Companies.
- (3) The results for the 26 weeks ended 26 July 1997 and 27 July 1996 are unaudited but have been prepared on the basis of accounting policies consistent with those set out in the audited Financial Statement for the year ended 25 January 1997.
- (4) Copies of this announcement will be posted to shareholders shortly and are available to members of the general public from the Company's registered office, T.J. Hughes plc, Audley House, London Road, Liverpool, L69 3BD.

**BALANCE SHEET**  
**AS AT 26 JULY 1997**

	<i>At 26 July 1997 (Unaudited) £'000</i>	<i>At 27 July 1996 (Unaudited) £'000</i>	<i>At 25 January 1997 (Audited) £'000</i>
<b>Fixed assets</b>			
Tangible assets	14,583	14,123	14,362
<b>Current assets</b>			
Stocks	15,436	13,800	13,395
Debtors	2,136	1,945	1,776
Cash at bank and in hand	91	84	1,032
	<u>17,663</u>	<u>15,829</u>	<u>16,203</u>
<b>Creditors</b>			
amounts falling due within 1 year	(14,446)	(13,274)	(13,415)
<b>Net current assets</b>	<u>3,217</u>	<u>2,555</u>	<u>2,788</u>
Total assets less current liabilities	17,800	16,678	17,150
<b>Creditors</b>			
due after more than 1 year	(4,999)	(5,201)	(4,898)
<b>Provisions for liabilities and charges</b>	<u>(1,380)</u>	<u>(1,188)</u>	<u>(1,368)</u>
<b>Net assets</b>	<u><u>11,421</u></u>	<u><u>10,289</u></u>	<u><u>10,884</u></u>
<b>Capital and reserves</b>			
Called up share capital	2,112	2,075	2,075
Share premium account	4,902	4,720	4,724
Revaluation reserve	434	434	434
Profit and loss account	3,973	3,060	3,651
<b>Shareholders' funds</b>	<u><u>11,421</u></u>	<u><u>10,289</u></u>	<u><u>10,884</u></u>

**CASH FLOW**  
**FOR THE 26 WEEK ENDED 26 JULY 1997**

	<i>26 weeks ended 26 July 1997 (Unaudited) £'000</i>	<i>26 weeks ended 27 July 1996 (Unaudited) £'000</i>	<i>52 weeks ended 25 January 1997 (Audited) £'000</i>
<b>Net cash flow from operating activities</b>	<u>(3,277)</u>	<u>(1,845)</u>	<u>4,279</u>
<b>Returns on investment and servicing of finance</b>	<u>(249)</u>	<u>(274)</u>	<u>(507)</u>
<b>Taxation</b>	<u>(139)</u>	<u>(29)</u>	<u>(28)</u>
<b>Capital investment</b>			
Purchase of tangible fixed assets	<u>(816)</u>	<u>(794)</u>	<u>(1,400)</u>
Equity Dividends paid	<u>—</u>	<u>—</u>	<u>(556)</u>
<b>Financing</b>			
Issue of ordinary share capital	214	16	20
Receipt of bank loan	—	2,000	2,000
Capital element of finance lease payments	<u>(3)</u>	<u>(4)</u>	<u>(6)</u>
	<u>211</u>	<u>2,012</u>	<u>2,014</u>
<b>(Decrease)/increase in cash</b>	<u><u>(4,270)</u></u>	<u><u>(930)</u></u>	<u><u>3,802</u></u>

**Notes:**

(a) Reconciliation of operating profit to net inflow from operating activities

	<i>26 weeks ended 26 July 1997 (Unaudited) £'000</i>	<i>26 weeks ended 27 July 1996 (Unaudited) £'000</i>	<i>52 weeks ended 25 January 1997 (Audited) £'000</i>
Operating profit	1,034	634	2,292
Depreciation	500	461	924
Increase in Stocks	(2,041)	(2,139)	(1,735)
Increase in Debtors	(309)	(428)	(255)
(Decrease)/increase in Creditors	(2,370)	(385)	3,131
Net effect of Store Openings	<u>(91)</u>	<u>12</u>	<u>(78)</u>
Net cash (outflow)/inflow from operating activities	<u><u>(3,277)</u></u>	<u><u>(1,845)</u></u>	<u><u>4,279</u></u>

(b) Reconciliation to net debt

(Decrease)/increase in cash in the period	(4,270)	(930)	3,802
Decrease/(increase) in debt and lease financing	<u>3</u>	<u>(1,996)</u>	<u>(1,994)</u>
Movements in net debt in period	(4,267)	(2,926)	1,808
Net debt at period end brought forward	<u>(2,985)</u>	<u>(4,793)</u>	<u>(4,793)</u>
Net debt at 26 July 1997	<u><u>(7,252)</u></u>	<u><u>(7,719)</u></u>	<u><u>(2,985)</u></u>

## **PART V – PROFIT ESTIMATE FOR THE YEAR ENDED 31 JANUARY 1998**

### **1. Profit estimate for the 53 weeks ended 31 January 1998**

The Directors estimate that the profit before taxation of T. J. Hughes for the 53 weeks ended 31 January 1998 was not less than £2.85 million.

The profit estimate for the 53 weeks ended 31 January 1998 has been prepared by the Directors in accordance with the accounting policies normally adopted by T. J. Hughes and is based on the management accounts for the 11 months ended 31 December 1997 and the Directors' estimate of the results for January 1998.

### **2. Letters relating to the profit estimate**

The following letters have been received from Price Waterhouse, the Company's auditors, and from Charterhouse Tilney in connection with the Directors' estimate of the profit before taxation of the Company for the 53 weeks ended 31 January 1998.



## *Price Waterhouse*



5 March 1998

The Directors  
T. J. Hughes plc  
P O Box 71  
105 London Road  
Liverpool L69 3BD

The Directors  
Charterhouse Tilney Securities Limited  
1 Paternoster Row  
St Paul's  
London EC4M 7DH

Gentlemen,

### **T. J. Hughes plc ("the Company")**

We refer to the profit estimate of T. J. Hughes plc, for which the Directors of the Company are solely responsible, for the 53 weeks ended 31 January 1998 set out on page 32 of the Prospectus dated 5 March 1998. We have reviewed the management accounts of the Company for the 11 months ended 31 December 1997 and an estimate of the results for the ensuing month.

On the basis of this review, which did not constitute an audit, we report that in our opinion the profit estimate has been properly compiled from the management accounts and Directors' estimate on a basis consistent with the accounting policies normally adopted by T. J. Hughes plc.

Yours faithfully

Price Waterhouse



Charterhouse Tilney  
Securities Limited  
1 Paternoster Row  
St Paul's  
London EC4M 7DH

5 March 1998

The Directors  
T. J. Hughes plc  
Audley House  
London Road  
Liverpool L69 3BD

Dear Sirs,

We refer to the Directors' estimate of profit before taxation of T. J. Hughes plc in respect of the 53 weeks ended January 1998 (the "estimate") as set out in Part V of the prospectus dated 5 March 1998.

We have discussed the estimate, together with the basis and assumptions upon which they are made, with you and with Price Waterhouse. We have also considered the letter dated 5 March 1998 addressed to you and us from Price Waterhouse regarding the accounting policies and calculations upon which the estimate is based.

On the basis of the foregoing, we consider that the estimate, for which you as Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully  
For and on behalf of  
Charterhouse Tilney Securities Limited

S. J. Roberts  
Director

## PART VI – ADDITIONAL INFORMATION

### 1. Responsibility

The Directors of T. J. Hughes, 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.

### 2. The Company and its share capital

(a) The Company, the registered office and head office of which is at Audley House, London Road, Liverpool L69 3BD, was incorporated in Great Britain and registered in England and Wales under the Companies Acts 1908 to 1917 as a private company on 14th September 1927 with registered number 224422 under the name of T.J. Hughes & Company Limited. On 30th April 1992 it changed its name to its present name and was re-registered as a public company. It operates under the Companies Act 1985 and the regulations made thereunder.

(b) At the date of this document the authorised and issued and fully paid share capital of the Company is, and following the Placing and Open Offer will be :-

(i) at the date of this document:

	<i>Number</i>	<i>£</i>
<b>Authorised</b>		
Ordinary shares of 10p each	47,900,000	4,790,000
<b>Issued and fully paid</b>		
Ordinary shares of 10p each	21,191,115	2,119,111.50

(ii) following the Placing and Open Offer:

<b>Authorised</b>		
Ordinary shares of 10p each	47,900,000	4,790,000
<b>Issued and fully paid</b>		
Ordinary shares of 10p each	26,488,893	2,648,889

(c) Following the passing of the resolution numbered 1 of the Resolutions :

(i) the Directors will be generally and unconditionally authorised, for the purposes of section 80 of the Act, to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £700,000 for a period expiring at the conclusion of the next following annual general meeting of the Company ("the period of authority") save that, during the period of authority, the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of the period of authority and the Directors may allot relevant securities in pursuance of any such offer or agreement, and all previous authorities granted to the Directors pursuant to section 80 of the Act will be revoked, such revocation not to have retrospective effect;

(ii) in substitution for any existing power granted to the Directors pursuant to section 95 of the Act, the Directors will be empowered, pursuant to that section, to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority referred to in sub-paragraph (i) above, as if section 89(1) of the Act did not apply to any such allotment; this power expires at the end of the period of authority conferred under paragraph (c) (i) above, save that during the period of authority the Company may make an offer or agreement which would or might require equity securities to be allotted after the expiry of the period of authority and the Directors may allot equity securities in pursuance of any such offer or agreement; the power will be limited:

(1) to the allotment for cash of 5,297,778 new Ordinary Shares in connection with the Placing and Open Offer;

- (2) to allotments of equity securities where such securities have been offered to holders of Ordinary Shares in proportion (as nearly as may be) to their holdings of Ordinary Shares but subject to the Directors having a right to make such exclusions or other arrangements in connection with the offering as they deem necessary or expedient, to deal with the laws of any territory or the requirements of any regulatory body or stock exchange or otherwise; and
  - (3) to the allotment (otherwise than pursuant to the powers conferred to in sub-paragraphs (ii) (1) and (2) above) of equity securities for cash up to an aggregate nominal amount of £132,444.
- (d) The provisions of section 89 of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in section 94 of the Act) which are, or are to be, paid up in cash, (other than by way of allotment to employees under an employees' share scheme as defined in section 743 of the Act)) will apply to the authorised but unissued share capital of the Company to the extent that such rights are not disapplied by the resolution referred to in paragraph (c) above or otherwise pursuant to the provisions of section 95 of the Act.
- (e) Save as disclosed in paragraphs 2(g) and 2(h) of this Part VI of this document :
  - (i) in the three years preceding the date of this document no share or loan capital of the Company has been issued or agreed to be issued or is proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash;
  - (ii) no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option; and
  - (iii) in the three years preceding the date of this document no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share or loan capital of the Company.
- (f) Details of options which have been granted or are proposed to be granted under the Share Option Schemes operated by the Company are set out in paragraph (g) below.
- (g) Under the Share Option Schemes, options have been granted to employees and are outstanding over the following numbers of Ordinary Shares :

<i>Date option granted</i>	<i>Number of Shares</i>	<i>Subscription price per Share</i>	<i>Exercisable</i>
5 December 1991	29,812	25.51p	May 1995-Dec. 1998
8 May 1992	112,290	75.00p	May 1995-May 2002
8 May 1992	37,422	63.75p	May 1997-May 2002
11 May 1992	67,625	60.00p	1 June 1999
19 October 1995	131,250	64.00p	Oct. 1998-Oct. 2005
19 October 1995	43,750	54.50p	Oct. 2000-Oct. 2005
19 May 1997	34,500	85.50p	May 2000-May 2007
19 May 1997	215,500	85.50p	May 2000-May 2004
13 November 1997	139,000	107.50p	Nov. 2002-Nov. 2007
13 November 1997	186,000	107.50p	Nov. 2002-Nov. 2004

- (h) The following is a summary of the changes in the issued share capital of the Company during the three years immediately preceding the date of this document :

<i>Date of allotment</i>	<i>Number of Ordinary Shares allotted</i>	<i>Issue Price per Share</i>	<i>Total Number of Ordinary Shares in Issue</i>
			20,570,681
6 October 1994	1,000	60.00p	20,571,681
15 February 1995	45,860	25.51p	
15 February 1995	2,556	63.75p	
15 February 1995	7,668	75.00p	
10 May 1995	1,291	60.00p	
12 June 1996	1,662	60.00p	
			20,630,718
13 June 1996	117,492	13.96p	
8 November 1996	4,500	64.00p	
8 November 1996	1,500	54.50p	
			20,754,210
11 March 1997	1,000	54.50p	
11 March 1997	3,000	64.00p	
11 April 1997	10,000	54.50p	
11 April 1997	6,548	63.75p	
11 April 1997	30,000	64.00p	
3 June 1997	251,875	60.00p	
5 June 1997	11,250	60.00p	
13 June 1997	22,930	25.51p	
13 June 1997	3,834	75.00p	
13 June 1997	1,277	63.75p	
16 June 1997	7,500	60.00p	
24 June 1997	11,250	60.00p	
26 June 1997	1,250	60.00p	
26 June 1997	1,250	60.00p	
27 June 1997	3,125	60.00p	
30 June 1997	2,045	63.75p	
30 June 1997	6,136	75.00p	
3 July 1997	1,250	60.00p	
10 September 1997	1,250	60.00p	
13 October 1997	2,102	63.75p	
13 October 1997	6,306	75.00p	
11 November 1997	8,949	75.00p	
11 November 1997	2,983	63.75p	
11 November 1997	1,761	63.75p	
11 November 1997	5,284	75.00p	
2 December 1997	6,250	54.50p	
2 December 1997	18,750	64.50p	
8 December 1997	1,000	54.50p	
8 December 1997	3,000	64.00p	
8 December 1997	1,250	60.00p	
3 February 1998	2,500	60.00p	
			<u>21,191,115</u>

### **3. Memorandum and Articles of Association**

- (a) The Company's principal objects are set out in clause 4(i) of its Memorandum of Association and include the carrying on of business as retail dealers in clothing and all other goods and merchandise.
- (b) The Articles of Association of the Company after amendment following the passing of Resolution 3 will include provisions to the following effect:

#### **(i) Alterations of capital and variation of class rights**

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 amount, cancel any shares which have not been taken up or agreed to be taken up and diminish the amount of its share capital by the amount of any shares so cancelled and, subject to the Companies Act 1985, sub-divide all or any of its share capital into shares of a smaller amount. If at any time the share capital of the Company is divided into shares of different classes, any of the rights attached to any share or class of shares may be varied or abrogated either in the manner (if any) provided by such rights or, in the absence of any such provision, either with the written consent of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of such class.

#### **(ii) Voting**

Subject to the Articles of Association, the Companies Act 1985 and to any special terms as to voting on which any shares may have been issued or be held, at any general meeting on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a representative has one vote and on a poll every member present in person or by proxy has one vote for each share of which he is the holder.

#### **(iii) Transfer of shares**

Any member may transfer all or any of his certificated shares by an instrument or transfer in any usual form or in any other form which the Board may approve. Title to any uncertificated shares may be transferred by means of a relevant system pursuant to the Uncertificated Securities Regulations ("the Regulations"). Any instrument of transfer of a certificated share must be executed by or on behalf of the transferor and (in the case of a partly-paid share) the transferee and the transferor is deemed to remain the holder until the transferee's name is entered in the register. The Board may, in its absolute discretion and without giving any reason, decline to register any transfer of a certificated share which is not a fully paid share or on which the Company has a lien provided restrictions are not such as to prevent dealings in the shares from taking place on an open and proper basis. The Board may refuse to register a transfer of an uncertificated share to the extent it is permitted to do so by the Regulations. The Board may also decline to register a transfer of a certificated share unless the duly stamped instrument of transfer :

- (a) is lodged with the Company accompanied by the relevant share certificate and such other evidence of the right to transfer as the Board may require;
- (b) is in respect of only one class of share; and
- (c) if to joint transferees, is in favour of not more than four such transferees.

#### **(iv) Dividends**

The Company may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the Board. The Board may pay interim dividends, and also any fixed rate dividend as appears to be justified by the profits of the Company available for distribution.

Except as otherwise provided by the rights attached to the shares, all dividends will be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid, but if any share is issued on terms providing that it shall rank for dividend as from a particular date, it shall rank for dividend accordingly.

Any dividend unclaimed after a period of 12 years from the date when it becomes due for payment will be forfeited and shall cease to remain owing by the Company.

**(v) Distribution of assets on winding up**

As the Company has only one class of shares, the holders of its shares will, under the general law, be entitled to participate in any surplus assets in a winding up in proportion to their shareholdings. A liquidator may, with the sanction of an extraordinary resolution and any other sanction required by law, divide among the members in kind all or part of the assets of the Company as he thinks fit.

**(vi) Borrowing powers**

The Board of directors of the Company ("the Board") may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property and assets (present or future) and uncalled capital and, subject to the provisions of the Companies Act 1985, to issue debentures and other securities. The Board shall restrict the borrowings of the Company and exercise all voting and other rights exercisable by the Company in respect of its subsidiary undertakings so as to procure that the aggregate principal amount for the time being outstanding in respect of moneys borrowed by the Company and its subsidiary undertakings (exclusive of moneys borrowed by one Group company from another and after deducting cash deposited) shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to three times the Adjusted Capital and Reserves (as defined in the Articles of Association).

**(vii) Directors**

- (a) A director is not required to have a shareholding qualification.
- (b) The fees payable to directors (other than alternate directors) are to be determined by the Board from time to time (but may not exceed £100,000 per annum unless otherwise determined by the Company in general meeting from time to time) and, unless otherwise directed by the resolution of the Company in which it is voted, such fees shall be divided among the directors as the Board determines or, failing determination, equally (except that in such event any director holding office for less than the whole of the relevant period in respect of which the fees are paid shall only rank in such division in proportion to the time during such period for which he holds office). The salary or remuneration of any director appointed to an employment or executive office may be either a fixed sum or may altogether or in part be governed by business done or profits made or otherwise determined by the Board and may be either in addition to or in lieu of any fee payable to him for his services as a director. The directors are entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by them in or about the performance of their duties as directors. If by arrangement with the Board any director performs or renders any special duties outside his ordinary duties as a director he may be paid such reasonable additional remuneration, (which may be by way of salary, commission, participation in profits or otherwise) as the Board may determine.
- (c) The Board may exercise all the powers of the Company to provide pensions or other retirement or superannuation benefits for, and provide death or disability benefits or other gratuities or allowances or other benefits to any persons who are or were directors of the Company or any company which is a subsidiary company of or allied to or associated with the Company or any such subsidiary or any predecessor in business of the Company or of any such subsidiary and the families and dependants of any such persons.
- (d) A director may be appointed by the Board to hold any employment or executive office (including that of Managing Director) for such term and subject to such other conditions as the Board thinks fit.
- (e) A director may not vote or be counted in the quorum of a meeting of directors in respect of any contract, arrangement, transaction or any other proposal whatsoever to which the Company is or is to be a party in which he is to his knowledge materially interested. However, a director is entitled to vote (and may be counted in the quorum) in respect of any resolution concerning any of the following matters:
  - (i) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;

- (ii) the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part, either alone or jointly with others, under a guarantee or indemnity or by the giving of security;
  - (iii) the subscription or purchase by him of shares or debentures or other securities of the Company or any of its subsidiaries pursuant to an offer or invitation or the underwriting or sub-underwriting by him thereof or any other contract, arrangement, transaction or proposal in which he may be interested by virtue of his interest in shares or debentures or other securities of, or otherwise in or through, the Company or any of its subsidiaries;
  - (iv) any contract, arrangement, transaction or proposal to which the Company is or is to be a party concerning any other company (including any subsidiary of the Company) in which he is interested directly or indirectly and whether as an officer, creditor, shareholder or otherwise, provided that he is not directly or indirectly the holder of or beneficially interested in 1 per cent. or more of any class of the equity share capital of such company or of a company having an interest in such company which would be material if held by a director or of the voting rights available to members of such company;
  - (v) any contract, arrangement, transaction or proposal concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme or personal pension plan under which he may benefit and which has been approved by or is subject to and conditional on approval by the Board of Inland Revenue for taxation purposes or which relates to both employees and directors of the Company or any of its subsidiaries and does not accord to any director as such any privilege or advantage not accorded to employees to which the scheme or fund relates;
  - (vi) any contract, arrangement, transaction or proposal for the benefit of employees of the Company or any of its subsidiaries under which he may benefit in a similar manner to employees and which does not accord to any director as such any privilege or advantage not accorded to employees to whom it relates; and
  - (vii) any proposal, contract arrangement or transaction concerning the purchase and/or maintenance of an insurance policy for the benefit of a person who is or was a director or other officer or employee of the Company or any of its subsidiaries or any company in which the Company is interested or a trustee of any pension fund or employee benefits trust in which any employee of the Company or of any such subsidiary or company is or has been interested indemnifying such person against liability or loss or expenditure incurred in relation to acts done or omitted to be done as a director, officer, employee or trustee.
- (f) Subject to the Articles of Association and the Companies Act 1985, at every Annual General Meeting of the Company as nearly as possible to one-third of the directors (excluding any director who is not required by the Articles of Association to retire by rotation) shall retire from office by rotation and may be re-appointed. The directors to retire by rotation at each Annual General Meeting shall exclude any director who is for the time being a Chairman of the Board or the Managing Director or Chief Executive of the Company. If in any year the number of such directors shall not be three or a multiple of three, the number nearest to but not exceeding one-third shall retire. When less than three directors are subject to retirement by rotation, one director shall retire from office. The directors to retire by rotation at any Annual General Meeting shall be, first, any director who wishes to retire and not offer himself for re-election and, secondly those who have been longest in office since their last appointment or re-appointment and, in the case of directors who have been in office an equal length of time (unless they otherwise agree among themselves), the directors to retire shall be determined by lot.



#### 4. Share option schemes

The Company operates four share option schemes :

- (a) Unapproved Share Option Scheme adopted on 18 December 1990 ("the First Option Scheme").

The First Option Scheme enabled the Board to grant options to subscribe for Ordinary Shares to directors or employees of the Company. The consideration for the grant of an option was £1, regardless of the number of Shares to which the option related. The option was exercisable at any time between the third and seventh anniversaries of its date of grant. One option remains to be exercised under the First Option Scheme. No further options will be granted under the First Option Scheme.

- (b) The Approved Executive Share Option Scheme adopted on 22 April 1992 ("the Second Option Scheme").

The principal features of the Second Option Scheme, which has been approved by the Inland Revenue under the Income and Corporation Taxes Act 1988, include the following:

- (i) The Second Option Scheme is administered by a committee of the Board, the majority of the committee being non-executive directors or directors not entitled to participate in the scheme.
- (ii) The committee referred to in (i) above may grant, at its discretion, options to subscribe for Ordinary Shares to full-time employees of the Company (including executive directors) normally in the period commencing on the sixth dealing day after the announcement of the results of the Company and ending five weeks following such announcement. The consideration for the grant of an option is £1, regardless of the number of shares to which the option relates. Such options may not be transferred or assigned.
- (iii) The price per share payable by a grantee on the exercise of his option is to be determined by the committee referred to in (i) above and will be not less than the average market value of an Ordinary Share on the five dealing days preceding the date of offer of the relevant option or, subject to the Association of British Insurers Investment Committee guidelines, at a price which is not less than 85 per cent. of such market value (provided that the price payable is not less than the nominal value of an Ordinary Share).
- (iv) An option will normally be exercisable by the grantee at any time between the third (or, in the case of options granted at less than market value, the fifth) and tenth anniversaries of its date of grant. If a grantee ceases to be employed by the Company, his options will normally lapse.
- (v) Shares allotted and issued following the exercise of an option will rank *pari passu* with the Ordinary Shares then in issue, save as regards any rights attaching to them by reference to a record date prior to the date of issue.
- (vi) The maximum number of Ordinary Shares which may be issued pursuant to options granted under the Second Option Scheme may not exceed a number representing more than 5 per cent. of the equity share capital of the Company.

No option will be granted to an employee if, following such a grant, the aggregate market value of the Ordinary Shares in respect of which options shall have been granted to him in the previous 10 years under any other Inland Revenue approved executive share option scheme would exceed the greater of (a) four times his relevant annual earnings and (b) £100,000.

- (vii) The maximum number referred to in (vi) above and the number of Ordinary Shares subject to any option are subject to appropriate adjustment in the event of certain alterations to the share capital of the Company such as a capitalisation or rights issue or a consolidation, sub-division or reduction of the Company's share capital.
- (viii) The directors have the power to amend the Second Option Scheme at any time, subject to the prior approval of the Inland Revenue, but, except to the extent necessary to obtain or maintain Inland Revenue approval, the Second Option Scheme may not generally be amended to the advantage of current or prospective grantees without the prior approval of the Company in general meeting. The terms of any existing option may not be materially altered.

- (c) The Employee Savings-Related Share Option Scheme adopted on 22 April 1992 ("the SAYE Scheme").

The principal features of the SAYE Scheme, which has been approved by the Inland Revenue under the Income and Corporation Taxes Act 1988, include the following:

- (i) The SAYE Scheme is administered by the Board.
- (ii) The Board may grant options to subscribe for Ordinary Shares to full-time directors and employees of the Company in the period commencing on the fourth dealing day after the announcement of the results of the Company for any period and ending four weeks following such announcement. Such options may not be transferred or assigned.
- (iii) Contemporaneously with acquiring options under the SAYE Scheme grantees are required to enter into a savings contract to make regular savings (of sums being multiples of £1 and between £10 and £250 in aggregate per month) with Abbey National plc over a five year period. At the end of this period, or after seven years if the grantee so elects at the commencement of the period, his contributions together with a tax free bonus may be used, on exercise of his option, to subscribe for Ordinary Shares at the price fixed when his option was granted. The option lapses if the participant fails to comply with the terms of the savings contract.
- (iv) The price per share payable by a grantee on the exercise of his option is to be determined by the Board and will be not less than the greater of the nominal value of an Ordinary Share and 80 per cent of the average market value of an Ordinary Share on the three dealing days preceding the date of the offer of the relevant option.
- (v) An option will normally be exercisable by the grantee only within the six months following the pre-determined bonus date of the savings contract (i.e. the fifth or seventh anniversary of its commencement). If a grantee ceases to be employed by the Company, his options will normally lapse.
- (vi) Shares allotted and issued following the exercise of an option will rank *pari passu* with the Ordinary Shares then in issue, save as regards any rights attached thereto by reference to a record date prior to the date of issue.
- (vii) The maximum number of Ordinary Shares which may be issued pursuant to options granted under the SAYE Scheme may not exceed a number representing more than 5 per cent. of the equity share capital of the Company.

No options will be granted to an employee if the monthly savings contribution under the related savings contract, when added to the monthly savings contributions then being made under any other savings contract, would exceed the maximum specified in paragraph 24 of Schedule 9 to the Income and Corporation Taxes Act 1988.

- (viii) The maximum number referred to in (vii) above and the number of Ordinary shares subject to any option are subject to appropriate adjustment in the event of certain alterations to the share capital of the Company such as a capitalisation or rights issue or a consolidation, sub-division or reduction of the Company's share capital.
  - (ix) The directors have the power to amend the SAYE Scheme at any time, subject to prior approval of the Inland Revenue, but, except to the extent necessary to obtain or maintain Inland Revenue approval, the SAYE Scheme may not generally be amended to the advantage of current or prospective participants without the prior approval of the Company in general meeting. The terms of any existing option may not be materially altered.
- (d) The Unapproved Executive Share Option Scheme 1997 ("the Fourth Option Scheme").

The principal features of the Fourth Option Scheme, which has not been approved by the Inland Revenue under the Income and Corporation Taxes Act 1988, include the following:-

- (i) The Fourth Option Scheme is administered by a committee of the Board, the majority of the committee being non-executive Directors or Directors not entitled to participate in the Scheme.

- (ii) The committee referred to in (i) above may grant, at its discretion, options to subscribe for Ordinary Shares to full time employees of the Company (including Executive Directors) normally in the period commencing on the sixth dealing day after the announcement of the results of the Company and ending thirty-six days following such announcement. The consideration for the grant of an option is £1, regardless of the number of shares to which the option relates. Such options may not be transferred or assigned.
- (iii) The price per share payable by a grantee on the exercise of his option is to be determined by the committee referred to in (i) above and will be not less than the average market value of an Ordinary Share on the five dealing days preceding the date of offer of the relevant option.
- (iv) An option would normally be exercisable by the grantee at any time between the third and seventh anniversaries of its date of grant. If a grantee ceases to be employed by the Company, his options will normally lapse.
- (v) Shares allotted and issued following the exercise of an option will rank *pari passu* with the Ordinary Shares then in issue, save as regards any right attaching to them by reference to a record date prior to the date of exercise of the option.
- (vi) No options shall be offered pursuant to the Scheme after the expiry of ten years from the date of adoption of the Scheme.
- (vii) The maximum number of Ordinary Shares which may be issued pursuant to options granted under the Fourth Option Scheme may not exceed certain amounts.
- (viii) The Directors have the power to amend the Fourth Option Scheme at any time, although the Fourth Option Scheme may not generally be amended to the advantage of current or prospective grantees without the prior approval of the Company in general meeting. The terms of any existing option may not be materially altered.

## 5. Directors' and other interests:

- (a) Details of the Directors of the Company are as follows:-

<i>Name</i>	<i>Business Address</i>	<i>Function</i>
Eric Hodges	Audley House London Road Liverpool L69 3BD	Non-Executive Chairman
David Stuart Winterbottom	Walnut Tree Farm Cowley Gnosall Staffs ST20 0BE	Non-Executive Deputy Chairman
George William Foster	Audley House London Road Liverpool L69 3BD	Chief Executive
Anthony Philip Potter	Audley House London Road Liverpool L69 3BD	Finance Director
John Manwaring Robertson	Portfolio Holdings Ltd 195 Knightsbridge London SW7 1RE	Non-Executive Director
John Lionel Beckwith	Pacific Investments Ltd 195 Knightsbridge London SW7 1RE	Non-Executive Director

- (b) The interests of the Directors, all of which are beneficial unless otherwise stated, in the issued share capital of the Company at 4 March 1998 (being the latest practicable date prior to the publication of this document) which:
- (i) are required to be notified by each Director to the Company pursuant to section 324 or section 328 of the Act; or
  - (ii) are required pursuant to section 325 of the Act to be entered in the register referred to therein; or
  - (iii) are interests of a connected person of a Director which would, if the connected person were a Director, be required to be disclosed under paragraph 5(b) (i) or (ii) above and the existence of which is known to or could with reasonable diligence be ascertained by that Director;

are and will be, immediately following the Placing and Open Offer, as follows:

	<i>Number of Ordinary Shares current</i>	<i>Number of Ordinary Shares following the Placing and Open Offer</i>	<i>Percentage of Issued Ordinary Share Capital Current</i>	<i>Percentage of Issued Ordinary Share Capital following the Placing and Open Offer</i>
E Hodges	28,180	28,180	0.13	0.11
G W Foster	27,000	33,750	0.13	0.13
A P Potter	44,583	55,728	0.21	0.21
D S Winterbottom	4,000	5,000	0.02	0.02
J M Robertson	207,917	303,646	1.15	1.15
J L Beckwith	1,167,500	1,459,375	5.51	5.51

Messrs Foster, Potter, Beckwith, Robertson and Winterbottom are giving irrevocable undertakings to take up all of their entitlements under the Open Offer. Mr. Hodges does not intend to take up any of his entitlement under the Open Offer. These undertakings and this intention are reflected in the figures above.

In addition to the interests shown above, the following directors have been granted options over Ordinary Shares as set out below:

<i>Name</i>	<i>Second Option Scheme (1992)</i>			<i>Unapproved Option Scheme 1997</i>		
	<i>Number of Ordinary Shares under option</i>	<i>Price per Ordinary Share</i>	<i>Exercise Period</i>	<i>Number of Ordinary Shares under option</i>	<i>Price per Ordinary Share</i>	<i>Exercise Period</i>
E Hodges	39,288	75.00p	1995–2002	—	—	—
	13,096	63.75p	1997–2002	—	—	—
A P Potter	18,750	64.00p	1998–2005	50,000	107.50p	2002–2004
	6,250	54.50p	2000–2005	—	—	—
G W Foster	34,500	85.50p	2000–2007	215,000	85.50p	2000–2004
	—	—	—	100,000	107.50p	2002–2004

The Directors are aware of the following direct or indirect shareholdings of 3% or more of the Company's issued share capital :

	<i>No. of Ordinary Shares current</i>	<i>Percentage of Issued Ordinary Share Capital current</i>
Rock Nominees Limited	4,165,336	19.66
PDFM Limited	2,295,650	10.83
Equitable Life Assurance Society	1,975,000	9.32
Beckwith Development Capital Ltd	1,167,500	5.51
Invesco English & International Trust plc	937,484	4.42
Invesco UK Smaller Companies Fund	916,255	4.32
Henderson Crossthwaite Limited	803,000	3.79

The Shares registered in the name of Beckwith Development Capital Limited are the same as those shown against J.L. Beckwith in paragraph 5(c) of this Part VI.

- (c) Save as disclosed above, the Directors are not aware of any person who directly or indirectly, is or will be interested in three per cent or more of the Company's issued share capital following the Placing and Open Offer or any person or persons who will, directly or indirectly, jointly or severally, exercise or could then exercise control over the Company.
- (d) None of the Directors is or has been interested in any transaction with the Company which was or is unusual in its nature or conditions or significant to the Company which was effected by the Company during the current or immediately preceding financial year or which was effected by the Company during an earlier financial year and remains in any respect outstanding or unperformed.
- (e) There are no outstanding loans by the Company to any Director nor are there any outstanding guarantees provided by the Company for the benefit of any Director.

## **6. Directors' Service Agreements**

- (a) (i) Mr E Hodges has a letter of appointment from the Company dated 29 April 1996 amended by a letter dated 12 May 1997 pursuant to which he is appointed chairman of the Company until 31 January 1999. Mr Hodges is entitled to a salary of £70,000 per annum, and reimbursement of expenses.
  - (ii) Mr G W Foster has a service contract with the Company dated 25 March 1997 pursuant to which he is appointed Managing Director of the Company. The agreement is terminable on 12 months' notice given at any time by either party. In the event of a change of control of the Company leading to his dismissal, Mr Foster is entitled to receive 18 months' salary in lieu of notice. Mr Foster is currently entitled to a salary of £125,000 per annum, subject to review normally on 30 April in each year. Mr Foster is also entitled to a company car and a contribution to his home telephone bill, and to membership of the Company's pension scheme and permanent health insurance scheme, and to reimbursement of expenses.
  - (iii) Mr A P Potter has a service contract with the Company dated 23 November 1994 pursuant to which he is appointed Finance Director of the Company. The agreement is terminable on 12 months' notice given at any time by either party. Mr Potter is entitled to a salary of £75,000 per annum, subject to review normally on 30 April in each year. Mr Potter is also entitled to a company car and a contribution to his home telephone bill, and to membership of the Company's pension scheme and permanent health insurance scheme, and to reimbursement of expenses.
- (b) In addition to the salaries paid pursuant to the service contracts detailed above, the Executive Directors and Mr Hodges are entitled to performance related bonuses on terms notified by the Company from time to time. In the case of Mr Hodges, this bonus is capped at £90,000 per annum. In the case of Mr Foster, this bonus is capped at 50 per cent of salary.

- (c) Save as stated above in respect of Mr Foster, and save in respect of Mr Hodges who is on a fixed term contract there are no service contracts which are not terminable within one year by the Company without payment of compensation (other than statutory compensation).
- (d) (i) Mr D Winterbottom receives salary of £10,000 per annum and directors' fees of £20,000 per annum.
- (ii) Mr J Robertson receives salary of £3,500 per annum and directors' fees of £9,000 per annum and consultancy fees of £12,500 per annum for advice to the Company on property related matters.
- (iii) Mr J Beckwith receives directors' fees of £12,500 per annum.
- (e) The aggregate of the emoluments (including the estimated value of benefits in kind and pension contributions) of the Directors from the Company for the financial period of the Company ended 31 January 1998 amounted to £421,000 and for the current financial period of the Company under the arrangements currently in force are estimated to be £475,000.
- (f) The total emoluments of the Directors will not be varied as a result of the Open Offer.

## 7. Employees

The average numbers of employees of the Company, broken down by main categories of activity, are as follows:-

Selling	1,043
Non-selling	339
Catering	44
Total	<u>1,426</u>

These average numbers are consistent with the previous three years apart from where new store openings have increased the numbers.

## 8. Statement of Indebtedness

As at the close of business on 31 January 1998, the Company had the following borrowings and indebtedness in the nature of borrowing:-

Bank loan (secured)	£4,000,000
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Save as disclosed in this paragraph, the Company did not have at 31 January 1998 any outstanding mortgages or charges any loan capital (including term loans) issued or created but unissued, or any borrowings or indebtedness in the nature of borrowings, including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, obligations under finance leases, contingent liabilities or guarantees.

As at the close of business on 31 January 1998 the Company had cash balances of £577,473.

## 9. Properties

Details of the Company's properties are as follows:

### Existing Properties

#### Stores

<i>Town</i>	<i>Address</i>	<i>Size (sq. ft)</i>	<i>Tenure</i>
Birkenhead	33/35 Borough Pavement, Grange Precinct	36,790	Leasehold
Bootle	140/144 Mons Square, Strand	38,300	Leasehold
Chester	The Forum/ Hamilton Place	34,810	Leasehold
Ellesmere Port	2 Mercer Walk, The Port Arcades	28,123	Leasehold
Kidderminster	1 High Street	25,013	Leasehold
Lichfield	Three Spires Centre/ Birmingham Road	41,700	Leasehold
Liverpool – Main Store	115-123 London Road	136,630	Freehold
Liverpool – Menswear	101-103 London Road	8,420	Leasehold
Liverpool Store – Shoe Store	105-113 London Road	61,000	Freehold
Macclesfield	Exchange Street	30,080	Leasehold
Oldham	32/33 Town Square Shopping Centre	47,500	Leasehold
Preston	Fishergate Centre	37,150	Leasehold
Rochdale	6/7 The Wheatshed Centre	33,110	Leasehold
Salford	79/83 Raven Way, Salford Shopping City	18,480	Leasehold
St. Helens	Unit 1 The Hardshaw Centre, Church Street	32,310	Leasehold
Stretford	Units 31 to 36 & U52-U56 Arndale Centre	21,175	Leasehold
Widnes	Unit 25 Greenoaks Shopping Centre	37,040	Leasehold
Wolverhampton	27 Bell Street/ The Mander Centre	52,430	Leasehold

Note:

The premises at Oldham may be subject to a redevelopment scheme, which would require the Company's vacation of the premises, either voluntarily or compulsorily.

#### Warehouse

<i>Town</i>	<i>Address</i>	<i>Size (sq. ft)</i>	<i>Tenure</i>
Liverpool	1 Pighue Lane	130,000	Freehold

#### New Stores

<i>Store</i>	<i>Address</i>	<i>Possession Date</i>	<i>Opening Date (est)</i>	<i>Size (sq. ft.)</i>	<i>Tenure</i>
Blackburn	Unit 215, 59/63 Church St	5 Jan 98	7 Apr 98	57,280	Leasehold
Burnley	Unit 8, Curzon Square	Summer 99 (est)	Autumn 99	36,000	Leasehold
Shrewsbury	Riverside Mall/ The Pride Hill Shopping Centre	3 Nov 97	10 Mar 98	33,790	Leasehold
Sheffield	50 High Street Sheffield	March 98 (est)	June 98	155,000	Leasehold

## 10. Placing arrangements

The Placing Agreement is dated 5 March 1998 and is made between the Company (1) Charterhouse Tilney (2) and the Directors (3) and provides, subject to the conditions mentioned below, for Charterhouse Tilney as agent for the Company to make the Open Offer and to arrange the Placing of those New Ordinary Shares not

taken up under the Open Offer as described in the letter from Charterhouse Tilney included earlier in this document. The Placing Agreement also contains certain representations, warranties and indemnities by the Company in favour of Charterhouse Tilney.

If Charterhouse Tilney's obligations under the Placing Agreement become unconditional, the Company shall pay to Charterhouse Tilney advisory fees and commissions of £275,000. In addition commissions will be payable to placees amounting to 0.5 per cent. of the value of the Placing Shares at the Placing Price in respect of the first 30 days of CTSL's commitment under the Placing Agreement and ¼% on such value for each period of 7 days or part thereof from and including 4 April 1998 up to whichever is the earlier of the date on which the Placing Agreement is completed in accordance with its terms and the date on which Charterhouse Tilney's obligations under the Placing Agreement terminate. Such placees include institutional investors who are Qualifying Shareholders (the "Qualifying Shareholder Placees") and the Placing Shares in respect of which such additional commissions will be payable include New Ordinary Shares for which the Qualifying Shareholder Placees are entitled to subscribe under the Open Offer. The Company will also pay a further commission of ¼% if the Placing becomes unconditional on the value at the Placing Price of the Placing Shares subscribed for pursuant to the Placing (but excluding those Placing Shares for which Qualifying Shareholder Placees are entitled to subscribe under the Open Offer).

Charterhouse Tilney has certain rights of termination under the Placing Agreement and its obligations are conditional, *inter alia*, on fulfilment of the following conditions by the time specified therefor or such later date as Charterhouse Tilney may agree being not later than 11 April 1998:

- (i) the Resolution numbered 1 of the Resolutions having been duly passed and become unconditional;
- (ii) the Company having certified in writing to Charterhouse Tilney by not later than 3.30 p.m. on the Business Day immediately prior to the expected date of Admission confirming that each of the conditions upon which the Placing Agreement are conditional (other than the conditions set out in this sub-paragraph (iii) and sub-paragraph (ii) above) has been fulfilled and that to the best of the Company's knowledge, information and belief there has been no breach of the warranties given by the Company in favour of Charterhouse Tilney and set out in the Placing Agreement which is material to the Company.
- (iii) Admission occurring and becoming effective by not later than 3.30 p.m. on 2 April 1998.

#### **11. Material contracts**

The following contract, not being a contract entered into in the ordinary course of business, has been entered into by the Company within the two years immediately preceding the date of this document and is, or may be, material:

- (i) The Placing Agreement;

Save as disclosed above, the Company has not within the two years preceding the date of this document, entered into any contract which is or may be material, other than in the ordinary course of business.

#### **12. Working capital**

The Directors are of the opinion that having regard to the available facilities and the estimated net proceeds of the Placing and Open Offer receivable by the Company, the Company has sufficient working capital for its present requirements.

#### **13. Significant changes**

There has been no significant change in the financial or trading position of the Company since 26 July 1997 being the date to which the last interim financial statements of the Company were published.

#### **14. Litigation**

The Company is not involved in any legal or arbitration proceedings which may have or have had during the 12 months immediately preceding the date of this document a significant effect on the Company's financial position and, so far as the Directors are aware, no such proceedings are pending or threatened.



## 15. General

- (a) The Company does not have any subsidiaries.
- (b) The Directors are of the opinion that the Company carries adequate insurance cover for all major risks which may reasonably be anticipated. The Company effects directors' liability insurance.
- (c) The Directors estimate that the expenses payable by the Company in connection with the Placing and Open Offer and the Placing Agreement (including commissions totalling approximately £116,000) will be approximately £500,000 (inclusive of value added tax). The net proceeds of the Placing and Open Offer receivable by the Company are estimated to amount to £6.1 million. No expenses of the Open Offer are being specifically charged to subscribers under the Placing and Open Offer.
- (d) There have been no interruptions in the Company's business which may have or have had in the last 12 months a significant effect on the Company's financial position.
- (e) There are no arrangements under which future dividends are waived or agreed to be waived.
- (f) The annual accounts of the Company for the years ended 28 January 1995, 27 January 1996 and 25 January 1997 have been audited by Price Waterhouse, Chartered Accountants, of 101 Barbirolli Square, Lower Mosley Street, Manchester M2 3PW and filed with the Registrar of Companies for England and Wales. Each report of the auditors was an unqualified report under section 240 of the Act.
- (g) The financial information in this document in relation to the Company and its business does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.
- (h) The Placing Price of 125p represents a premium of 115p over the nominal value of 10p of each Ordinary Share.
- (i) The Open Offer will remain open until 3.00 p.m. on 27 March 1998.
- (j) The mid-market quotation of an Ordinary Share (as derived from the Daily Official List of the London Stock Exchange) on the first dealing day of each of the last six months and on 4 March 1998, being the latest practicable date prior to the publication of this document, was as follows:

Date	Mid-Market Quotation
4 March 1998	129.0p
2 March 1998	129.0p
2 February 1998	134.5p
1 January 1998	117.5p
1 December 1997	115.0p
3 November 1997	102.0p
1 October 1997	98.5p

- (k) A copy of this Prospectus has been delivered to the Registrar of Companies.
- (l) The Ordinary Shares in issue at the date of this document are, and the new Ordinary Shares to be in issue following the Placing and Open Offer will be, in registered form. Prior to the despatch of definitive certificates in respect of such shares, transfers will be certified against the register. No temporary documents of title will be issued. The Ordinary Shares are capable of being held in uncertificated form.

### **SPECIAL RESOLUTION**

2. THAT, subject to and conditional upon Admission, the Company be and is hereby authorised in accordance with section 166 of the Companies Act 1985 to make market purchases (within the meaning of section 163 of the said Act) on the London Stock Exchange of Ordinary Shares of 10p each in the capital of the Company provided that:-
- (a) the maximum number of Ordinary Shares hereby authorised to be purchased is 1,324,444;
  - (b) the minimum price which may be paid for each Ordinary Share shall be 116p (exclusive of expenses);
  - (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall be an amount equal to 105 per cent. of the average of the middle market quotations for an Ordinary Share as derived from the Daily Official List of The London Stock Exchange for the five business days immediately preceding the day on which the Ordinary Share is purchased being days on which The London Stock Exchange is open for the transaction of business; and
  - (d) unless renewed, the authority hereby granted shall expire at the conclusion of the next following Annual General Meeting of the Company provided that a contract of purchase may be made before such expiry which will or may be executed wholly or in part thereafter and the purchase of an Ordinary Share may be made in pursuance of any such contract.

### **SPECIAL RESOLUTION**

3. THAT the Articles of Association of the Company be and are hereby amended as follows:
- (a) by the addition to Article 2.1 of the following definitions:

“operator”	the operator as defined in the Regulations of the relevant system
“relevant system”	a relevant system as defined in the Regulations
“uncertified share”	a share to which title is recorded in the Company’s register of members as being held in uncertificated form and which may be transferred by means of an uncertificated system in accordance with the Regulations
“Regulations”	the Uncertificated Securities Regulations 1995 (SI 1995 No. 95/3272) including any modification thereof or any regulations in substitution therefor made under section 207 of the Companies Act 1989 and for the time being in force
  - (b) by the addition of the following new paragraphs to Article 11:
    - “ 11.7 Any uncertificated shares in the capital of the Company may be transferred in accordance with the Regulations and not otherwise.
    - 11.8 Without prejudice to any powers which the Company or the directors may otherwise have, the Company or the directors may issue, allot, dispose of convert or otherwise deal with or make arrangements in relation to uncertificated shares and the transfer of title to such shares by means of a relevant system and the Company may issue uncertificated shares and may convert shares from certificated form to uncertificated form and vice versa.
    - 11.9 No provision of these Articles requiring the issue, production or delivery (howsoever expressed) of a share certificate shall apply to any uncertificated share.

- 11.10 The register shall be made up, in respect of uncertificated shares, in accordance with and subject to the Regulations, to the exclusion of any requirement of these Articles relating to instruments of transfer. Subject to and in accordance with the Regulations, title to uncertificated shares may be transferred by means of a relevant system.
- 11.11 The provisions of these Articles whereby a person entitled by transmission to a share in the capital of the Company may elect that he or any other person be registered as the holder of it shall not apply to an uncertificated share (registration only being permitted on receipt by the Company of a properly authenticated dematerialised instruction).
- 11.12 The provisions of these Articles with respect to the payment of dividends or other monies payable in respect of a share in the capital of the Company shall, in relation to an uncertificated share, be subject to any properly authenticated dematerialised instruction received by the Company.
- 11.13 In relation to an uncertificated share in the capital of the Company, any provision of these Articles enabling a person to be appointed to execute an instrument of transfer shall have the effect of enabling that person to be appointed to authorise the giving of a relevant properly authenticated dematerialised instruction (not being inconsistent with the provision in question) as may be requisite for the disposal of the share in accordance with the terms of his appointment.
- 11.14 Where the Company has a lien over shares, to give effect to any sale permitted under the Articles in the case of a share in uncertificated form, the directors may take such other steps (including the giving of directions to or on behalf of the holder who shall be bound by them) as they think fit to effect the transfer.
- 11.15 Where the directors have the power to transfer a forfeited share to any person in the case of an uncertificated share, the directors may take such other steps (including the giving of directions to or on behalf of the holder who shall be bound by them) as they think fit to effect the transfer.
- 11.16 The directors may refuse to register a transfer of an uncertificated share in any case where the Company is entitled to refuse (or is excepted from the requirements) under the Regulations to register the transfer, and they may refuse to register any such transfer in favour of more than four transferees.
- 11.17 Where the directors have a power to sell fractions of shares and distribute the net profits in proportion among members, the directors may, in the case of uncertificated shares, take such other steps (including the giving of directions to or on behalf of the holder who shall be bound by them) as they think fit in relation to such fractions of shares.
- 11.18 Where the directors have a power to refuse to register the transfer of a share, they shall, within two months in the case of an uncertificated share from the date on which the operator instruction was received by the Company, send to the transferee the necessary notice of refusal.
- 11.19 Where the directors have a power to give effect to the sale of any share pursuant to provisions regarding untraced members in the case of uncertificated shares, the directors may take such other steps (including the giving of directions to or on behalf of the holder who shall be bound by them) as they think fit to effect the transfer.

11.20 If there is any conflict or inconsistency between this Article 11 and any other Article, the provisions of this Article 11 shall prevail. ”

- (c) by the addition of the following new words at the end of Article 34(a):  
“provided that in the case of partly paid shares the Board may not refuse to register any share transfer where to do so would prevent dealings in the shares from taking place on an open and proper basis”.
- (d) by the deletion of the existing Article 80.1(d) and by the insertion in lieu thereof of the following new Article 80.1(d):  
“on expiry of the said period of 12 years the Company has given notice of its intention to sell such share by advertisement in both a national newspaper published in the United Kingdom and a newspaper circulating in the area in which the last known address of the member or the address at which service of notices may be effected in the manner authorised by these Articles is located;”
- (e) by deleting Article 131 in its entirety.

Dated 5 March 1998

By Order of the Board

A.P. Potter  
Secretary

*Registered Office:*

Audley House  
London Road  
Liverpool  
L69 3BD

*Notes:*

1. A holder of Ordinary Shares entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and on a poll vote instead of him. A proxy need not be a member of the Company.
2. To be valid Forms of Proxy must be lodged at the offices of the Company's Registrars, Lloyds Bank Registrars, The Causeway, Worthing, West Sussex BN99 6DA, not less than 48 hours before the time appointed for the holding of the meeting.
3. Completion of the Form of Proxy does not preclude the member from attending the meeting and voting in person.