

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about its contents or what action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or independent financial adviser authorised under the Financial Services Act 1986.

A copy of this document, which comprises a prospectus relating to the Company prepared in accordance with the Listing Rules of the UK Listing Authority made pursuant to 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.

If you have sold or otherwise transferred all of your Ordinary Shares in the Company prior to the date of this document, please forward this document and the accompanying Application Form to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. If you have sold only part of your holding, you are referred to the instructions regarding split applications set out in Part II of this document and in the accompanying Application Form.

Applications have been made to the UK Listing Authority for the New Ordinary Shares to be admitted to the Official List and to the London Stock Exchange for such shares to be admitted to trading on the London Stock Exchange's market for listed securities.

TJ Hughes plc

(Registered in England and Wales with registered number 224422)

Placing and Open Offer of 3,354,613 New Ordinary Shares of 10p each at 310p per share by ING Barings Limited



The New Ordinary Shares have not been nor will be registered under the United States Securities Act of 1933 as amended ("the Securities Act") or under the securities laws of any state of the United States or of any province or territory of Canada or with the Australian Securities Commission and, subject to certain exceptions, may not be offered, sold, delivered or transferred directly or indirectly within the United States, Canada, Australia, Japan or the Republic of Ireland. Shareholders with registered addresses in the United States or elsewhere outside the United Kingdom are referred to Part II of this document.

The latest time and date for acceptance and payment in respect of the Open Offer is 3.00 p.m. on 11 December 2000. Full details relating to acceptance and payment are set out in Part II of this document and in the Application Form accompanying this document.

Applications under the Open Offer may only be made on the Application Form which is personal to the Shareholder(s) named on it and may not be assigned or transferred except to satisfy *bona fide* market claims.

ING Barings, which is regulated by The Securities and Futures Authority Limited, is acting for the Company and no other person in connection with the matters described in this document and will not be responsible to any other person for providing the protections afforded to customers of ING Barings nor for advising any other persons on the contents of this document or any matter referred to herein.

CONTENTS

	<i>Page</i>
Expected timetable of principal events	2
Definitions	3
Directors, secretary and advisers	5
Part I Letter from the Chairman	6
Part II Letter from ING Barings in respect of the Open Offer	10
Part III Interim Results for the 26 weeks ended 29 July 2000	17
Part IV Additional information	25

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Record date for the Open Offer	close of business on 10 November 2000
Latest time and date for splitting Application Forms (to satisfy <i>bona fide</i> market claims only)	3.00 p.m. on 7 December 2000
Latest time and date for receipt of Application Forms and payment under the Open Offer	3.00 p.m. on 11 December 2000
Dealings in the New Ordinary Shares expected to commence on the London Stock Exchange and credit of CREST accounts	15 December 2000
Expected date of despatch of definitive share certificates	20 December 2000

DEFINITIONS

The following definitions apply throughout this document and the accompanying Application Form unless the context requires otherwise:

"the Act"	the Companies Act 1985, as amended
"Admission"	the admission of the New Ordinary Shares, issued pursuant to the Placing and Open Offer Agreement, to the Official List and the admission of such shares to trading on the London Stock Exchange's market for listed securities and the Open Offer becoming unconditional
"Application Form"	the application form accompanying this document for use by Qualifying Shareholders in relation to the Open Offer
"the Company" or "TJ Hughes"	TJ Hughes plc
"CREST"	the relevant system (as defined in the Uncertificated Securities Regulations 1995 (SI 1995 No. 95/3272)) for paperless settlement of share transfers and the holding of shares in uncertificated form which is administered by CRESTCo Limited
"the Directors" or "the Board"	the directors of the Company whose names appear on page 5 of this document, all of Hughes House, London Road, Liverpool L3 8JA
"FS Act"	the Financial Services Act 1986, as amended
"ING Barings"	ING Barings Limited
"Lloyds TSB Registrars"	Lloyds TSB Registrars, a division of Lloyds TSB Bank plc
"London Stock Exchange"	the London Stock Exchange PLC
"New Ordinary Shares"	3,354,613 New Ordinary Shares proposed to be issued pursuant to the Placing and Open Offer
"Official List"	the official list of the UK Listing Authority
"Open Offer"	the conditional offer by ING Barings, at the request of and as agent for the Company, of 3,354,613 New Ordinary Shares to Qualifying Shareholders on the terms and conditions set out in this document and in the Application Form
"Optionholders"	the holders of options to subscribe for Ordinary Shares pursuant to the Share Option Schemes
"Ordinary Shares"	ordinary shares of 10p each in the capital of the Company
"Placing"	the conditional placing of the Placing Shares by ING Barings, subject to recall to satisfy valid applications under the Open Offer as described in the Placing and Open Offer Agreement
"Placing and Open Offer Agreement"	the agreement dated 17 November 2000 between the Company and ING Barings in connection with the proposed Placing and Open Offer, the principal terms and conditions of which are set out in paragraph 9 of Part IV of this document

"Placing Price"	310p per New Ordinary Share
"Placing Shares"	3,348,112 of the New Ordinary Shares (being all of the New Ordinary Shares other than the 6,501 New Ordinary Shares which Directors have undertaken pursuant to the Undertakings to take up under the Open Offer) which are being conditionally placed pursuant to the Placing, subject to recall to satisfy valid applications under the Open Offer
"Prospectus"	this document
"Qualifying Shareholders"	Shareholders whose names appear on the register of members of the Company at the Record Date (other than Shareholders with registered addresses in the United States of America, Canada, Australia, Japan or the Republic of Ireland)
"Record Date"	close of business on 10 November 2000
"Shareholders"	holders of Ordinary Shares
"Share Option Schemes"	the Company's executive share option scheme adopted on 22 April 1992 and the Company's unapproved share option scheme adopted on 31 October 1997
"Taxes Act"	the Income and Corporation Taxes Act 1988 (as amended)
"UK"	the United Kingdom
"UK Listing Authority"	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part IV of the FS Act and in the exercise of its functions in respect of the admission to the Official List or otherwise than in accordance with Part IV of the FS Act, including where the context so permits, any committee, employee, officer or servant to whom any function of the UK Listing Authority may for the time being be delegated
"Undertakings"	the conditional deeds of undertaking from Mr Winterbottom and Ms McDowell to take up all of their entitlements and from Mr Foster and Mrs Bailey to take up 50 per cent. of their entitlements under the Open Offer in respect of an aggregate of 6,501 New Ordinary Shares, details of which are set out in paragraph 5 of Part IV of this document

DIRECTORS, SECRETARY AND ADVISERS

Directors	David S Winterbottom	<i>Non-Executive Chairman</i>
	George W Foster	<i>Chief Executive</i>
	Anthony P Potter	<i>Finance Director</i>
	Susan Bailey	<i>Group Buying Director</i>
	Catherine McDowell	<i>Non-Executive Director</i>
	Gordon Wotherspoon	<i>Non-Executive Director</i>
Registered office	Hughes House London Road Liverpool L3 8JA	
Secretary	Anthony P Potter	
Financial adviser, sponsor and stockbroker	ING Barings Limited 60 London Wall London EC2M 5TQ	
Auditors	PricewaterhouseCoopers 101 Barbirolli Square Lower Mosley Street Manchester M2 3PW	
Solicitors to the Company	DLA India Buildings Water Street Liverpool L2 0NH	
Solicitors to the Sponsor	McDermott, Will & Emery 7 Bishopsgate London EC2N 3AQ	
Principal bankers	The National Westminster Bank plc PO Box 138 22 Castle Street Liverpool L69 2BE	
Registrars	Lloyds TSB Registrars The Causeway Worthing West Sussex BN99 6DA and Antholin House 71 Queen Street London EC4N 1SL	

PART I

LETTER FROM THE CHAIRMAN OF TJ HUGHES PLC

TJ Hughes plc

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

David S Winterbottom *Non Executive Chairman*

George W Foster *Chief Executive*

Anthony P Potter *Finance Director*

Susan Bailey *Group Buying Director*

Catherine McDowell *Non-Executive Director*

Gordon Wotherspoon *Non-Executive Director*

Registered and Head Office

Hughes House

London Road

Liverpool L3 8JA

17 November 2000

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 3,354,613 New Ordinary Shares to raise approximately £9.74 million (net of expenses) to enable TJ Hughes to continue its store opening programme, extend its warehousing and distribution centre capabilities, and refurbish certain existing stores.

The Placing and Open Offer has been fully underwritten by ING Barings. A total of 6,501 New Ordinary Shares are the subject of irrevocable undertakings from certain Directors to accept the Open Offer representing 0.19 per cent. of the Placing Shares. The balance of the New Ordinary Shares which are the subject of the Placing and Open Offer will be conditionally placed with institutional investors, 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 310p per share on the basis of 1 New Ordinary Share for every 8 existing Ordinary Shares. Further details relating to the Open Offer are summarised below and are set out in Part IV of this document.

The 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.

Background to the Company

Since flotation in May 1992, TJ Hughes, the established discount department store operator, has expanded from 11 to 29 stores at 29 July 2000 and since then has opened a further store in Doncaster taking the total to 30 stores to date. This growth has been achieved at a capital cost of approximately £26.7 million which has been financed through the Company's own resources, a £6 million placing and open offer in March 1998 and bank facilities.

The trading and marketing policy of TJ 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. Your Directors believe that TJ Hughes's ability to be flexible and innovative in identifying, purchasing and promoting products, often in short time periods, is important to its success.

TJ Hughes has a strong senior management team, led by George Foster and Tony Potter and has recently been strengthened by the appointment on 1 April 2000 of Susan Bailey as Group Buying Director and in the opinion of your Directors the Company has experienced and well trained staff with a good knowledge of their chosen market place.

There is now an accelerated store development programme in place which will involve a number of store openings over an ever-wider geographic area. Such stores will carry an extensive 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.

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 enabling the opening of more stores and enlarging the Company's warehouse capability. Although the business is cash generative, the Directors feel that the expenditure involved in meeting the anticipated growth would, in the absence of the new equity currently being sought, result in an unacceptable level of gearing. The Board's policy is to monitor gearing levels on a regular basis and a prudent approach to gearing will continue in the future reflecting at all times the seasonal nature of the business.

Capital Expenditure Programme

As part of its total expenditure programme, TJ Hughes intends to invest approximately £20.1 million comprising:

Store Openings

The ten stores, highlighted below, which are to open progressively during 2001 and 2002 will increase the Company's net selling floor space by approximately 46.9 per cent. The total cost of the related capital expenditure programme is expected to amount to approximately £6.7 million in 2001 and £2.1 million in 2002. In addition these new stores are expected to require additional working capital of £6.2 million.

Contracts have been completed for three stores from the C&A portfolio, in Romford, Hull and Glasgow. A provisional and conditional date of 31 January 2001 has been given for the handover of the three stores to the Company. It is planned that the stores will open for trade during Spring 2001. The three stores will trade from a total of approximately 166,000 square feet of net selling space.

In addition, contracts have recently been signed for new stores in Maidstone, Coventry and Kettering, with approximately 111,000 square feet of net selling space which are planned to open in May, October and September 2001 respectively.

New stores totalling approximately 167,000 square feet of net selling space are scheduled to open in Southend, Scunthorpe, Redditch and Newcastle in the Spring and Autumn 2002.

Other new store opportunities are being actively explored by the Board with a view to bringing the openings in 2002 to its stated target of increasing new annual selling space by over 20 per cent.

The Directors believe that the new stores will increase the profile of the Company and will widen its geographical coverage. When these new stores are open the Company will have 40 stores trading from approximately 1.4 million square feet.

Warehouse Capabilities

To support the store opening programme and to provide better service to existing stores the Company is proposing to expand and improve its distribution centre in Liverpool. Your Directors estimate costs of the project at approximately £3.4 million. Work is due to commence in Spring

2001 and it is estimated that the enhanced facility should support the anticipated development of the Company for at least 4 years.

Store Refurbishment

The Company proposes to undertake a major refurbishment programme at a number of its older sites, bringing them into line with current trading formats. The estimated cost of this refurbishment is approximately £1.7 million.

The Placing and Open Offer

ING Barings, as agent for the Company, has conditionally agreed to procure subscribers for or, failing which, itself to subscribe as principal for 3,354,613 New Ordinary Shares to be issued at the Placing Price pursuant to the Placing and Open Offer all of which 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, ING Barings, as agent for the Company, has conditionally agreed with the Company to make the Open Offer to Qualifying Shareholders inviting them to apply for 3,354,613 New Ordinary Shares at the issue price of 310p 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 8 existing Ordinary Shares

The New Ordinary Shares will be issued fully paid and, when issued, will rank *pari passu* in all respects with the existing Ordinary Shares save that they will not rank for the interim dividend for the period ended 29 July 2000.

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 ING Barings 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 and Open Offer Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms; and (ii) Admission.

Interim Results

The interim results for the 26 weeks ended 29 July 2000 showed further strong growth: turnover increased by 28.4 per cent. from £54.0 million to £69.4 million and on a directly comparable basis with last year profits before tax rose 42.1 per cent. from £1.83 million to £2.60 million. Earnings per share for the period were 6.77p (1999: 4.79p). Like-for-like sales for the period improved by approximately 5.3 per cent.

The Board declared an interim dividend of 1.48p (net) per Ordinary Share (1999: 1.29p), which is to be paid on 29 December 2000 to Shareholders on the register at the close of business on 6 October 2000.

Qualifying Shareholders are advised to read the financial information included in Part III of this document which has been extracted from the interim results announced on 26 September 2000 and not rely on the summarised information in this section.

Current Trading and Future Prospects

As stated in the Company's interim results, in the 26 weeks ended 29 July 2000 the Company enjoyed an excellent improvement in sales across all departments and continued to improve gross margins.

Since that date, the Company has continued to trade profitably with overall sales for the first fourteen weeks of the half year ahead by 25 per cent. over the comparable period last year and like-for-like sales

up by 5.5 per cent. notwithstanding the two week effect of the "petrol dispute". The Directors are confident of the Company achieving a successful outcome for the year to 31 January 2001.

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 ING Barings set out in Part II of this document.

Duly completed Application Forms and remittances must be received by 3.00 p.m. on 11 December 2000. If you do not wish to apply for any of the New Ordinary Shares you should not complete or return an Application Form.

CREST

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 IV of this document.

Yours faithfully

David S Winterbottom
Chairman

PART II

OPEN OFFER LETTER FROM ING BARINGS

ING Barings Limited
60 London Wall
London EC2M 5TQ
Registered in England and Wales No. 1089211

17 November 2000

To Qualifying Shareholders and, for information only, to Optionholders

Dear Sir or Madam

Open Offer to Qualifying Shareholders of 3,354,613 New Ordinary Shares at 310 pence per share

Introduction

As set out in the letter from your Chairman in Part I, your Company proposes to raise approximately £9.74 million, net of expenses, by a Placing and Open Offer to Qualifying Shareholders of 3,354,613 New Ordinary Shares at 310p per Ordinary Share. ING Barings, as agent for the Company, has conditionally agreed to use its reasonable endeavours to procure subscribers for or, failing which, to subscribe itself as principal at 310p per New Ordinary Share for 3,354,613 New Ordinary Shares to be issued pursuant to the Open Offer, subject to clawback to satisfy valid applications by Qualifying Shareholders under the Open Offer.

Details of the arrangements relating to the Placing and Open Offer are set out below and in the Application Form.

This letter and the Application Form contain the formal terms and conditions of the Open Offer.

The Open Offer

As agents for and on behalf of the Company, ING Barings hereby invites Qualifying Shareholders, subject to the terms and conditions set out in this letter and in the Application Form, to apply for New Ordinary Shares at 310p per share, payable in full in cash (free of expenses) on acceptance of the Open Offer on the following basis:

1 New Ordinary Share for every 8 existing Ordinary Shares

held by such Qualifying Shareholders and registered in their names on the Record Date and so in proportion for any greater or lesser number of New Ordinary Shares up to their maximum entitlement shown on the Application Form. No application in excess of the maximum entitlement will be met and any Qualifying Shareholders so applying will be deemed to have applied only for their maximum entitlement. Any monies paid in excess of such amounts will be returned to the applicants without interest. Applications and payments must be received by 3.00 p.m. on 11 December 2000. Fractional entitlements to New Ordinary Shares will not be allocated to Qualifying Shareholders, but will be aggregated and placed with institutional investors for the benefit of the Company. Holdings of shares in certified and uncertified form will be treated as separate holdings for the purpose of calculating entitlements under the Open Offer.

Shareholders should be aware that entitlements to New Ordinary Shares which they do not take up under the Open Offer will not be sold in the market for their benefit. Instead, the New Ordinary Shares relating to those entitlements will be issued to the placees or taken up by ING Barings at 310p per share in accordance with its commitment under the Placing and Open Offer Agreement.

Applications have been made to the UK Listing Authority for the New Ordinary Shares to be admitted to the Official List and to the London Stock Exchange for such Shares to be admitted to trading on that exchange and it is expected that Admission will become effective and dealings will commence in the New Ordinary Shares on 15 December 2000.

The New Ordinary Shares will be issued as fully paid and will rank *pari passu* in all respects with the existing Ordinary Shares save that they will not be entitled to the interim dividend in respect of the period ended 29 July 2000. The New Ordinary Shares are not being made available in whole or in part to the public except under the terms of the Open Offer.

The Placing and Open Offer are subject, *inter alia*, to the UK Listing Authority admitting the New Ordinary Shares to the Official List and the London Stock Exchange admitting the New Ordinary Shares to trading on its market for listed securities and such Admission becoming effective at or before 4.30 p.m. on 15 December 2000 or such later date, being no later than 22 December, as the Company and ING Barings may decide, and on the Placing and Open Offer Agreement becoming wholly unconditional.

The applications for Admission will be withdrawn if the Placing and Open Offer Agreement does not become unconditional (other than as regards Admission). Details of the Placing and Open Offer Agreement are set out in paragraph 9 of Part IV.

Procedure for Application

The Application Form accompanying this document shows the number of Ordinary Shares registered in your name(s) at the Record Date in Box A and your maximum entitlement of New Ordinary Shares under the Open Offer in Box B. You may apply for less than your maximum entitlement should you so wish. The instructions and other terms set out on the Application Form are part of the Open Offer. If you do not wish to apply for any New Ordinary Shares, you should not return your Application Form.

If you wish to apply to acquire all or any of the New Ordinary Shares to which you are entitled, you should complete Boxes D and E of the accompanying Application Form in accordance with the instructions printed on it and return it, either by post or (during normal business hours) by hand, to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA or by hand only (during normal business hours) to Lloyds TSB Registrars, Antholin House, 71 Queen Street, London EC4N 1SL with a cheque or banker's draft for the full amount payable on application so as to arrive as soon as possible but in any event not later than 3.00 p.m. on 11 December 2000. Application Forms received after that time will not be accepted. Application Forms will only be accepted at the above addresses. A reply paid envelope is enclosed for your convenience. If you post your Application Form, you are recommended to allow at least four business days for delivery.

Shareholders should note that applications, once made, will be irrevocable and it will be a condition of the application that cheques or banker's drafts will be honoured on first presentation.

Cheques and banker's drafts must be drawn in pounds sterling on a bank or building society in the United Kingdom, the Channel Islands or the Isle of Man, which is either a settlement member of the Cheque and Credit Clearing Company Limited, or the CHAPS & Town Clearing Company Limited, or a member of either of the Committees of the Scottish and Belfast Clearing Houses, or which has arranged for its cheques and banker's drafts to be cleared through the clearing facilities provided for members of those companies, and must bear the appropriate sort code number in the top right hand corner. Any application which does not comply with these requirements may be rejected. Cheques and banker's drafts should be made payable to "Lloyds TSB Bank Plc A/C TJ Hughes plc" and crossed "Account Payee".

Cheques and banker's drafts will be presented upon receipt but the Company has agreed that the application monies will be kept in a separate bank account controlled by Lloyds TSB Registrars pending fulfilment of the conditions referred to above. If the conditions of the Open Offer are not satisfied or waived by, at the latest, 7.30 a.m. on 22 December 2000, the Open Offer will lapse and all application monies received from an applicant will be returned by post as soon as reasonably practicable thereafter to the applicant by crossed cheque in favour of the applicant without payment of interest. In all cases the interest earned on monies held in the separate bank account will be retained for the benefit of the Company.

All documents or remittances sent by or to an applicant, or as he or she may direct, will be sent through the post at his or her own risk. No receipts will be issued for amounts paid on application.

Applications for New Ordinary Shares may only be made on the enclosed Application Form which is personal to Qualifying Shareholder(s) named on it. The Application Form represents a right to apply

for New Ordinary Shares. The Application Form may not be assigned or transferred except to satisfy *bona fide* market claims in relation to purchases through the market prior to the date on which the Ordinary Shares are marked "ex entitlement to the Open Offer" pursuant to the rules of the London Stock Exchange. Application Forms may be split, but only to satisfy *bona fide* market claims, up to 3.00 p.m. on 7 December 2000. Shareholders who have sold all or any of their holdings before the Ordinary Shares were marked "ex-entitlement to the Open Offer" should complete the declaration in Box H on the Application Form and send it to the stockbroker, bank or other agent through whom the sale was effected for transmission to the purchaser, since the invitation to purchase New Ordinary Shares in the letter may represent a benefit which can be claimed by the purchaser under the rules of the London Stock Exchange. Box G must be completed by the person(s) to whom any Ordinary Shares have been sold or transferred if he or she wishes to apply on the Application Form for New Ordinary Shares. The Application Form should not, however, be forwarded or transmitted in or into the United States, Canada, Australia, Japan or the Republic of Ireland. **The Application Form is not a document of title and cannot be traded.**

Split Application Forms may be obtained on surrender of the Application Form (by post or, during normal business hours, by hand) to Lloyds TSB Registrars, Antholin House, 71 Queen Street, London EC4N 1SL with Box H completed in accordance with the instructions contained in the Application Form.

The Company and ING Barings may (in their sole discretion) treat an application as valid and binding on the person(s) by whom or on whose behalf it is lodged even if it is not completed in accordance with the relevant instructions.

All enquiries regarding the Open Offer and/or the Application Form should be addressed to Lloyds TSB Registrars at either of the above addresses.

If you do not wish to apply for New Ordinary Shares you should not complete and return the Application Form.

Money Laundering Regulations

It is a term of the Open Offer that, to ensure compliance with the Money Laundering Regulations 1993, (the "Regulations") Lloyds TSB Registrars may require, at its absolute discretion, verification of identity from any person lodging an Application Form. Further information regarding the circumstances in which such verification may be required are set out below and on the Application Form.

If the value of any application exceeds £9,000 (or is one of a series of linked applications, the aggregate value of which exceeds that amount) the verification of identity requirements of the Money Laundering Regulations 1993 will apply. Lloyds TSB Registrars are entitled to require, at their absolute discretion, verification of identity from any person lodging an Application Form (the "Applicant"), including, without limitation, any person who either (i) tenders payment by way of a cheque or banker's draft drawn on an account in the name of a person or persons other than the Applicant or (ii) appears to Lloyds TSB Registrars to be acting on behalf of some other person. Submission of an Application Form will constitute a warranty and undertaking by the Applicant to provide promptly to Lloyds TSB Registrars such information as may be specified by them as being required for the purpose of the Regulations. Pending the provision of evidence satisfactory to Lloyds TSB Registrars as to identity, Lloyds TSB Registrars may in their absolute discretion retain an Application Form lodged by an Applicant and/or the cheque or other remittance relating to it and/or not enter the New Ordinary Shares to which it relates in the register of members or issue any share certificate it relates in the register of members or issue any share certificate in respect of them.

The following guidance is provided in order to reduce the likelihood of difficulties, delays and potential rejection of an application (but does not limit the right of Lloyds TSB Registrars to require verification or identity as stated above):

- (a) Applicants are urged if possible to make their payment by their own cheque or (where an Application Form has been transferred and/or split to satisfy *bona fide* market claims in relation to transfers through the market prior to 3.00 p.m. on 7 December 2000) by the cheque of the person named on the Application Form.

If this is not practicable and an Applicant uses a cheque drawn by a building society or other third party or a banker's draft, the Applicant should:

- (i) write the Applicant's name and address on the back of the building society cheque, banker's draft or other third party cheque and, in the case of an individual, record his date of birth against his name; and
 - (ii) if a building society cheque (not being a cheque drawn on an account of the Applicant) or banker's draft is used, ask the building society or bank to endorse on the cheque the full name and account number of the person whose building society or bank account is debited.
- (b) If an Application Form is delivered by hand and the accompanying payment is not the Applicant's own cheque, the Applicant should ensure that the Applicant is able to produce evidence of identity bearing the Applicant's photograph, such as, for example, a valid full passport.

If you are making an application as agent for one or more persons and you are not a United Kingdom or European Community regulated person or institution, then, irrespective of the value of the application, Lloyds TSB Registrars are obliged to take reasonable measures to establish the identity of the person or persons on whose behalf the application is being made. An Applicant making such an application as agent should specify on the Application Form if the Applicant is a United Kingdom or European Community regulated person or institution (for example a bank or broker).

If Lloyds TSB Registrars determine that the verification of identity requirements apply to any application and the verification of identity requirements have not been satisfied by 3.00 p.m. on 11 December 2000, ING Barings may, in its absolute discretion and without prejudice to any other rights of ING Barings, treat the application as invalid, in which event the monies payable on acceptance of the Open Offer will be returned without interest to the account of the drawee bank or building society from which such monies were originally debited. Subject to the requirements of the Regulations, Lloyds TSB Registrars are entitled in their absolute discretion to determine whether the verification of identity requirements apply to any Applicant or to any person on whose behalf Lloyds TSB Registrars consider that an Applicant may be acting and whether such requirements have been satisfied, and none of Lloyds TSB Registrars, the Company or ING Barings will be liable to any person for any loss suffered or incurred as a result of the exercise of the discretion.

By lodging an Application Form, each Qualifying Shareholder undertakes to provide such evidence of identity as may be required to ensure compliance with the Regulations. You should bear in mind that if verification of your identity is required for the purposes of the Regulations, and has not been provided by 3.00 p.m. on 11 December 2000, your application may be treated as invalid. In such circumstances, application monies will be returned (without interest) to the bank or building society account from which payment was made.

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 such person in any event use such an Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to such person 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 ensure 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 ING Barings 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, 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 ING Barings 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 the Republic of Ireland

The New Ordinary Shares 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 was not inside the United States, Canada, Australia, Japan or the Republic of Ireland at the time of execution or despatch of the Application Form and is not applying on behalf of any 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 resident 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 resident in other overseas territories should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their entitlements.

Taxation

The following paragraphs are intended as a general guide only and are based on current UK tax legislation and Inland Revenue practice as at the date of this document. Except where the position of non-UK resident shareholders is expressly referred to they deal only with the position of shareholders who are resident or ordinarily resident in the UK for tax purposes, who are the beneficial owners of their Ordinary Shares and who hold their Ordinary Shares as an investment. They do not deal with the position of certain classes of shareholders, such as dealers in securities.

(a) Dividends

- (i) Under current UK taxation legislation the Company is not required to withhold tax at source from dividends.

- (ii) Individual shareholders who are resident in the UK for tax purposes will be entitled to a tax credit equal to one ninth of the cash dividend, (or 10 per cent. of the aggregate of the cash dividend and the associated tax credit). Such shareholders will be liable to income tax on the aggregate of the dividend and the related tax credit, (together, the "gross dividend"), at the Schedule F ordinary rate (being 10 per cent. in the tax year 2000-2001), or, to the extent that such income when treated as the top slice of the shareholder's total income exceeds the threshold for higher rate income tax, the Schedule F upper rate (being 32.5 per cent. in the tax year 2000 - 2001). Accordingly, for UK resident individual Shareholders liable to only starting rate or basic rate tax, the tax credit will discharge their income tax liability in respect of the dividend. UK resident individual shareholders who are liable to higher rate tax will, after taking into account the tax credit, have an additional tax liability of an amount equal to 25 per cent. of the cash dividend. UK resident individual Shareholders whose income tax liability is less than the tax credit will not be entitled to claim a repayment of all or part of the tax credit associated with dividends paid by the Company.
 - (iii) UK resident corporate Shareholders will generally not be liable to UK corporation tax on any dividend received from the Company.
 - (iv) UK pension funds will not be entitled to claim a refund of all or part of the tax credit associated with dividends paid by the Company. Special rules apply to charities and trusts and shares held through certain investment arrangements, such as PEPS and ISAs.
 - (v) Non-UK resident Shareholders should consult their own tax advisers as to the possible applicability to them of treaty or other provisions relating to tax credits and as to the procedure for making claims.
- (b) *Stamp duty and stamp duty reserve tax*
- (i) No liability to stamp duty or stamp duty reserve tax ("SDRT") will arise on the allotment and issue of New Ordinary Shares by the Company pursuant to the Placing.
 - (ii) Agreements to transfer Ordinary Shares within CREST will ordinarily attract SDRT at the rate of 0.5 per cent. of the amount or value of the consideration. The charge to SDRT arises in the case of an unconditional agreement to transfer such shares within CREST on the date of the agreement and, in the case of a conditional agreement, on the date the agreement becomes unconditional. The SDRT will be collected through CREST and becomes payable on the date agreed between the Inland Revenue and the operator of the CREST system.
 - (iii) There is generally no additional stamp duty or SDRT liability where Ordinary Shares are taken out of CREST (otherwise than pursuant to a transfer on sale), or where Ordinary Shares are deposited in CREST for conversion into uncertificated form (otherwise than pursuant to a transfer on sale or in contemplation of such sale). A transfer of Ordinary Shares on a CREST transfer form pursuant to a transfer on sale for conversion into uncertificated form will not generally give rise to a charge to stamp duty but will ordinarily attract an SDRT liability at the rate of 0.5 per cent. on the amount or value of the consideration.
 - (iv) Transfers of existing Ordinary Shares outside CREST will ordinarily be liable to *ad valorem* stamp duty at the rate of 0.5 per cent. of the consideration paid. A charge to SDRT, at the rate of 0.5 per cent. of the consideration, ordinarily arises in the case of an unconditional agreement to transfer shares outside CREST on the date of the agreement and in the case of a conditional agreement, on the date the agreement becomes unconditional. The SDRT is payable on the seventh day of the month following the month in which the charge arises. However, where an instrument of transfer is executed and duly stamped before the expiry of a period of six years beginning with the date of that agreement (or the date on which the agreement becomes unconditional, as the case may be), the SDRT charge is cancelled to the extent that SDRT has not been paid and, if any of the SDRT has been paid, a claim may be made for its repayment.
 - (v) Any liability to stamp duty will be rounded up to the nearest multiple of £5.

The above paragraphs are not intended to provide specific advice and no action should be taken or omitted to be taken in reliance upon them. They are intended as a general guide to current United Kingdom tax law and practice. If you are in any doubt as to your tax position or you are subject to tax in a jurisdiction other than the UK, you should consult your own professional adviser without delay.

Settlement and dealings

Subject to the satisfaction of the conditions of the Placing and Open Offer, it is expected that Admission will take place and dealings in the New Ordinary Shares for normal account settlement will commence on the London Stock Exchange's market for listed securities on 15 December 2000. It is expected that definitive share certificates in respect of the New Ordinary Shares will be despatched to relevant Shareholders by 20 December 2000 by first class post at their own risk. Pending despatch of share certificates, transfers will be certified against the register. **No temporary documents of title will be issued.**

CREST

Qualifying non-CREST Shareholders will be allotted New Ordinary Shares in certificated form. Qualifying CREST Shareholders will be allotted New Ordinary Shares in uncertificated form to the extent that their entitlement to the New Ordinary Shares arises as a result of them holding Ordinary Shares in uncertificated form or, if Box J on the accompanying Application Form is duly completed as a result of a *bona fide* market claim. Notwithstanding any other provision of this document, the Company reserves the right to allot and/or issue any New Ordinary Shares in certificated form. In the normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST, or of any part of CREST, or on the part of the facilities and/or systems operated by Lloyds TSB Registrars in connection with CREST. This right may also be exercised if the correct details (such as Member Account ID and Participant ID details) are not provided as requested on the Application Form.

Further information

Your attention is drawn to the further information set out in Section 1 above and Parts III and IV below and the Application Form.

Yours faithfully
For and on behalf of
ING Barings Limited

Peter Main
Director

PART III
INTERIM RESULTS
FOR THE 26 WEEKS ENDED 29 JULY 2000

The following is an extract, without material adjustment, of the interim results for the half year ended 29 July 2000, which were announced on 26 September 2000:

“CHAIRMAN’S STATEMENT

Introduction

The results for the half year ended 29 July 2000 justify the optimism set out in my statement to the Annual General Meeting. The retail sector continues to have wide variations between its constituents, reflecting both rapid changes within the marketplace and managements’ responses to these changes. Our distinctive, quality ‘value for money’ trading formula together with our management team places us among the successful retailers, consistently out-performing the retail market as a whole.

Results and Dividend

On a directly comparable basis with last year (i.e. restated) profit before tax increased by 42.1 per cent. to £2.6 million (1999: £1.8 million) with total sales up by 28.4 per cent. to £69.4 million (1999: £54.0 million). Like-for-like sales increased by 5.3 per cent. Earnings per share increased 41.3 per cent. to 6.77p (1999: 4.79p).

Profits of the Company for the six months to the 29 July have been affected by a change in the Company’s accounting policies as a result of the introduction of U.I.T.F. 24 ‘Accounting for Start-Up Costs’. The current half year’s profits before tax have been reduced by £139,000. The impact of adopting the new policy on the half year to 31 July 1999 has been to reduce the previously reported profit before tax by £183,000; after tax by £129,000 (year to 29 January 2000 by £241,000 before tax and after tax by £169,000).

Despite the continuing highly competitive market in which we operate we have managed to increase gross margins by 1.0 per cent. to 32.9 per cent. (1999: 31.9 per cent.).

The Directors have declared an interim dividend of 1.48p net per share (1999: 1.29p), an increase of 14.7 per cent., payable on 29 December 2000 to shareholders on the register at close of business on 6 October 2000.

Operations

Our plans for organic expansion and extension of geographical coverage continue apace. In the first six months we have successfully opened four new stores. A fifth store opened in Doncaster on the 14 September 2000. The Company is now trading from 948,000 square feet and is entering the peak trading season with 22 per cent. more selling space than July last year.

Looking forward into the next financial year two stores have been contracted to open in Maidstone and Coventry. We are actively looking at other new store opportunities and the Board is expecting to make further announcements shortly, after consideration of our exacting standards.

Finance

During the first half, capital investment was £3.2 million (1999: £1.8 million). Working capital absorbed £8.1 million (1999: £6.9 million). Net borrowings at £10.6 million (1999: £7.8 million) represent 42.6 per cent. of shareholders funds (1999: 36.9 per cent.). Interest cover remains strong at 8.5 times (1999: 9.0 times).

Outlook

I am delighted to report that trading for the first six weeks of the second half has been strong. All store sales have increased by 30.1 per cent. with like-for-like sales up by 7.1 per cent. on the equivalent period last year. The Company's sales were adversely affected in week 7 by the 'petrol dispute' but we are confident that this situation is being reversed now that the problem has been resolved.

Once again subject to our traditional caution with respect to the importance of the peak Autumn and Christmas trading, the Board remain confident of achieving a successful outcome for the year as a whole.

David Winterbottom
Chairman

26 September 2000

PROFIT AND LOSS ACCOUNT
for the 26 weeks ended 29 July 2000

		26 weeks ended 29 July 2000 (Unaudited)	26 weeks ended 31 July 1999 (Unaudited) (as restated)	52 weeks ended 29 January 2000 (Audited) (as restated)
	Notes	£'000	£'000	£'000
Turnover (excluding VAT)		69,362	54,032	125,800
Cost of sales		(46,566)	(36,786)	(85,948)
Gross profit		22,796	17,246	39,852
Distribution costs		(17,933)	(13,450)	(29,320)
Administrative costs		(1,921)	(1,719)	(3,772)
Operating profit		2,942	2,077	6,760
Net interest payable		(346)	(250)	(490)
Profit on ordinary activities before taxation		2,596	1,827	6,270
Taxation	3	(779)	(549)	(1,875)
Profit for the financial period		1,817	1,278	4,395
Dividends		(398)	(346)	(1,199)
Profit retained		1,419	932	3,196
Earnings per ordinary share	4	6.77p	4.79p	16.43p
Diluted earnings per ordinary share	4	6.62p	4.68p	16.14p
Dividends per ordinary share	5	1.48p	1.29p	4.46p

All of the Company's activities are from continuing operations.

There were no recognised gains and losses other than those shown in the Profit and Loss above.

Prior years have been restated as explained in Note 1.

BALANCE SHEET

as at 29 July 2000

	<i>At 29 July 2000</i> <i>(Unaudited)</i>		<i>At 31 July 1999</i> <i>(Unaudited)</i> <i>(as restated)</i>		<i>At 29 January 2000</i> <i>(Audited)</i> <i>(as restated)</i>	
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed assets						
Tangible assets		28,209		23,484		25,970
Current assets						
Stocks	34,598		25,427		27,705	
Debtors	3,058		2,298		2,076	
Cash at bank and in hand	187		153		1,668	
	<u>37,843</u>		<u>27,878</u>		<u>31,449</u>	
Creditors						
Amounts falling due within 1 year	<u>(32,109)</u>		<u>(21,670)</u>		<u>(24,551)</u>	
Net current assets		<u>5,734</u>		<u>6,208</u>		<u>6,898</u>
Total assets less current liabilities		33,943		29,692		32,868
Creditors						
Amounts falling due after more than 1 year		(6,647)		(6,660)		(7,049)
Provisions for liabilities and charges		<u>(2,019)</u>		<u>(1,468)</u>		<u>(1,965)</u>
Net assets		<u><u>25,277</u></u>		<u><u>21,564</u></u>		<u><u>23,854</u></u>
Capital and reserves						
Called up Share Capital		2,683		2,679		2,683
Share Premium Account		10,723		10,698		10,719
Revaluation Reserve		434		434		434
Profit & Loss Account		<u>11,437</u>		<u>7,753</u>		<u>10,018</u>
Shareholders' funds		<u><u>25,277</u></u>		<u><u>21,564</u></u>		<u><u>23,854</u></u>

CASH FLOW STATEMENT

for the 26 weeks ended 29 July 2000

		26 weeks ended 29 July 2000 (Unaudited)		26 weeks ended 31 July 1999 (Unaudited) (as restated)		52 weeks ended 29 January 2000 (Audited) (as restated)	
	Notes	£'000	£'000	£'000	£'000	£'000	£'000
Net cash (outflow)/ inflow from operating activities	6		(3,860)		(3,921)		7,488
Returns on investment and servicing of finance							
Interest paid		(291)		(248)		(534)	
Interest received		<u>-</u>		<u>1</u>		<u>11</u>	
			(291)		(247)		(523)
Taxation			(469)		-		(1,423)
Capital investment							
Purchase of tangible fixed assets			(3,248)		(1,783)		(5,360)
Equity Dividends paid			<u>-</u>		<u>-</u>		<u>(1,082)</u>
Cash outflow before financing			(7,868)		(5,951)		(900)
Financing							
Issue of ordinary share capital	4			106		132	
(Decrease)/increase in debt		<u>(550)</u>		<u>950</u>		<u>400</u>	
			(546)		1,056		532
(Decrease) in cash in the period			<u>(8,414)</u>		<u>(4,895)</u>		<u>(368)</u>

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS

	26 weeks to 29 July 2000 (Unaudited)	26 weeks to 31 July 1999 (Unaudited) (as restated)	52 weeks to 29 January 2000 (Audited) (as restated)
	£'000	£'000	£'000
Profit for the period	1,817	1,278	4,395
Dividends	<u>(398)</u>	<u>(346)</u>	<u>(1,199)</u>
	1,419	932	3,196
Net proceeds of issue of shares	<u>4</u>	<u>106</u>	<u>132</u>
Net addition to shareholders funds	1,423	1,038	3,328
Opening shareholders funds	<u>23,854</u>	<u>20,526</u>	<u>20,526</u>
Closing shareholders funds	<u>25,277</u>	<u>21,564</u>	<u>23,854</u>

NOTES TO FINANCIAL STATEMENTS

1. The results of the half year to 29 July 2000 have neither been audited by nor reviewed by the auditors, however they have been reviewed by the Audit Committee. Accounting policies have been consistently applied on the basis set out in the Company's Financial Statements for the year ended 29 January 2000, except in respect of the change discussed below caused by the introduction of U.I.T.F. Abstract 24 'Accounting for Start-Up Costs'.

U.I.T.F. Abstract 24 'Accounting for Start-Up Costs' required a change in the Company's policy in respect of pre-opening costs of new stores. As a result certain costs, previously amortised over three years are now required to be expensed as incurred. This change has been accounted for as a prior period adjustment and previously reported figures restated accordingly.

If the previous policy had been adopted in the current half year, the impact would have been to increase profit before tax by £139,000. The impact of adopting the new policy on the half year to 31 July 1999 has been to reduce the previously reported profit before tax by £183,000 (year to January 2000 by £241,000). In addition certain costs previously included in debtors and the related deferred tax position are no longer included in the Balance Sheet. The cumulative effect of this change is given below:

Restatement of Comparatives

(i) 26 Weeks ending 31 July 1999

(a) Balance Sheet

	<i>Debtors</i> £'000	<i>Provisions</i> £'000	<i>Profit and loss</i> £'000
As at July 1999 as previously reported	3,622	(1,864)	(8,681)
Change brought forward reserves at January 1998	(1,141)	342	799
During 26 weeks ending July 1999	(183)	54	129
Adoption of UITF Abstract 24 at January 1999	(1,324)	396	928
As at July 1999 as restated	2,298	(1,468)	(7,753)

(b) Profit and Loss Account

	<i>Administrative costs</i> £'000	<i>Taxation</i> £'000
26 weeks to 31 July 1999 reported	(1,536)	(603)
Adoption of UITF 24	(183)	54
26 weeks to 31 July 1999 restated	<u>(1,719)</u>	<u>(549)</u>

(ii) 52 Weeks ending 29 January 2000

(a) Balance Sheet

	<i>Debtors</i> £'000	<i>Provisions</i> £'000	<i>Profit and loss</i> £'000
January 2000 as previously reported	3,458	(2,380)	(10,985)
Change in brought forward reserves	(1,141)	342	799
During 52 weeks ending January 2000	(241)	73	168
Adoption of UITF Abstract 24 at January 1999	(1,382)	415	967
January 2000 as restated	2,076	(1,965)	(10,018)

(b) Profit and Loss Account

	Administrative costs £'000	Taxation £'000
52 weeks to 29 January 2000 reported	(3,531)	(1,948)
Adoption of UITF 24	(241)	73
52 weeks to 29 January 2000 restated	<u>(3,772)</u>	<u>(1,875)</u>

2. The financial information for the year ended 29 January 2000 does not constitute the statutory accounts for that year but has been extracted from the audited accounts for that year which have been delivered to the Registrar of Companies.

The auditors have reported on those accounts; their report was unqualified and did not contain statements under Section 237(2) or (3) of the Companies Act 1985.

The financial information on pages 1 to 3 does not amount to full accounts within the meaning of Section 240 of the Companies Act 1985 (as amended).

3. **Taxation**

The taxation charge for the half year is based on the estimated effective rate of tax for the year ending 27 January 2001.

4. **Earnings per share**

The calculation of earnings per share is based on earnings of £1,817,000 and a time weighted average of 26,828,411 Ordinary Shares. (Previous restated half year earnings of £1,278,000 and 26,706,326 shares; year ended 29 January 2000 restated earnings of £4,395,000 and 26,755,432 shares.)

For diluted earnings per share the weighted average number of ordinary shares is adjusted for outstanding options as follows:

	26 weeks to 29 July 2000	26 weeks to 31 July 1999	52 weeks to 29 January 2000
Weighted average number of shares used for earnings per share calculation	26,828,411	26,706,326	26,755,432
Number of options	1,306,428	958,350	1,306,428
Number of share options that would have been issued at fair value	<u>(694,123)</u>	<u>(383,340)</u>	<u>(824,306)</u>
Weighted average number of shares used for diluted earnings per share calculation	<u>27,440,716</u>	<u>27,281,336</u>	<u>27,237,554</u>

5. **Dividends**

The interim dividend of 1.48p per Ordinary share will be paid on the 29 December 2000 to members registered at close of business on the 6 October 2000.

6. (i) *Reconciliation of operating profit to net cash flow from operating activities*

	26 weeks to 29 July 2000	26 weeks to 31 July 1999 (as restated)	52 weeks to 29 January 2000 (as restated)
	£'000	£'000	£'000
Operating profit	2,942	2,077	6,760
Depreciation	1,005	735	1,830
Increase in stocks	(6,893)	(3,860)	(6,138)
Increase in debtors	(983)	(535)	(313)
(Decrease)/increase in creditors	(245)	(2,872)	3,338
Net effect of store openings	314	534	2,011
Net cash (outflow)/inflow from operating activities	<u>(3,860)</u>	<u>(3,921)</u>	<u>7,488</u>

(ii) *Reconciliation of net cash flow to movement in net debt*

	26 weeks to 29 July 2000	26 weeks to 31 July 1999 (as restated)	52 weeks to 29 January 2000 (as restated)
	£'000	£'000	£'000
(Decrease) in cash in the period	(8,414)	(4,895)	(368)
Cash (inflow)/outflow of debt	<u>550</u>	<u>(950)</u>	<u>(400)</u>
Movement in net debt in period	(7,864)	(5,845)	(768)
Net debt at period end brought forward	<u>(2,732)</u>	<u>(1,964)</u>	<u>(1,964)</u>
Net debt at period end	<u>(10,596)</u>	<u>(7,809)</u>	<u>(2,732)</u>

(iii) *Analysis of net funds*

	26 weeks to 29 July 2000	26 weeks to 31 July 1999 (as restated)	52 weeks to 29 January 2000 (as restated)
	£'000	£'000	£'000
Cash at bank and in hand	187	153	1,668
Overdraft	(6,933)	(3,012)	-
Debt due within 1 year	(1,100)	(1,100)	(1,100)
Debt due after 1 year	<u>(2,750)</u>	<u>(3,850)</u>	<u>(3,300)</u>
	<u>(10,596)</u>	<u>(7,809)</u>	<u>(2,732)</u>

7. **General**

The interim financial statements for the half year to 29 July 2000 were approved by the Board on the 21 September 2000.

A copy of this report is being sent to all shareholders. Copies are available from the Company Secretary, T J Hughes plc, Hughes House, London Road, Liverpool L3 8JA."

PART IV

ADDITIONAL INFORMATION

1. Responsibility

The Directors of TJ Hughes, whose names appear on page 5, 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 Hughes House, London Road, Liverpool L3 8JA, was incorporated in Great Britain and registered in England and Wales under the Companies Acts 1908 to 1917 as a private company on 14 September 1927 with registered number 224422 under the name of TJ Hughes & Company Limited. On 30 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>
Authorised		
Ordinary Shares of 10p each	47,900,000	4,790,000
Issued and fully paid		
Ordinary Shares of 10p each	26,836,911	2,683,691

(ii) following the Placing and Open Offer:

	<i>Number</i>	<i>£</i>
Authorised		
Ordinary Shares of 10p each	47,900,000	4,790,000
Issued and fully paid		
Ordinary Shares of 10p each	30,191,524	3,019,152

(c) (i) By an ordinary resolution passed at the Annual General Meeting of the Company on 6 July 2000, the Directors were generally and unconditionally authorised for the purposes of section 80 of the Act to exercise all powers of the Company to allot relevant securities (as defined by section 80(2) of the Act) up to an aggregate nominal amount of £894,225.80, such authority to expire at the conclusion of the Company's Annual General Meeting to be held in 2001.

(ii) By a special resolution passed at the Annual General Meeting of the Company on 6 July 2000, the Directors were empowered until the conclusion of the Company's Annual General Meeting in 2001 or 15 months after the passing of the resolution, whichever is the earlier, to allot equity securities (as defined by section 94(2) of the Act) for cash pursuant to the authority referred to in paragraph (c)(i) above as if section 89(1) of the Act did not apply to any such allotment, such power being limited to:

- (a) the allotment of equity securities in connection with an offer (whether by way of rights issue, open offer or otherwise) to holders of Ordinary Shares in proportion (as nearly as may be) to the respective numbers of Ordinary Shares held by them provided that the Directors of the Company may make such exclusions or other arrangements to deal with any legal or practical problems under the laws of any territory or the requirements of any regulatory authority or any stock exchange or with fractional entitlements as they consider necessary or expedient; and
- (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £134,133.80 being 5 per cent. of the Company's issued Ordinary Share capital as at 29 January 2000.

(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 IV 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 Ordinary Shares</i>	<i>Subscription price per Ordinary Share</i>	<i>Exercisable</i>
8 May 1992	22,502	75.00p	May 1995-May 2002
8 May 1992	8,676	63.75p	May 1997-May 2002
19 October 1995	27,000	64.00p	Oct 1998-Oct 2005
19 October 1995	36,750	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	124,000	107.50p	Nov 2002-Nov 2007
13 November 1997	186,000	107.50p	Nov 2002-Nov 2004
20 October 1998	250,000	124.50p	Oct 2001 - Oct 2005
25 October 1999	401,500	337.00p	Oct 2004 - Oct 2006

- (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 Ordinary Share</i>	<i>Total number of Ordinary Shares in issue</i>
			21,129,730
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	64.00p	
8 December 1997	1,000	54.50p	
8 December 1997	3,000	64.00p	
8 December 1997	1,250	60.00p	
			21,188,615
3 February 1998	2,500	60.00p	
27 March 1998	5,297,778	125.00p	
20 April 1998	1,000	54.50p	
20 April 1998	3,000	64.00p	
28 April 1998	7,842	75.00p	
28 April 1998	2,613	63.75p	
28 April 1998	29,809	25.51p	
15 May 1998	4,262	75.00p	
15 May 1998	1,420	63.75p	

<i>Date of allotment</i>	<i>Number of Ordinary Shares allotted</i>	<i>Issue price per Ordinary Share</i>	<i>Total number of Ordinary Shares in issue</i>
6 July 1998	1,000	54.50p	
6 July 1998	3,000	64.00p	
5 November 1998	6,477	75.00p	
5 November 1998	2,159	63.75p	
5 November 1998	4,500	64.00p	
10 November 1998	2,250	64.00p	
10 November 1998	18,750	64.00p	
12 November 1998	3,000	64.00p	
12 November 1998	3,000	64.00p	
12 November 1998	1,281	64.00p	
16 November 1998	2,250	64.00p	
16 November 1998	2,250	64.00p	
15 December 1998	3,000	64.00p	
31 December 1998	3,000	64.00p	
			26,594,756
4 January 1999	2,983	63.75p	
4 January 1999	8,949	75.00p	
6 January 1999	6,307	75.00p	
6 January 1999	2,102	63.75p	
6 January 1999	3,000	64.00p	
20 January 1999	3,000	64.00p	
20 January 1999	3,017	64.00p	
31 March 1999	13,096	63.75p	
31 March 1999	39,288	75.00p	
22 April 1999	2,250	64.00p	
22 April 1999	2,250	64.00p	
22 April 1999	4,500	64.00p	
22 April 1999	7,245	75.00p	
23 April 1999	3,000	64.00p	
26 April 1999	2,250	64.00p	
6 May 1999	3,000	64.00p	
12 May 1999	2,250	64.00p	
18 May 1999	4,500	64.00p	
18 May 1999	3,000	64.00p	
2 June 1999	1,562	63.75p	
2 June 1999	4,688	75.00p	
3 June 1999	3,000	64.00p	
21 June 1999	31,500	60.00p	
21 June 1999	2,250	64.00p	
29 June 1999	6,750	60.00p	
7 July 1999	1,500	60.00p	
8 July 1999	2,897	63.75p	
13 July 1999	2,648	64.00p	
13 July 1999	4,500	60.00p	
20 July 1999	4,500	60.00p	
20 July 1999	6,000	60.00p	
26 July 1999	1,500	60.00p	
29 September 1999	3,000	64.00p	
14 October 1999	3,000	64.00p	
13 December 1999	2,897	63.75p	
13 December 1999	8,694	75.00p	
			26,801,629
13 January 2000	3,000	64.00p	
24 January 2000	5,090	64.00p	
24 January 2000	2,414	63.75p	
25 January 2000	5,156	64.00p	
25 January 2000	4,985	75.00p	
			26,822,274
13 July 2000	6,137		26,828,411
27 September 2000	3,000	64.00p	
30 October 2000	2,000	54.50p	
1 November 2000	1,750	54.00p	
6 November 2000	1,000	54.50p	
9 November 2000	750	54.50p	
			26,836,911

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 manufactured goods and merchandise.
- (b) The Articles of Association of the Company 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 Act, 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 Act 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 certified shares by an instrument of 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 1995 ("the Regulations") including any modification thereof or any regulations in substitution therefore made under Section 207 of the Companies Act 1989 and for the time being in force. 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 at its registered office or such other place as the Board may from time to time determine 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 shall if the Board so resolves 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 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 Act, 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 monies borrowed by the Company and its subsidiary undertakings (exclusive of monies 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 Act, at every Annual General Meeting of the Company as near 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 two share option schemes:

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

The principal features of the First Option Scheme, which has been approved by the Inland Revenue under the Taxes Act, include the following:

- (i) The First 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 to the London Stock Exchange of the annual or half yearly 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 mid-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) Ordinary 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 such exercise.
- (vi) The maximum number of Ordinary Shares which may be issued pursuant to options granted under the First Option Scheme may not exceed a number representing more than 5 per cent. of the issued 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 First 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 First 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.

(b) The Unapproved Executive Share Option Scheme 1997 ("the Second Option Scheme").

The principal features of the Second Option Scheme, which has not been approved by the Inland Revenue under the Taxes Act, 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 Second Option 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 yearly or half yearly results of the Company to the London Stock Exchange and ending after the day following the sixth London Stock Exchange dealing day. 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 mid-market value of an Ordinary Share on the five dealing days preceding the date of offer of the relevant option.
- (iv) An option will 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) Ordinary 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 may be offered pursuant to the Second Option Scheme after the expiry of ten years from the date of adoption of the Second Option Scheme.
- (vii) The maximum number of Ordinary Shares which may be issued pursuant to options granted under the Second Option Scheme may not exceed certain amounts.
- (viii) The Directors have the power to amend the Second Option Scheme at any time, although 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.

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>
David Stuart Winterbottom	Walnut Tree Farm Cowley Gnosall Staffs ST20 0BE	Non-Executive Chairman
George William Foster	Hughes House London Road Liverpool L3 8JA	Chief Executive
Anthony Philip Potter	Hughes House London Road Liverpool L3 8JA	Finance Director
Catherine McDowell	Premier International Barclays Offshore Services Renoir House 136 Bond Street London W1A 4TZ	Non-Executive Director
Gordon Wotherspoon	Waverley Consultancy Springwood House Springwood Lane Rotherfield Peppard Henley on Thames Oxfordshire RG9 5JJ	Non-Executive Director
Susan Bailey	Hughes House London Road Liverpool L3 8JA	Buying Director

(b) In addition to directorships of the Company, the Directors have held the following directorships within the five years prior to the date of this document:

<i>Director</i>	<i>Directorships</i>
David Stuart Winterbottom	<p><i>Current Directorships</i></p> <p>Electrocomponents plc CPL Industries Ltd Wightlink Holdings Ltd Hill & Smith Holdings plc Devonshire Group Ltd GWK Group Ltd</p> <p><i>Past Directorships</i></p> <p>Partnership Coatings Ltd Remploy Ltd Target Express Ltd Trust Motor Group plc Biotrace International plc Crompton Lighting Holdings Ltd Tricom Group Holdings Ltd</p>
George William Foster	<p><i>Current Directorships</i></p> <p>None</p> <p><i>Past Directorships</i></p> <p>None</p>
Anthony Philip Potter	<p><i>Current Directorships</i></p> <p>None</p> <p><i>Past Directorships</i></p> <p>None</p>

Director

Catherine McDowell

Gordon Wotherspoon

Susan Bailey

Directorships

Current Directorships

None

Past Directorships

None

Current Directorships

Waverley Consultancy Ltd.

Cannons Group plc

Temevale Victuallers Ltd

Bureau Holdings Limited

Past Directorships

Amos Hinton & Sons Limited

Anchor Developments Limited

Argyll Stores (Holdings) Limited

English Real Estates plc

Federated Properties Limited

Gordav (Portree) Limited

Presto Stores Limited

Safeway (Overseas) Limited

Safeway Development Limited

Safeway Food Stores Limited

Safeway plc

Safeway Properties Limited

Safeway Stores (Ireland) Limited

Safeway Stores plc

Current Directorships

None

Past Directorships

None

Save as disclosed in paragraph 5(g) below, no Director:

- (i) has any unspent convictions in relation to indictable offences; or
 - (ii) has ever been declared bankrupt or entered into an individual voluntary arrangement; or
 - (iii) has been a director of any company at the time of or within 12 months preceding the date of its receivership, compulsory liquidation, creditors liquidation, administration, company voluntary arrangement or any composition or any arrangement with its creditors generally or any class of its creditors; or
 - (iv) has been a partner of any partnership; or
 - (v) has been publicly criticised by any statutory or regulatory authority or been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.
- (c) The interests of the Directors, all of which are beneficial unless otherwise stated, in the issued share capital of the Company at 16 November 2000 (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>
G W Foster	46,648 ⁽¹⁾	49,563 ⁽¹⁾	0.17	0.16
A P Potter	46,145	46,145	0.17	0.15
D S Winterbottom	5,000	5,625	0.02	0.02
S Bailey	41,198 ⁽²⁾	43,772 ⁽²⁾	0.15	0.15
C McDowell	3,100	3,487	0.01	0.01
G Wotherspoon	0	0	0	0

Mr Winterbottom and Ms McDowell have given irrevocable undertakings to take up all of their entitlements under the Open Offer while Mr Foster and Mrs Bailey have given irrevocable undertakings to take up 50 per cent. of their entitlements under the Open Offer. ⁽¹⁾Mr Foster is currently beneficially interested in 46,648 Ordinary Shares but has a legal interest in 35,304 Ordinary Shares and the remaining 11,344 Ordinary Shares are legally owned by Mrs Foster. Following the Placing and Open Offer, Mr Foster's legal interest will be 37,510 Ordinary Shares. ⁽²⁾Mrs Bailey is currently beneficially interested in 41,198 Ordinary Shares but has a legal interest in 20,948 Ordinary Shares and the remaining 20,250 Ordinary Shares are legally owned by Mr I C Bailey. Following the Placing and Open Offer, Mrs Bailey's legal interest will be 22,257 Ordinary Shares. The figures above assume that Directors participate in the Open Offer up to the amount in which they have undertaken to participate in relation to their beneficial holdings. Mr Potter is a Qualifying Shareholder but has indicated that he will not be participating in the Open Offer.

In addition to the interests shown above, the following Directors have been granted options at a consideration of £1 over Ordinary Shares as set out below:

	<i>First Option Scheme (1992)</i>			<i>Unapproved Option Scheme (1997)</i>		
	<i>Number of Ordinary Shares under option</i>	<i>Exercise 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>
G W Foster	34,500	85.50p	2000-2007	215,000	85.50p	2000-2004
				100,000	107.50p	2002-2007
				100,000	124.50p	2001-2005
				223,500	337.00p	2004-2006
A P Potter	6,250	54.50p	2000-2005	50,000	107.50p	2002-2007
				50,000	124.50p	2001-2005
				178,000	337.00p	2004-2006

As at 16 November 2000, (the latest practicable date prior to the publication of this document) the Directors are aware that the following persons are interested directly or indirectly in 3 per cent. or more of the issued share capital of the Company:

	<i>Number of Ordinary Share current</i>	<i>Percentage of issued Ordinary Share Capital current %</i>
*Equitable Life Assurance Society	2,635,750	9.82
*Fidelity	2,178,080	8.12
Chase Nominees Limited	2,043,313	7.61
Vidacos Nominees Limited	1,832,188	6.83
Morgan Nominees Limited	1,630,855	6.08
*Britannic Investment Managers Limited	1,536,000	5.73
Nutraco Nominees Limited	991,801	3.70
RBSTD Nominees Limited	952,055	3.54

* – holdings notified to the Company

- (d) Save as disclosed above, the Directors are not aware of any person who directly or indirectly, is interested in three per cent or more of the Company's issued share capital or any person or persons who could, directly or indirectly, jointly or severally, exercise control over the Company.

- (e) 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.
- (f) 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.
- (g) Mr Winterbottom was an executive director of Harrison Gibson Limited when that company was placed into receivership in 1966. Mr Winterbottom believes that the total shortfall as to creditors was not more than £1 million.

6. Directors' Service Agreements

- (a) (i) 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 £200,000 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.
- (ii) 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 £105,000 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.
- (iii) Mrs S Bailey has a service contract with the Company dated 1 April 2000 pursuant to which she acts as Buying Director of the Company. The agreement is terminable on 12 months' notice given at any time by either party. Mrs Bailey is entitled to a salary of £85,000 per annum, subject to review normally on 30 April in each year. Mrs Bailey is also entitled to a company car and a contribution to her 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 are entitled to performance related bonuses on terms notified by the Company from time to time. This bonus is capped at 50 per cent of salary.
- (c) Save as stated above in respect of Mr Foster there are no service contracts which are not terminable within one year by the Company without payment of compensation (other than statutory compensation).
- (d) Mr D Winterbottom receives a salary of £45,000 per annum. Ms C McDowell and Mr G Wotherspoon each receive directors fees of £16,500 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 29 January 2000 amounted to £430,000 and for the current financial period of the Company under the arrangements currently in force are estimated to be £664,000.
- (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	2,022
Non-selling	569
Catering	43
Total	<u>2,634</u>

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

8. Properties

Details of the Company's properties are as follows:

Existing Properties

Stores

<i>Town</i>	<i>Address</i>	<i>Size (sq ft, gross)</i>	<i>Tenure</i>
Birkenhead	33/35 Borough Pavement Grange Precinct	37,270	Leasehold
Blackburn	Unit 215 Blackburn Shopping Centre 59/63 Church Street	57,280	Leasehold
Bootle	140/144 Mons Square and 145/147 Mariners Way New Strand	36,300	Leasehold
Boscombe	616-622 Christchurch Road	44,568	Leasehold
Burnley	4 Curzon Street	36,140	Leasehold
Chester	The Forum Centre Hamilton Place	34,810	Leasehold
Crawley	14-26 The Broadway	53,389	Leasehold
Doncaster	Part basement ground & first floors 51-57 St Sepulchre Gate	53,330	Leasehold
Eastbourne	Terminus Road	69,570	Leasehold
Ellesmere Port	Units 35 & 36 The Port Arcades	28,123	Leasehold
Kidderminster	1 High Street	25,085	Leasehold
Lichfield	Three Spires Shopping Centre Birmingham Road	41,700	Leasehold
Liverpool - Main Store	115-123 London Road	137,302	Freehold
Liverpool - Shoe Store	105-113 London Road	72,789	Freehold
Liverpool - Sports Store	101-103 London Road	8,420	Leasehold
Macclesfield	Exchange Street	30,080	Leasehold
Middlesbrough	Unit LSU 3/4 Captain Cook Square	55,330	Leasehold
Oldham	Unit 32 + 33, Town Square	47,500	Leasehold
Preston	Fishergate Shopping Centre	37,150	Leasehold
Rochdale	LSU 6/7 Wheatsheaf Shopping Centre Baillie Street	33,110	Leasehold
St Helens	Unit 1 Hardshaw Centre Church Street	32,310	Leasehold
Salford	67/69 Fitzgerald Way Salford Shopping Centre	18,480	Leasehold
Sheffield	50 High Street	159,477	Leasehold
Shrewsbury	Riverside Mall Pridehill Shopping Centre	33,790	Leasehold
Stretford	Units 31, s33, s34, s35, 32-36 + Unit 32-38 The Arndale Centre	21,175	Leasehold

<i>Town</i>	<i>Address</i>	<i>Size (sq ft, gross)</i>	<i>Tenure</i>
Warrington	Premises fronting Sankey Street, Cairo Street and Bold Street	89,131	Leasehold
Weston-Super-Mare	17-21 High Street	38,077	Leasehold
Widnes	Greenoaks Shopping Centre	37,040	Leasehold
Wolverhampton	27 Bell Street	52,430	Leasehold
Wrexham	Unit B, Chester Street/ Henblas Square	37,410	Leasehold

Notes:

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.

The lease of the Birkenhead premises has expired. The Company is currently in discussions with the landlord in connection with the grant of a new lease.

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>Expected Opening Date</i>	<i>Size (sq ft, gross)</i>	<i>Tenure</i>
Romford	25/29 Market Place	31 January 2001	29 March 2001	46,790	Leasehold
Hull	121 Ferensway	31 January 2001	12 April 2001	49,172	Leasehold
Maidstone	Store C, Chequers Centre	19 January 2001	3 May 2001	61,230	Leasehold
Glasgow	127/135 Trongate	31 January 2001	24 May 2001	150,419	Leasehold
Kettering	MSU1 Newlands Centre	1 May 2001	1 September 2001	36,620	Leasehold
Coventry	Unit D Lower Precinct	28 June 2001	18 October 2001	42,590	Leasehold
Southend	Victoria Plaza Shopping Centre	1 October 2001	February 2002	44,500	Leasehold
Scunthorpe	LSU 1 The Parishes	1 November 2001	14 March 2002	40,000	Leasehold
Redditch	Kingfisher Centre	January 2002	April 2002	40,000	Leasehold
Newcastle-upon-Tyne	86-92 Grainger Street	1 May 2002	1 September 2002	87,500	Leasehold

9. Placing Arrangements

The Placing and Open Offer Agreement is dated 17 November 2000 and is made between the Company (1) and ING Barings (2) and provides, subject to the conditions mentioned below, for ING Barings 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 ING Barings included earlier in this document. The Placing and Open Offer Agreement also contains certain representations, warranties and indemnities by the Company in favour of ING Barings.

If ING Barings' obligations under the Placing and Open Offer Agreement become unconditional, the Company will pay to ING Barings an advisory fee of £225,000. In addition underwriting and broking commissions will be payable to ING Barings amounting to 1.75 per cent. of the value of the Placing Shares at the Placing price. The Company will also pay to placees a further commission of 0.75 per cent. if the Placing becomes unconditional on the value at the Placing Price of the Placing Shares subscribed for pursuant to the Placing.

ING Barings has certain rights of termination under the Placing and Open Offer Agreement and its obligations are conditional, *inter alia*, on fulfilment of the following conditions by the time specified therefor or such later date as ING Barings may agree being not later than 22 December 2000:

- (i) the Company having certified in writing to ING Barings by not later than 5.00 p.m. on the business day immediately prior to the expected date of Admission confirming, *inter alia*, that the Company has complied with its obligations under the Placing and Open Offer Agreement 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 ING Barings and set out in the Placing and Open Offer Agreement which is material to the Company; and
- (ii) Admission occurring and becoming effective by not later than 4.30 a.m. on 15 December 2000.

10. 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 and Open Offer 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.

No other contracts have been entered into by the Company which contain any provision under which the Company has any obligation or entitlement which is material to the Company as at the date of this document.

11. 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 (that is, for at least 12 months from the date of this document).

12. Significant changes

Save as mentioned in the Current Trading and Future Prospects paragraph in Part I of this document, there has been no significant change in the financial or trading position of the Company since 29 July 2000, being the date to which the last published interim financial statements of the Company were made up.

13. Litigation

The Company is not and has not been 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.

14. 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 and Open Offer Agreement (including commissions totalling approximately £250,000) will be approximately £659,300 (inclusive of value added tax). The net proceeds of the Placing and Open Offer receivable by the Company are estimated to amount to £9.74 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 periods ended 30 January 1999 and 29 January 2000 have been audited by PricewaterhouseCoopers, Chartered Accountants, of 8 Princes Parade, St. Nicholas Place, Liverpool L3 1QJ and filed with the Registrar of Companies for England and Wales. The annual accounts of the Company for the period ended 31 January 1998 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 Act.
- (h) The Placing Price of 310p represents a premium of 300p over the nominal value of 10p of each Ordinary Share.
- (i) The Open Offer will remain open until 3.00 p.m. on 11 December 2000.
- (j) The following table sets out the closing mid-market quotations of the Ordinary Shares (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 16 November 2000, (being the latest practicable date prior to the publication of this document):

<i>Date</i>	<i>Mid-Market Quotation</i>
1 June 2000	326p
3 July 2000	371.5p
1 August 2000	375.5p
1 September 2000	352.5p
2 October 2000	348.5p
1 November 2000	333.5p
16 November 2000	326.5p

- (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 and unregistered 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 uncertified form.
- (m) The Directors believe that the Company is not, and expect that following completion of the Placing and Open Offer will not be, a close company as defined by Section 414 of the Taxes Act or a close investment holding company as defined by section 13A of the Taxes Act.
- (n) The Placing and Open Offer has been underwritten in full by ING Barings (which is regulated by The Securities and Futures Authority) whose principal place of business is at 60 London Wall, London EC2M 5TQ.
- (o) No New Ordinary Shares are being offered to the public other than in connection with the Placing and Open Offer.
- (p) Applications have been made to the UK Listing Authority for 3,354,613 New Ordinary Shares of 10p each to be admitted to the Official List and to the London Stock Exchange for those shares to be admitted to trading on the London Stock Exchange's market for listed securities.

15. Consents

- (a) ING Barings has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its letter and the references to its name in the form and context in which they are included and has authorised the contents of those parts of this document for the purposes of section 152 (1) (e) of the Financial Services Act 1986.

16. Documents for inspection

Copies of the following documents will be available for inspection at the offices of DLA, India Buildings, Water Street, Liverpool L2 0NH during normal business hours until 14 December 2000.

- (i) the Memorandum and Articles of Association of the Company;

- (ii) the published audited accounts of the Company for the financial periods ended 31 January 1998, 30 January 1999 and 29 January 2000, including all notes, reports or information required by the Companies Acts 1985 and 1989;
- (iii) the rules of the Share Option Schemes referred to in paragraph 4 above;
- (iv) the service contracts referred to in paragraph 6 above;
- (v) the material contract referred to in paragraph 10 above;
- (vi) the written consent referred to in paragraph 15 above;
- (vii) the Directors' irrevocable undertakings referred to in paragraph 5(c) above; and
- (viii) the interim results of the Company for the 26 weeks ended 29 July 2000 as referred to in Part III of this document.

Dated: 17 November 2000 ✓