

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised pursuant to the Financial Services Act 1986. If you have sold or transferred all your ordinary shares in Caverdale Group plc, you should send this document, together with the accompanying form of proxy, 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 or transferred only part of your holding of Ordinary Shares in the Company, you are referred to the instructions regarding split applications set out in Part II of this document and the Provisional Allotment Letters.

A copy of this document, which comprises a prospectus relating to Caverdale Group plc prepared in accordance with the listing rules of the London Stock Exchange made under Section 142 of the Financial Services Act 1986, has been delivered for registration to the Registrar of Companies in England and Wales as required by Section 149 of that Act.

Your attention is specifically drawn to, and all statements relating to the Group's business, financial position and prospects should be viewed in the light of the year 2000 compliance issues which are set out in Part I of this document.

Application has been made to the London Stock Exchange for the Rights Shares to be admitted to the Official List. The ordinary shares of Caverdale Group plc are listed on the London Stock Exchange and no other stock exchange. It is expected that Admission will become effective and that dealings in the Rights Shares will commence, nil paid, on 11 January 2000.

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## **CAVERDALE GROUP PLC**

*(Registered in England No. 331803)*

### **Proposed 1 for 2 Rights Issue of 15,430,453 Rights Shares at 18p per share**

#### **Adoption of New Share Option Scheme**

#### **Adoption of New Articles of Association**

#### **Change of Name**

**Sponsor:**

### **Corporate Synergy PLC**

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The Rights Shares and the Provisional Allotment Letters do not qualify for distribution under any of the relevant securities laws of the United States, Canada, Australia or South Africa nor has a prospectus in relation to the Rights Shares or Provisional Allotment Letters been lodged with or registered with any statutory or regulatory bodies in those countries. Accordingly, the Rights Shares and the Provisional Allotment Letters may not be, directly or indirectly, offered, sold, taken up, delivered, renounced or transferred in or into the United States, Canada, Australia or South Africa. Shareholders with a registered address in any territory outside the United Kingdom are referred to in paragraph 5 of Part II of this document. This document is being distributed to Shareholders who have registered addresses in the United States, Canada, Australia or South Africa solely for the purpose of giving notice of the EGM and providing information in connection with that meeting.

Notice of an Extraordinary General Meeting of Shareholders to be held at the offices of Macfarlanes, 5 Norwich Street, London EC4A 1BD at 10.00 a.m. on 10 January 2000 is set out at the end of this document.

THE ACTION TO BE TAKEN BY SHAREHOLDERS IS SET OUT IN THIS DOCUMENT. Please complete, sign and return the enclosed form of proxy in accordance with the instructions printed thereon so as to be received by Connaught St Michaels Limited, Cresta House, Alma Street, Luton, Bedfordshire LU1 2PU as soon as possible but in any event not later than 48 hours before the EGM. Completion and posting of the form of proxy does not prevent a shareholder from attending and voting in person at the EGM.

Corporate Synergy PLC, which is regulated by the Securities and Futures Authority Limited, is acting for Caverdale Group plc and for no other person in relation to the matters described in this document and accordingly will not be responsible to any other person for providing the protections afforded to customers of Corporate Synergy PLC or advising them on these matters.

The latest time for acceptance and payment in full for the Rights Shares is 3.00 p.m. on 31 January 2000. The procedure for acceptance and payment is set out in paragraph 2 of Part II of this document.



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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Record Date for the Rights Issue	5.30 p.m. on 4 January 2000
Latest time and date for receipt of forms of proxy for the Extraordinary General Meeting	10.00 a.m. on 8 January 2000
Extraordinary General Meeting	10.00 a.m. on 10 January 2000
Provisional Allotment Letters posted	10 January 2000
Dealings in Rights Shares commence, nil paid	11 January 2000
Latest time and date for splitting, nil paid	3.00 p.m. on 27 January 2000
Latest time and date for acceptance and payment in full	3.00 p.m. on 31 January 2000
Latest time and date for splitting, fully paid	3.00 p.m. on 22 February 2000
Latest time and date for registration of renunciation	3.00 p.m. on 24 February 2000
Definitive share certificates despatched by	25 February 2000

## DEFINITIONS

“Act”	the Companies Act 1985, as amended
“Admission”	admission of the Rights Shares, nil paid, to the Official List becoming effective in accordance with the Listing Rules of the London Stock Exchange
“Caverdale” or “the Company”	Caverdale Group plc
“Corporate Synergy”	Corporate Synergy PLC, sponsor and financial adviser to the Company
“CREST”	the relevant system, as defined in the Uncertificated Securities Regulations 1995 (in respect of which CRESTCo Limited is an Operator, as defined in those Regulations)
“Directors” or “Board”	the directors of Caverdale as set out in Part I of this document
“EGM”	the extraordinary general meeting of Shareholders, notice of which is set out at the end of this document
“Executive Share Option Schemes”	the existing share option schemes a list of which is set out in paragraph 4(d)(i) of Part V of this document
“Group”	Caverdale and its subsidiaries
“London Stock Exchange”	London Stock Exchange Limited
“New Share Option Scheme”	the proposed new share option scheme as described in paragraph 4(d)(ii) of Part V of this document
“Official List”	the Official List of the London Stock Exchange
“Ordinary Shares”	the existing ordinary shares of 10p each in the capital of the Company
“Proposals”	the Rights Issue, adoption of the New Share Option Scheme, adoption of new articles of association and change of name
“Provisional Allotment Letters”	the renounceable provisional letters of allotment expected to be despatched to Qualifying Shareholders on 10 January 2000 in respect of the Rights Shares
“Qualifying Shareholders”	Shareholders whose names appear on the register of members at the Record Date, with the exception of certain overseas Shareholders as explained in Part II of this document
“Record Date”	5.30 p.m. on 4 January 2000
“Resolutions”	the ordinary resolutions and the special resolutions to be proposed at the EGM, as described in the notice of EGM set out at the end of this document, (and Resolution shall have a corresponding meaning)
“Rights Issue”	the proposed issue of the Rights Shares by way of rights to Qualifying Shareholders as described in this document
“Rights Price”	18p, being the price at which it is proposed to issue the Rights Shares
“Rights Shares”	the 15,430,453 new ordinary shares of 10p each in the capital of the Company proposed to be issued pursuant to the Rights Issue
“Shareholders”	holders of Ordinary Shares

## PART I

### Letter from the Chairman

## CAVERDALE GROUP PLC

(Registered in England No. 331803)

*Directors:*

Arild Nerdrum (*Executive Chairman*)  
Martin E Ellison (*Finance Director*)  
Giles E C Andrews (*Group Development Director*)  
Abdullah Hassan Al-Rostamani (*Non-Executive Director*)  
Christopher D Outram (*Non-Executive Director*)  
Guenter Bolte (*Non-Executive Director*)

*Registered and Head Office:*

Hill House  
5 Holywell Hill  
St Albans AL1 1EU

16 December 1999

*To the Shareholders (and, for information only, the participants in the Executive Share Option Schemes)*

Dear Shareholder

**PROPOSED 1 FOR 2 RIGHTS ISSUE  
ADOPTION OF NEW SHARE OPTION SCHEMES  
ADOPTION OF NEW ARTICLES OF ASSOCIATION  
CHANGE OF NAME**

Your Board has today announced that Caverdale proposes to raise up to approximately £2.527 million (net of expenses) by way of a Rights Issue, by the issue of up to 15,430,453 Rights Shares at 18p per share, on the basis of one Rights Share for every two Ordinary Shares held by Qualifying Shareholders on the Record Date. The purpose of this document is to give you details of the Rights Issue and certain other matters and to convene the EGM to implement the Rights Issue and other matters set out below.

The Rights Price of 18p represents a deep discount of approximately 58.6 per cent to the middle market closing price of 43.5p on 14 December 1999 the last practicable date prior to the posting of this document. The net proceeds of the Rights Issue will be used to reduce gearing and to provide working capital. The Directors, and certain shareholders connected with the Directors have given irrevocable undertakings to take up or procure the take up of all their entitlements in respect of a total of 1,727,061 Rights Shares, being approximately 11.2 per cent of the Rights Issue. Further details are set out below. The Rights Issue has not been underwritten and the Company will benefit by avoiding the significant costs of an underwritten issue.

### **BACKGROUND TO THE RIGHTS ISSUE**

In November 1997 the Company disposed of its motor retailing division and in July 1998 it disposed of its industrial products division. On both occasions the Directors expressed their confidence in the continued expansion of the leisure division focused around the retailing, wholesaling and distribution of motorcycles, and motorcycle and yachting accessories.

Since the disposals the Directors have continued to expand these businesses and today the Group consists of three divisions:

#### ***Motorcycle and Motorcycle Accessories Division***

The motorcycle and motorcycle accessories division is the largest division within the Group. It comprises M&P Motorcycle Accessories Limited ("M&P") and Goetz GmbH ("Goetz"). M&P was bought by the Company in January 1996 and consisted only of a mail order business and two retail stores at that time. M&P

is now the largest mail order business in the motorcycle accessories market, serviced by a twenty-man call centre. Its retail stores have now increased in number to 20 nationally, including seven motorcycle dealerships. It has also embraced the technology of e-commerce with an on-line catalogue and ordering system. Goetz, which was acquired in October 1998, is one of the leading motorcycle accessories mail-order companies in Germany, the largest such market in Europe.

### ***Leisure Marine Division***

The leisure marine division includes XM Group Limited ("XM"), acquired by the Company in December 1997. XM is one of the UK's leading manufacturers and distributors of leisure marine products. The division was expanded in January 1999 by the acquisition of Navyclose Limited ("Navyclose"), which consists of Cruisermart (a mail-order retailer), London Yacht Centre, Telesonic Marine and two further retail outlets in Essex and the acquisition of Express Marine Services Limited, consisting of two retail outlets on the South Coast. In July 1999, Speed Marine Holdings Limited was acquired adding a further four retail outlets comprising Captain OM Watts in London and Force 4 stores in London, Bristol and Poole.

### ***Bicycle and Fitness Division***

The bicycle and fitness division comprises Crabtree Sports & Leisure Limited ("Crabtree") and the business of Pulse Fitness plc ("Pulse"). Crabtree was acquired by the Company in November 1997 and is a distributor of bicycles and bicycle accessories. It is complimented by M&P's four retail bicycle and accessories outlets. Pulse, acquired in September 1998, a leading manufacturer of fitness equipment, is one of the largest suppliers of equipment and fitness centre management services to the local authority market.

## **CURRENT TRADING AND PROSPECTS**

As the Company announced on 4 December 1999 trading in the Group's leisure marine and bicycle & fitness divisions continue to be in-line with expectations, with progress in the leisure marine division remaining strong. However the costs associated with the restructuring of its motorcycle and motorcycle accessories division have been higher than expected and Group's results have also been affected by non-recurring costs, including a warehouse fire.

As a result, the Directors expect the Company to report a loss not exceeding £250,000 before taxation and amortisation of goodwill for the year ending 31 December 1999. In light of current circumstances, the Directors do not anticipate being able to recommend a final dividend in respect of the current year. Further information on the basis of the forecast and the letters relating to the forecast are set out in Part IIIB of this document.

The Directors believe that following the restructuring of its motorcycle and motorcycle accessories division and the Rights Issue, the Company will be in a good position to continue the expansion of its business and exploit opportunities available to it.

## **REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS**

As set out above, while the Group's motorcycle and motorcycle accessories division has had a difficult years' trading, the Directors are of the opinion that there exists potential for growth of the Group both organically and by acquisition. The Directors therefore propose to raise up to approximately £2.527 million, net of expenses, via the Rights Issue in order to exploit these opportunities.

The proceeds of the Rights Issue will increase cash resources of the Group and be used for working capital and will be placed in the Company's bank account on receipt. The Directors believe that the additional working capital will enable the Group to continue to expand the leisure marine division both organically and by acquisition and continue the development of the Group's internet trading activities as the Directors believe that the Group's businesses are well suited to this medium.

The Directors have received confirmation that the Group's current bank facilities will remain in place, and they therefore do not intend to apply any funds raised in the Rights Issue to the immediate repayment of these facilities. The reduction of gearing will be as a result of the increase in net assets.

## **DETAILS OF THE RIGHTS ISSUE**

Subject to the passing of the Resolutions to be proposed at the EGM, the Directors propose that the Qualifying Shareholders should be offered Rights Shares on the basis of:

**1 Rights Share for every            2 Ordinary Shares**

held on the Record Date and so, in proportion, for any greater number of Ordinary Shares then held.

The Rights Shares will be issued free of all liens, charges and encumbrances and will, when issued and fully paid, rank *pari passu* in all respects with the Ordinary Shares including the right to receive all dividends and other distributions hereafter declared, made or paid on the Ordinary Shares.

It is expected that Provisional Allotment Letters in respect of the Rights Shares will be despatched on 10 January 2000 by first class post and that, subject to Admission, dealings in the Rights Shares (nil paid) will commence on 11 January 2000.

Peel Hunt has agreed to use its reasonable endeavours to place any Rights Shares not taken up pursuant to the Rights Issue with institutional and other investors.

Further information relating to the Rights Issue is set out in Part II of this document.

## **DIRECTORS' INTENTIONS**

The Directors and certain shareholders connected with the Directors have each given irrevocable undertakings to take up or procure the take up of all their or connected persons' entitlements in respect of a total of 1,727,061 Rights Shares, being approximately 11.2 per cent of the Rights Issue.

Kerry International (BVI) Limited ("Kerry") (an investment company owned by certain discretionary trusts, the principal beneficiaries of which are Mr Nerdrum's children) is the registered holder of 2,585,881 Ordinary Shares. To the extent that Kerry does not take up its entitlements pursuant to the Rights Issue to 1,292,940 Rights Shares being approximately 8.4 per cent of the Rights Issue, Mr Nerdrum has undertaken to purchase in the market an equivalent number of nil paid rights and exercise those rights in full.

## **CHANGE OF NAME**

It is proposed that the name of the Company be changed to ActionLeisure plc. The Directors believe that the new name more closely represents the Group's principal operating divisions, motorcycle and motorcycle accessories and leisure marine. Following the change of name, share certificates in the present name of the Company will remain valid and the Company does not intend to replace these share certificates.

## **SHARE OPTION SCHEMES**

The Company places considerable emphasis on the proper motivation and rewarding of staff and incentivisation of key executives within the Group. The limits on granting options contained in the rules of the current Executive Share Option Schemes do not allow the grant of further options under these schemes. Furthermore, the exercise price of existing options is substantially in excess of the current market price of Ordinary Shares. Accordingly, your Board is proposing the introduction of the New Share Option Scheme, part of which is the subject of an application for approval by the Inland Revenue.

The Directors are seeking shareholder approval of the New Share Option Scheme. The total number of shares that may be the subject of subscription options granted under the New Share Option Scheme is limited to 10 per cent of the issued ordinary share capital of the Company from time to time.

The approved section of the New Share Option Scheme is intended to qualify for Inland Revenue approval so that the options granted over Ordinary Shares within the statutory limit (of £30,000 per person) will, if exercised within the relevant period, qualify for favourable tax treatment. Options with a value in excess of this limit will be granted under the unapproved section of the New Share Option Scheme.

It is intended that options will be granted under the New Share Option Scheme to staff, to senior executives, executive and non-executive directors whose effort and future commitment are considered significant to the growth of the Group. Options will only be granted to an individual under the New Share Option Scheme if any outstanding options which he holds under the Executive Share Option Schemes are surrendered. Options will normally be exercisable only after three years from the date of grant. The exercise of the options will normally be conditional upon continued employment and may be conditional upon the attainment by the Company of performance targets to be set by the remuneration committee at the time of grant.

The Directors are mindful of the guidelines laid by the Association of British Insurers ("ABI Guidelines") and intend that as the Company grows, the aggregate number of shares the subject of all its share option schemes, will comply more closely with those guidelines.

Further details of the New Share Option Scheme are set out in paragraph 4(d)(ii) of Part V of this document.

## **NEW ARTICLES OF ASSOCIATION**

The Company is proposing that new articles of association be adopted. The current articles of association were adopted on 29 June 1990. The new articles of association reflects the changes in the relevant law and regulations since that time. The principal amendments are summarised in Part VI of this document.

## **YEAR 2000 COMPLIANCE**

Many existing computer programs and installed computer systems include computer code that uses only two digits to identify a year. These systems could fail to function or produce delayed or erroneous results if they interpret "00" to mean anything other than the year 2000. As a result of this problem, commonly referred to as the "Year 2000" problem, older computer programs or systems may need to be upgraded or replaced.

The Group has reviewed its internal systems in relation to the Year 2000 problem and has upgraded or replaced them as necessary to make them Year 2000 compliant. The Group has also been reviewing the state of readiness of its suppliers and customers during 1999 to ensure that the operations of the Group will not be adversely affected by the Year 2000 problem. Given the complexity of the Year 2000 problem, it is generally recognized that it is not possible for any organisation to guarantee that no Year 2000 problems will occur. However the Board is satisfied that the Group has taken all necessary steps and that it has the necessary resources should any problem occur. The anticipated total cost of the Group's Year 2000 project is not expected to exceed £1.25 million and the majority of costs have been incurred.

## **EXTRAORDINARY GENERAL MEETING**

You will find set out at the back of this document a notice convening an EGM of the Company to be held at 10.00 a.m. on 10 January 2000 at 5 Norwich Street, London, EC4A 1BD, for the purpose of considering and if thought fit passing the following resolutions:

- to increase the authorised share capital of the Company, to authorise the Directors to allot the Rights Shares and to disapply statutory pre-emption rights, necessary to give effect of the Rights Issue;
- to change the name of the Company to ActionLeisure plc;
- to adopt new Articles of Association; and
- to adopt the New Share Option Scheme.

## **ACTION TO BE TAKEN**

A form of proxy for use in connection with the EGM is enclosed. You are asked to complete and return it in accordance with the instructions printed thereon as soon as possible but in any event so as to arrive not later than 48 hours before the time of the EGM. Completion and return of the form of proxy does not preclude you from attending the EGM and voting in person, if you so wish.

## **FURTHER INFORMATION**

Your attention is drawn to the information contained in Parts II, III, IV, V and VI of this document.

## **RECOMMENDATION**

**The Directors, who have been so advised by Corporate Synergy, consider that the Proposals are in the best interests of the Company and Shareholders as a whole. Accordingly, they unanimously recommend you to vote in favour of the Resolutions as they, and persons connected with them, intend to do in respect of their aggregate holdings of 6,040,008 Ordinary Shares, being approximately 19.6 per cent of the ordinary share capital of the Company.**

Yours sincerely

Arild Nerdrum

*Executive Chairman*



## PART II

### Terms and Conditions of the Rights Issue

#### 1. TERMS OF THE RIGHTS ISSUE

Caverdale is proposing to raise up to approximately £2.777 million before expenses, by way of a Rights Issue of 15,430,453 Rights Shares at a price of 18p per share. Subject to the fulfilment of the conditions set out below, the Rights Shares will be offered by way of rights to Qualifying Shareholders on the following basis and otherwise as set out herein:

#### 1 Rights Share for every 2 Ordinary Shares

and so, in proportion, for any greater number of Ordinary Shares held on the Record Date.

Rights Shares representing fractional entitlements will not be allotted to Qualifying Shareholders but will be aggregated and sold in the market as soon as practicable after dealings in the Rights Shares commence, nil paid, for the benefit of the Company.

The Rights Shares will be issued free of all liens, charges and encumbrances and will, when issued and fully paid, rank *pari passu* in all respects with the Ordinary Shares including the right to receive all dividends and other distributions hereafter declared, made or paid on the Ordinary Shares.

Application has been made to the London Stock Exchange for the Rights Shares to be admitted to the Official List. The Rights Shares have not been marketed in whole or in part to the public in conjunction with the application. Subject to Admission, dealings in the Rights Shares, nil paid, are expected to commence on 11 January 2000.

The Directors, and certain shareholders connected with the Directors, have given irrevocable undertakings to take up or procure the take up of all their or their respective families' entitlements in respect of a total of 1,727,061 Rights Shares, being approximately 11.2 per cent of the Rights Issue. Mr Nerdrum has undertaken to purchase nil paid rights in the market and exercise those rights in full to the extent that Kerry International (BVI) Limited (an investment company owned by certain discretionary trusts the principal beneficiaries of which are Mr Nerdrum's children) does not take up its entitlement to 1,292,940 Rights Shares. Peel Hunt has agreed to use its reasonable endeavours to place any Rights Shares not taken up pursuant to the Rights Issue with institutional and other investors. The Rights Issue is conditional, *inter alia*, upon:

- (a) the passing of Resolutions 1, 2 and 3 at the EGM; and
- (b) admission of the Rights Shares (nil paid) to the Official List becoming effective by 8.00 a.m. on 11 January 2000 or such later time and/or date as the Company and Corporate Synergy may agree.

The Rights Price of 18p per Rights Share is payable in full on acceptance. The latest time for acceptance and payment in full for the Rights Shares is expected to be 3.00 p.m. on 31 January 2000.

The attention of Shareholders who have registered addresses outside the United Kingdom, or who are citizens or residents of countries other than the United Kingdom, is drawn to paragraph 5 below.

#### 2. ACTION TO BE TAKEN

##### (a) Provisional allotment

Subject to the passing of Resolutions 1, 2 and 3 at the EGM it is expected that Provisional Allotment Letters in respect of the Rights Shares will be posted to Qualifying Shareholders at their own risk on 10 January 2000.

The Provisional Allotment Letter will set out the holding of Ordinary Shares in respect of which a Qualifying Shareholder's entitlement has been calculated and the aggregate number of Rights Shares which he/she has been provisionally allotted. The Provisional Allotment Letter will also include the procedure to be followed

if he/she wishes to dispose of all or part of his/her entitlement and instructions regarding acceptance and payment, splitting, registration and renunciation. The allotment and issue of the Rights Shares will be made upon, and will be subject to, the terms and conditions set out in this document and the Provisional Allotment Letter.

*(b) Procedure for acceptance and payment*

If a Qualifying Shareholder wishes to take up his/her entitlement, in whole or in part, he/she must return the Provisional Allotment Letter, together with a remittance for the full amount payable on acceptance, in accordance with the instructions printed thereon, by hand or by post to Connaught St Michaels Limited ("Connaught St Michaels") Cresta House, Alma Street, Luton, Bedfordshire LU1 2PU, so as to be received not later than 3.00 p.m. on 31 January 2000. If payment is not received by such time and date, the relevant entitlement to subscribe for the Rights Shares will, subject to the late acceptance procedure set out below, be deemed to have been declined, in which case the entitlement will lapse. A first class reply-paid envelope will be enclosed for the purposes of lodging the Provisional Allotment Letter by post.

The Company reserves the right (but shall not be obliged) to accept: (i) Provisional Allotment Letters accompanying remittances which are received through the post not later than 10.00 a.m. on 1 February 2000 (the envelope bearing a legible postmark not later than 3.00 p.m. on 31 January 2000) and (ii) applications in respect of which remittance is received prior to 3.00 p.m. on 31 January 2000 from an authorised person (as defined in the Financial Services Act 1986) specifying the Rights Shares concerned and undertaking to lodge the relevant Provisional Allotment Letter duly completed in due course. The Company also reserves the right (in its sole discretion) to treat a Provisional Allotment Letter as valid and binding on the person(s) by whom or on whose behalf it is lodged even if not completed in accordance with the relevant instructions or not accompanied by a valid power of attorney where required.

All payments must be made for the full amount by cheque or banker's draft in pounds sterling only drawn on a bank or building society in the United Kingdom which is either a settlement member of the Cheque & Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided for the members of either of those companies, and must bear the appropriate sort code in the top right hand corner. Cheques and banker's drafts should be made payable to "Connaught St Michaels A/C Caverdale Group plc" and crossed "A/C payee only". Interest on any payments made before they are due will accrue to the benefit of the Company. The Company reserves the right to present cheques and banker's drafts for payment upon receipt. Return of a Provisional Allotment Letter with a remittance in the form of a cheque will constitute (i) a warranty by the person returning the Provisional Allotment Letter that the cheque will be honoured on first presentation, and (ii) acceptance of the provisional allotment of the Rights Shares subject to and on the terms and conditions of this document, the Provisional Allotment Letter and the Memorandum and Articles of Association of the Company. The Company may elect to treat as invalid acceptances in respect of which cheques are not so honoured.

It is a term of the Rights Issue that, to ensure compliance with the Money Laundering Regulations 1993, Connaught St Michaels may require verification of identity from any person by whom, or on whose behalf a Provisional Allotment Letter is lodged ("an applicant"). Return of a Provisional Allotment Letter with the appropriate remittance will constitute a warranty from the applicant that the Money Laundering Regulations 1993 will not be breached by the acceptance of the accompanying remittance and an undertaking from the applicant to provide verification of identity reasonably satisfactory to Connaught St Michaels, if so requested. Failure to provide satisfactory evidence of identity if requested to do so may result in a delay in the return of a receipted fully paid Provisional Allotment Letter and the despatch of definitive share certificates in respect of Rights Shares. If within a reasonable period of time following a request for verification of identity, but in any event not later than 3.00 p.m. on 31 January 2000, Connaught St Michaels has not received evidence of identity satisfactory to it as aforesaid, the Company may, at its absolute discretion, either elect not to treat as valid the relevant acceptance or to terminate the contract of allotment, in which events the money payable or paid in respect of the acceptance will be returned (without interest) to the account of the drawee bank from which sums were originally debited (but in each case without prejudice

to any rights the Company may have to take proceedings to recover in respect of loss or damage suffered or incurred by it as a result of the failure to produce satisfactory evidence of identity as aforesaid).

Payments should ideally be made by cheque drawn on the applicant's own account. In any other case (for example, if payment is made with a cheque drawn by a third party, a building society cheque or a banker's draft), applicants should:

- (i) write their name, address and date of birth on the back of the cheque or banker's draft;
- (ii) if payment is made by a building society cheque or banker's draft is used, ask the building society or bank to endorse on the cheque or draft the name and account number of the person whose building society or bank account is being debited. Such endorsement must be validated by a stamp and an authorised signature;
- (iii) if payment is not made by a cheque drawn on an account in the name of the applicant and (ii) above does not apply, the applicant should enclose with his/her Provisional Allotment Letter evidence of his/her name and address from an appropriate third party, for example, a recent bill from a gas, electricity or telephone company or a bank statement, in each case bearing the applicant's name and address (originals of such documents (not copies) are required but will be returned in due course); and
- (iv) if the application is being made by the applicant as agent for one or more persons, indicate in Form Z on the Provisional Allotment Letter whether the applicant is a United Kingdom or EC regulated person or institution (for example a bank or a stockbroker) and specify the applicant's status. If an applicant is not a United Kingdom or EC regulated person or institution, please contact Connaught St Michaels and seek guidance.

If the Provisional Allotment Letter is delivered by hand, the person making payment should ensure that he/she has with him/her evidence of identity bearing his/her photograph (for example, a fully valid passport) and evidence of his/her address.

The verification of identity requirements will not usually apply:

- (i) if the applicant is an organisation required to comply with the EU Money Laundering Directive (the Council Directive on prevention of the use of the financial system for the purpose of money laundering (no. 91/308/EEC));
- (ii) if the applicant is a regulated United Kingdom broker or intermediary acting as agent which is subject to the Money Laundering Regulations 1993;
- (iii) if the applicant (not being an applicant who delivers his/her acceptance in person) makes payment by way of cheque drawn on an account in his name; or
- (iv) if the aggregate value at the Rights Price for relevant shares is £10,000 or less.

Neither the Company nor Connaught St Michaels shall be responsible or have any liability for loss or damage (whether actual or alleged) arising from the election by the Company to treat an acceptance in respect of Rights Shares lodged by any applicant as invalid or to terminate the contract of allotment as a result of Connaught St Michaels not having received evidence as to identity of the person lodging the relevant Provisional Allotment Letter satisfactory to it within a reasonable time of Connaught St Michaels having requested such information.

*(c) Dealings in nil paid rights*

Dealings on the London Stock Exchange in the Rights Shares are expected to commence, nil paid, on 11 January 2000. A transfer of such rights can be made by renunciation, as described in sub-paragraph (e) below, without payment for the Rights Shares provisionally allotted until 3.00 p.m. on 31 January 2000.

*(d) Dealings in fully paid rights*

After acceptance of the provisional allotment and payment in full in accordance with the provisions set out in sub-paragraph (b) above and the Provisional Allotment Letter, the fully paid rights to the Rights Shares may be transferred by renunciation of the relevant Provisional Allotment Letter and delivery of the same to the transferee no later than 3.00 p.m. on 24 February 2000. Thereafter the Rights Shares will be in registered form and will be transferable by instrument of transfer complying with the Company's Articles of Association or in any other written form which the Directors may approve. Pending the issue of the definitive share certificates, instruments of transfer will be certified by the Registrars against lodgement of fully paid Provisional Allotment Letters or, in the case of renounced Provisional Allotment Letters, fully paid registration receipt forms bearing the stamp of Connaught St Michaels.

*(e) Renunciation and splitting*

A Qualifying Shareholder originally entitled to a provisional allotment of Rights Shares who wishes to transfer all the Rights Shares comprised in a Provisional Allotment Letter may renounce such allotment by completing and signing Form X on such letter and handing the entire letter to the transferee or to the broker or bank who is acting for such holder in the transaction. Once a Provisional Allotment Letter has been renounced, the letter will become a negotiable instrument in bearer form. The latest time and date for registration of renunciation is 3.00 p.m. on 24 February 2000.

If a Qualifying Shareholder wishes to have some only of his entitlement to Rights Shares registered in his name and to transfer the remainder, or wishes to transfer all the Rights Shares but to different persons or if he has sold some of his Ordinary Shares and wishes to pass on that proportion of his entitlement due to the transferee, he may have the Provisional Allotment Letter split, for which purpose he must complete and sign Form X on such letter. The Provisional Allotment Letter must then be lodged with Connaught St Michaels not later than 3.00 p.m. on 22 February 2000, if nil paid, to be cancelled and exchanged for the split Provisional Allotment Letters required. The number of split Provisional Allotment Letters required and the number of Rights Shares to be comprised in each split letter should be stated in an accompanying letter. Form X on split Provisional Allotment Letters will be marked "Original duly renounced" before issue.

*(f) Registration in names of persons other than shareholders originally entitled*

The renounee or his/her agent(s) must complete Forms Y and Z on the Provisional Allotment Letter and lodge the entire letter, by hand or by post, with Connaught St Michaels by no later than 3.00 p.m. on 24 February 2000. Registration cannot be effected unless the letter is fully paid.

*(g) Settlement and dealings*

For Qualifying Shareholders it is expected that, subject to the satisfaction of the conditions attaching to the Rights Issue, the Rights Shares to which they are entitled will be issued and definitive share certificates will be despatched by 25 February 2000 by post at the risk of such shareholders. No temporary documents of title will be issued pending the issue of definitive share certificates.

The Ordinary Shares are eligible for settlement in CREST. The Rights Shares will be issued in certificated form and represented by definitive share certificates which are expected to be despatched by 25 February 2000. Those Qualifying Shareholders who hold Ordinary Shares at the Record Date both in certificated form and also in uncertificated form within CREST will be sent a Provisional Allotment Letter in respect of each holding. Shareholders who wish to hold Rights Shares in uncertificated form will need to comply with the relevant procedure for conversion of such shares into uncertificated form following receipt of their definitive share certificate.

The Rights Shares will initially be issued by way of Provisional Allotment letters, but following the expiration of the period for renunciation and when fully paid, the Rights Shares will be in registered form. Pending the despatch of definitive share certificates transfers will be certified against the register.

*(h) Posting*

All documents and remittances sent by post to or by the allottee or their renouncee (or their agents, as appropriate) will be sent at their risk.

### **3. PROCEDURE IN RESPECT OF RIGHTS NOT TAKEN UP**

If a Qualifying Shareholder does not wish to take up his/her entitlement, he/she does not need to take any action. If payment in full for an entitlement to Rights Shares (whether from Qualifying Shareholders or any person in whose favour rights have been renounced) is not received by 3.00 p.m. on 31 January 2000, in accordance with the procedure laid down for acceptance and payment in this document and in the Provisional Allotment Letter, or such later time as may be permitted under paragraph 2(b) above, then that provisional allotment of Rights Shares will be deemed to have been declined and will lapse.

Peel Hunt has agreed to use reasonable endeavours for subscribers to be procured by no later than 3.00 p.m. on 2 February 2000 for all of the Rights Shares not taken up, if, in the Company's reasonable opinion, an amount at least equal to the Rights Price and the expenses of procuring such subscribers (including any value added tax thereon) can be obtained. If subscribers for such Rights Shares are procured on such basis any net proceeds (after deduction of the Rights Price payable and expenses of procuring subscribers (including any value added tax thereon)) will be paid (without interest) by cheque to the provisional allottees who have not taken up their entitlement pro rata to their lapsed provisional allotments, except that individual amounts of less than £3.00 will not be paid to such persons but will be aggregated and paid to the Company. Peel Hunt will not be required to implement these arrangements if it considers that there is no reasonable likelihood that subscribers can be procured at the requisite price for all relevant shares by 3.00 p.m. on 2 February 2000.

The Company or Peel Hunt shall not be responsible for any loss or damage (whether actual or alleged) to any person arising from any insufficiency or alleged in any such payment or from the terms or timing of any such subscription. Payments for the amount due (if any) will be sent by cheque, at the risk of the persons entitled thereto.

### **4. UNITED KINGDOM TAXATION**

The following comments are intended only as a general guide to the position under current law in the United Kingdom ("the UK") and Inland Revenue practice and as of the date of this document may not apply to certain classes of shareholders, such as dealers in securities. **Shareholders who are in any doubt as to their tax position are strongly recommended to consult their professional tax advisers immediately.**

*(a) Taxation of Chargeable Gains*

- (i) The issue of the Rights Shares by the Company will be regarded as a reorganisation of the Company's share capital for the purpose of UK taxation of chargeable gains. No liability to UK taxation of chargeable gains will arise if a Shareholder takes up his entitlement to Rights Shares.
- (ii) Where a Shareholder takes up Rights Shares, his Rights Shares and his Ordinary Shares, will for the purpose of the taxation of chargeable gains be treated as the same asset and as having been acquired at the same time he acquired his Ordinary Shares, and the amount paid for his Rights Shares will be added to the base cost of his existing holding(s).
- (iii) For the purpose of calculating the indexation allowance on a subsequent disposal, the amount paid for the Rights Shares will be taken into account only from the time at which payment is made or is liable to be made. Individuals will not be able to claim indexation allowance on the amount paid for the Rights Shares as a result of changes made in the Finance Act 1998.
- (iv) The Finance Act 1998 made a number of changes to the capital gains tax regime for individuals. The changes include the withdrawal of indexation allowance (which in general terms increased the capital gains tax base cost of an asset in accordance with the rise in the Retail Prices Index) in relation to assets acquired after 31 March 1998. For assets acquired prior to 1 April 1998 indexation allowance will be available (in calculating a gain but not a loss) up to and including April 1998. Indexation has been replaced by taper relief which will reduce the amount of a chargeable gain according to how long the

asset has been held after 5 April 1998. Assets held on 17 March 1998 will be treated as having been held for one extra year for the purposes of taper relief.

- (v) Where a holder sells all or any of the Rights Shares allotted to him or all or part of his rights to them, or if he allows all or part of his rights to lapse and receives a cash payment in respect of them, he may, depending on his circumstances, incur a liability to UK taxation of chargeable gains.

*(b) Taxation of dividends*

A United Kingdom resident Qualifying Shareholder who receives a dividend will be entitled to a tax credit of an amount equal to one ninth of the cash dividend (or 10 per cent. of the aggregate of the dividend and related tax credit). The cash dividend received by an individual, together with the tax credit are both included in arriving at the individual's total income for United Kingdom tax purposes. The tax credit is then set against the individual's overall tax liability. A United Kingdom resident individual Qualifying Shareholder who is not liable to income tax at a rate greater than the basic rate (currently 23 per cent.) has no further liability to taxation on the dividend. A United Kingdom resident individual Qualifying Shareholder who is liable to tax at the higher rate will have an additional tax liability of 22.5 per cent. on the aggregate of the cash dividend and the tax credit. The tax credit is not repayable to individuals unless the shares are held within an Individual Savings Account until 5 April 2004 in which case the tax credits will be repayable.

A United Kingdom resident corporate Qualifying Shareholder will not generally be liable to United Kingdom corporation tax on any dividend received and the dividend received and the related tax credit will constitute franked investment income.

The Company does not assume responsibility for the withholding of tax at source, where applicable.

*Non-UK Residents*

Subject to certain exceptions for individuals who are Commonwealth citizens, citizens of the Republic of Ireland, residents of the Isle of Man or the Channel Islands, nationals of States which are part of the European Economic Area and certain others, the right of a holder of a share who is not resident in the United Kingdom (for tax purposes) to claim any part of the tax credit will depend upon the existence and terms of any double tax treaty between the United Kingdom and the country in which that person is resident. The reduction in the amount of the tax credit will generally result in the amount payable in respect of the tax credit under double tax treaties being substantially reduced or eliminated altogether eliminate or virtually eliminate double tax treaty payments from 6 April 1999. **Persons who are not resident in the UK should consult their own tax advisers concerning their tax liabilities (in the UK and any other country) on dividends received, whether they are entitled to claim any part of the tax credit and, if so, the procedure for doing so, and whether any double taxation relief is due in any country in which they are subject to tax.**

**The above comments are intended as a general guide to the position under current law and practice in the UK and may not apply to certain classes of shareholders. Any person who is in any doubt as to his tax position, or who is subject to tax in a jurisdiction other than the UK, should consult his own professional adviser.**

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

- (i) No stamp duty or stamp duty reserve tax will normally be payable on the issue of Provisional Allotment Letters or split allotment letters, on the issue of definitive share certificates in respect of Rights Shares or on the registration by the original holders of Provisional Allotment Letters or their renounees.
- (ii) Where rights to Rights Shares represented by a Provisional Allotment Letter (whether or not fully paid) are sold on or before the last date for registration of renunciation, the purchaser will not be liable to stamp duty but will generally be liable to stamp duty reserve tax, at the rate of 0.5 per cent. of the consideration paid.
- (iii) Agreements to transfer shares within CREST after the last date for registration of renunciation will attract SDRT normally 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 may be collected through CREST in which case it becomes payable on the date agreed between the Inland Revenue and operator of the CREST system.

- (iv) The transfer on sale of Rights Shares outside CREST after the last date for registration of renunciation will be liable to ad valorem stamp duty or (if an agreement to transfer such Rights Shares is not completed by a duly stamped transfer within two months of the date of that agreement or, where it is conditional, within two months of the date of the agreement becoming unconditional) stamp duty reserve tax. The rate for ad valorem stamp duty is 0.5 per cent. (rounded up to the nearest multiple of £5.00) of the consideration paid. The rate for stamp duty reserve tax is 0.5 per cent. of the consideration paid.
- (v) Liability to account for any stamp duty reserve tax generally attaches to the purchaser. In the case of a purchase effected through a market maker, broker and dealer or qualified dealer (all as defined in the Stamp Duty Reserve Tax Regulations 1986), that person will be liable to give notice that a stamp duty reserve tax charge has arisen and pay the tax due. In other cases, the purchaser of rights must take account of the stamp duty reserve tax to the Inland Revenue.
- (vi) Stamp duty is generally paid by the purchaser or transferee.

## 5. OVERSEAS SHAREHOLDERS

### (a) General

The making of the Rights Issue to persons who are resident in, or citizens of, countries outside the United Kingdom ("Overseas Shareholders") may be affected by the law of the relevant jurisdiction. Such persons 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 rights.

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

Accordingly, persons receiving this document and/or a Provisional Allotment Letter should not, in connection with the Rights Issue, distribute or send the same into any jurisdiction where to do so would or might contravene local securities laws or regulations. Any person who does forward this document or a Provisional Allotment Letter into any such territory (whether pursuant to a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this paragraph 5. Receipt of a copy of this document and/or a Provisional Allotment Letter will not constitute an invitation or an offer in those jurisdictions in which it would be illegal to make such an invitation or offer and in such circumstances this document and/or a Provisional Allotment Letter will be deemed to have been sent for information only.

**Any person (including without limitation, nominees and trustees) outside the United Kingdom wishing to accept the offer of Rights Shares comprised in a Provisional Allotment Letter must satisfy himself as to full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territory. Any acceptance will be deemed to constitute a representation and warranty to the Company that these laws and requirements has been complied with. If you are in any doubt as to your position, you should consult your professional adviser.**

In cases where Overseas Shareholders do not or are unable to take up Rights Shares provisionally allotted to them, or where provisional allotments are treated as having been declined or invalid, the provisions of paragraph 3 above will apply. The Company reserves the right to treat as invalid any acceptance or purported acceptance of the allotment of Rights Shares comprised in, or renunciation or purported renunciation of, a Provisional Allotment Letter which appears to the Company or its agents to have been executed, effected or

despatched in a manner which may involve a breach of the securities legislation of any jurisdiction or which does not make the warranty set out in the paragraph headed "Overseas Shareholders" in the Provisional Allotment Letter.

The attention of Overseas Shareholders is drawn to sub-paragraphs (b) – (e) below.

*(b) United States and Canada*

Neither the Rights Shares nor the Provisional Allotment Letters have been or will be registered under the United States Securities Act of 1933, as amended, or under the securities legislation of any state of the United States or any province or territory of Canada and, subject to certain exceptions exempt from the registration requirements, may not be offered, sold, delivered, renounced or transferred, directly or indirectly, within the United States or Canada or to or for the benefit of a North American Person.

Provisional Allotment Letters will not be sent to shareholders with registered addresses in the United States or Canada nor to shareholders with registered addresses elsewhere whom the Company knows or reasonably believes to be holding Ordinary Shares for the benefit of a North American Person unless the Company is satisfied that such an allotment is permitted, and this document is therefore sent to any such shareholders for information only to give notice of the EGM.

The Company reserves the right to reject any Provisional Allotment Letter which appears to the Company or its agents to have been executed in or despatched from the United States or Canada or which provides an address in the United States or Canada for delivery of definitive share certificates for Rights Shares or which does not make the representation and warranty set out in the Provisional Allotment Letter headed "Overseas Shareholders".

For the purpose of this document and the Provisional Allotment Letters "North American Person" means any person who is a resident of the United States or Canada (including corporations, partnerships or other entities created or organised in or under the laws of the United States or Canada or any estate or trust which is subject to United States federal or Canadian income taxation regardless of the source of its income), "United States" means the United States of America, each State thereof and the District of Columbia, its territories and possessions and other areas subject to its jurisdiction and "Canada" includes its possessions and territories.

*(c) Australia*

No prospectus in relation to the Rights Shares has been or will be lodged with, or registered by, the Australian Securities Commission. Rights Shares may not be offered for subscription or purchase, sold, renounced or delivered, indirectly or directly, nor may any invitation to subscribe for or buy or sell Rights Shares be issued or any draft or definitive document in relation to any such offer, sale or invitation be distributed, in or into the Commonwealth of Australia, its states, territories or possessions ("Australia") or to or for the account or benefit of any person (including corporations and other entities organised under the laws of Australia but not including a permanent establishment of any such corporation or entity located outside Australia).

Accordingly, no offer of Rights Shares is being made under this document or the Provisional Allotment Letters to shareholders with registered addresses in, or to residents of, Australia and Provisional Allotment Letters will therefore not be sent to shareholders with registered addresses in Australia. The Company reserves the right to reject any Provisional Allotment Letter which appears to the Company or its agents to have been executed in or despatched from Australia or which provides an address in Australia for delivery of definitive share certificates for new Ordinary Shares or which does not make the representation and warranty set out in the paragraph of the Provisional Allotment Letter headed "Overseas Shareholders".

*(d) South Africa*

In order to comply with South African laws, Provisional Allotment Letters sent to shareholders with registered addresses in South Africa will not be renounceable. Such Shareholders will also require the approval of the South African exchange control authorities if they wish to take up their entitlement.



*(e) Other overseas territories*

Overseas Shareholders resident in other overseas territories who are in any doubt as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up or renounce the new Ordinary Shares provisionally allotted to them should consult their professional advisers.

**It is the responsibility of all persons resident outside the United Kingdom who wish to take up or renounce their rights to Rights Shares to satisfy themselves as to full observance of the laws of the relevant territory in connection therewith, including obtaining all necessary governmental and other consents and complying with all formalities to enable them to take up or renounce their rights.**

*Sale of Rights*

In cases where Overseas Shareholders do not take up Rights Shares or are unable to take them up because of local securities laws, or in cases where such laws prevent the sending of a Provisional Allotment Letter, any Provisional Allotment Letter received is to be treated as sent for information only and such Overseas Shareholders will have the benefits of the arrangements described in paragraph 3 above whereby any Rights Shares not taken up will, if they can be sold at a price at least equal to the aggregate of the Rights Price payable and the expenses of procuring subscribers (including any value added tax thereon) and otherwise on the terms described in this document, be offered for subscription in the market. The premium if any (being the amount paid by such subscribers after deducting the Rights Price payable and the expenses of procuring subscribers (including any value added tax thereon)) will be paid (without interest) to those provisional allottees who have not taken up their entitlements pro rata to their lapsed provisional allotments, save that amounts of less than £3.00 will not be so paid but will be aggregated and paid to the Company for its own benefit.

## PART IIIA

The following issue is the full text of the Company's unaudited interim report for the six months ended 30 June 1999 announced on 2 August 1999.

### “CHAIRMAN'S STATEMENT

#### *Results*

As indicated in our trading update of 21 July 1999, the results for the six months ended 30 June 1999 are disappointing. The total turnover in the period was £37.4 million, of which continuing operations represented £36.5 million, a 44 per cent increase over last year's figure of £25.2 million, which was below expectations. Operating profits amounted to £1.6 million before the amortisation of goodwill (1998: £1.99 million, excluding discontinued operations) and earnings per share were 1.1 pence (1.1 pence fully diluted) as compared with 6.2 pence last year (6.1 pence fully diluted).

#### *Motorcycle and Motorcycle Accessories Division*

The rapid expansion of this division has resulted in our market position being significantly enhanced. However, the overall performance of our retail outlets did not match expectations owing to a shortfall in sales, compounded by the build-up of stock and higher overheads caused by the expansion programme. Unfortunately, the seasonal nature of our business resulted in the extent of the problems only recently becoming apparent. The divisional turnover for the first six months amounted to £21.6 million, an increase of 47 per cent on the £14.7 million last year, gross profits totalled £6.3 million (1998: £3.8 million) whilst operating profits were £0.3 million as against £1.1 million in the same period last year. We have already commenced a major management reorganisation in this division and a cost reduction programme is also under way. I anticipate that all necessary corrective measures will have been effected by the end of this year so that we may start next year from a sound base.

As regards Goetz GmbH in Germany, which we acquired last year for a nominal consideration, the work continues to return a heavily loss making business to profitability. Significant progress has been made and, in the first six months of this year, the company achieved sales of £2.9 million, gross profits of £1.3 million and an operating profit of £0.2 million, which are all in line with expectations. Although this represents a great improvement on the performance last year, more work remains to be done before the business becomes truly profitable. However, given the importance of the German market, we consider this effort justified.

#### *Leisure Marine Division*

I am pleased to say that once again this division has performed superbly, achieving sales of £9.8 million against £4.5 million last year. The acquisition of the Shoreline Group has made a contribution to this performance, but the main driving force remains the XM Group. Following the recent acquisition of Speed Marine announced on 26 July 1999, we have further consolidated our position as the largest marine chandler and mail order distributor in the United Kingdom. I have no doubt that the division will continue its strong performance for the rest of this year and thereafter.

#### *Bicycle and Fitness Division*

Crabtree Sports and Leisure, our bicycle and bicycle accessories company, now trading from its new facilities, improved sales to £2.3 million (1998: £2.1 million).

Pulse Fitness, acquired out of receivership last year, has continued its process of rehabilitation and was awarded a major local authority contract in the early summer. Sales for the period amounted to £2.8 million and operating profits were in line with expectations.

#### *Dividend*

In view of its confidence in the underlying quality of the Group's business and the belief that reported setbacks are being addressed, the Board has decided to maintain the interim dividend of 2.25 pence (1998:

2.25 pence). The dividend will be paid on 1 October 1999 to all shareholders on the register at the close of business on 13 August 1999.

### *Outlook*

Although the above results and the outlook for the full year represent a setback to our development plans. I am confident that appropriate measures have been or are in the process of being taken to return our motorcycle and accessories division to its successful track. In the meantime, the excellent performance of our marine division sets the benchmark for all Group companies and the challenge will be taken up with great determination. Finally, I know that all our management and staff have worked extremely hard, for which I thank them.

Chairman  
2 August 1999

# **CONSOLIDATED UNAUDITED PROFIT AND LOSS ACCOUNT**

*Six months ended 30 June 1999*

	<i>Before goodwill amortisation</i>	<i>Goodwill amortisation</i>	<i>Six months ended 30.06.99 Unaudited</i>	<i>Six months ended 30.06.98 Unaudited</i>	<i>Year ended 31.12.98</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Turnover</b>					
Continuing operations	30,702	–	30,702	23,443	36,342
Acquisitions	5,779	–	5,779	1,795	8,217
Discontinued operations	921	–	921	15,176	27,147
<b>Total turnover</b>	<u>37,402</u>	<u>–</u>	<u>37,402</u>	<u>40,414</u>	<u>71,706</u>
<b>Operating profit</b>					
Continuing operations	1,313	(98)	1,215	1,929	2,476
Acquisitions	287	(81)	206	61	1,116
Discontinued operations	(35)	–	(35)	1,244	1,101
<b>Total operating profit</b>	<u>1,565</u>	<u>(179)</u>	<u>1,386</u>	<u>3,234</u>	<u>4,693</u>
Profit on disposal of subsidiaries	–	–	–	–	2,385
Net interest payable	931	–	931	549	1,037
<b>Profit on ordinary activities before taxation</b>	<u>634</u>	<u>(179)</u>	<u>455</u>	<u>2,685</u>	<u>6,041</u>
Taxation	122	–	122	832	1,266
<b>Profit for financial year</b>	<u>512</u>	<u>(179)</u>	<u>333</u>	<u>1,853</u>	<u>4,775</u>
Dividends	694	–	694	671	1,342
Earnings per ordinary share	1.7p	(0.6p)	1.1p	6.2p	16.0p
Earnings per ordinary share – fully diluted	<u>1.7p</u>	<u>(0.6p)</u>	<u>1.1p</u>	<u>6.1p</u>	<u>16.0p</u>

# **CONSOLIDATED UNAUDITED BALANCE SHEET**

30 June 1999

	30.06.99 <i>Unaudited</i> £000	30.06.98 <i>Unaudited</i> £000	31.12.98 <i>Audited</i> £000
<b>Fixed Assets</b>			
Tangible Assets	21,322	11,826	20,751
Intangible Assets	7,896	701	3,508
<b>Current Assets</b>			
Stocks	21,732	17,835	16,874
Debtors	12,446	17,261	9,624
Cash at bank and in hand	542	1,291	1,283
	34,720	36,387	27,781
<b>Creditors: Amounts falling due within one year</b>	31,616	28,047	21,548
<b>Net current assets</b>	3,104	8,340	6,233
<b>Total assets less current liabilities</b>	32,322	20,867	30,492
<b>Creditors: amounts falling due after more than one year</b>	12,160	5,885	10,540
<b>Provisions for liabilities and charges</b>	261	–	481
	19,901	14,982	19,471
<b>Capital and reserves</b>			
Called up share capital	3,030	2,980	2,980
Share premium account	12,568	11,993	11,993
Revaluation reserve	243	243	243
Other reserve	–	–	–
Profit and loss account	4,060	(234)	4,255
<b>Shareholders' funds</b>	19,901	14,982	19,471

## CONSOLIDATED UNAUDITED CASHFLOW STATEMENT

Six months ended 30 June 1999

	Six months ended 30.06.99 Unaudited £000	Six months ended 30.06.98 Unaudited £000	Year ended 31.12.98 Audited £000
<b>Operating activities</b>			
Operating profit	1,386	3,234	4,693
Depreciation	1,407	469	1,102
(Profit)/loss on sale of fixed assets	(29)	—	53
Increase in stocks	(1,400)	(3,733)	(6,204)
Increase in debtors	(2,786)	(3,370)	(4,034)
Increase/(decrease) in creditors and provisions	3,351	(3,028)	(6,230)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>1,929</b>	<b>(6,428)</b>	<b>(10,620)</b>
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(931)</b>	<b>(549)</b>	<b>(1,037)</b>
<b>Taxation</b>	<b>(595)</b>	<b>(2,635)</b>	<b>(3,025)</b>
<b>Net cash outflow for capital expenditure and financial investment</b>	<b>(1,694)</b>	<b>(2,850)</b>	<b>(8,868)</b>
<b>Net cash inflow/(outflow) for acquisitions and disposals</b>	<b>(3,243)</b>	<b>(1,596)</b>	<b>9,836</b>
<b>Equity dividends paid</b>	<b>—</b>	<b>—</b>	<b>(1,327)</b>
<b>Net cash inflow/(outflow) before financing</b>	<b>(4,534)</b>	<b>(14,058)</b>	<b>(15,041)</b>
<b>Net cash inflow/(outflow) from financing</b>	<b>2,237</b>	<b>5,261</b>	<b>6,444</b>
<b>Increase/(Decrease) in cash during the period</b>	<b>(2,297)</b>	<b>(8,797)</b>	<b>(8,597)</b>

### Notes

- 1 Earnings per share are based upon the weighted average of 30,266,928 shares in issue (six months ended 30 June 1998 – 29,710,791; year ended 31 December 1998 – 29,790,292),
- 2 The Interim Statement is being sent to shareholders. Further copies will be available from the Company's registered office at Hill House, 5 Holywell Hill, St Albans, AL1 1EU or from Kleinwort Benson Securities Limited, 20 Fenchurch Street, London, EC3P 3DB.
- 3 The Interim Statement has been prepared on the basis of the accounting policies set out in the Group's 1998 statutory accounts. The financial information above does not constitute full accounts as referred to in section 240 of the Companies Act 1985 and is not audited.
- 4 A copy of the Group's accounts for the year ended 31 December 1998 has been filed with the Registrar of Companies: the auditor's opinion on those accounts was unqualified."

## **PART IIIB**

### **Forecast for the Group for the year ending 31 December 1999.**

It is stated in the paragraph “Current Trading and Prospects” set out in Part I of this document that the Directors expected the Group to report a loss not exceeding £250,000 before taxation and amortisation of goodwill for the year ending 31 December 1999.

The forecast is based upon unaudited management accounts and projections prepared by the Group, taking account of the unaudited interim results for the half year ended 30 June 1999. The forecast is based on projections and has been prepared using the accounting policies normally adopted by the Group on the following principal assumptions (which are outside the Group’s control):

- there will be no material change in the rates or level of taxation, inflation and interest rates paid by the Group on borrowings;
- there will be no change in European, national or local government regulations or policies which will have a material effect on the business of the Group;
- there will be no serious interruptions in business arising from circumstances outside the Group’s control adversely affecting the Group or its business; and
- that the costs of the Proposals will be accounted for in the year ending 31 December 2000.

(a) *Letter from Ernst & Young*



400 Capability Green  
Luton  
Bedfordshire LU1 3LU

The Directors  
Caverdale Group plc  
Hill House  
5 Holywell Hill  
St Albans AL1 1EU

The Directors  
Corporate Synergy PLC  
Piercy House  
7-9 Copthall Avenue  
London EC2R 7NJ

16 December 1999

Dear Sirs

We have reviewed the accounting policies and calculations for the forecast of Caverdale Group plc and its subsidiaries ("the Group") for the year ending 31 December 1999 set out in the paragraph "Current trading and prospects" in Part I and in Part IIIB of the prospectus dated 16 December 1999.

The forecast, which has been prepared under the historical cost convention, includes the results of the Group for the nine months ended 30 September 1999, which are based on unaudited management accounts, and a forecast for the three months ending 31 December 1999.

### **Responsibility**

The forecast and the prospectus relating to the Rights Issue of the Group in which it is included are the responsibility of the Directors of the Group.

It is our responsibility to form an opinion on the forecast and to report our opinion to you.

### **Basis of opinion**

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with reasonable assurance that the forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis stated.

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board.

### **Opinion**

In our opinion the forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the Directors of the Group set out in Part IIIB of the prospectus and has been prepared on a basis consistent with the accounting policies normally adopted by the Group.

Yours faithfully

Ernst & Young

■ A list of partners' names is available for inspection at the above address, the partnership's principal place of business.

Authorised by The Institute of Chartered Accountants in England and Wales to carry on investment business.

The United Kingdom firm of Ernst & Young is a member of Ernst & Young International.



(b) Letter from Corporate Synergy



**C O R P O R A T E  
S Y N E R G Y P L C**

Piercy House  
7/9 Cophall Avenue  
London EC2R 7NJ

The Directors  
Caverdale Group plc  
Hill House  
5 Holywell Hill  
St Albans AL1 1EU

16 December 1999

Dear Sirs

**CAVERDALE GROUP PLC ("CAVERDALE")**

We have discussed with the Directors of Caverdale the forecast for the loss before taxation and amortisation of goodwill of Caverdale and its subsidiary undertakings (together the "Group") for the year ending 31 December 1999, set out in the paragraph "Current trading and prospects" in Part I and in Part IIIB of the prospectus of Caverdale dated 16 December 1999, together with the bases and assumptions upon which the forecasts are made. We have also discussed the accounting policies and calculations for the forecasts with Ernst & Young and have considered their letter dated 16 December 1999 addressed to yourselves and ourselves on this matter.

We are satisfied that the forecast, for which the Directors of Caverdale are solely responsible, has been prepared after due and careful enquiry by the Directors of Caverdale.

Yours faithfully  
For and on behalf of  
Corporate Synergy PLC

Justin Lewis  
*Director*

## PART IV

### Unaudited *pro forma* statement of net assets of the Company

The following is an unaudited *pro forma* statement of net assets of the Company ("*pro forma* statement") immediately following the implementation of the Rights Issue and has been prepared to show the effects of the Rights Issue on the net assets of the Company as if the Rights Issue had happened on 30 June 1999. It has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position or results of the Company.

	<i>Unaudited net assets of the Company as at 30 June 1999 (Note 1) £'000</i>	<i>Pro forma Adjustment (Note 2) £'000</i>	<i>Pro forma net assets of the Company £'000</i>
<b>Fixed Assets</b>			
Tangible assets	21,322	–	21,322
Intangible assets	7,896	–	7,896
	<u>29,218</u>	<u>–</u>	<u>29,218</u>
<b>Current assets</b>			
Stocks	21,732	–	21,732
Debtors	12,446	–	12,446
Cash at bank and in hand	542	2,527	3,069
	<u>34,720</u>	<u>2,527</u>	<u>37,247</u>
Creditors: amounts falling due within one year	(31,616)	–	(31,616)
<b>Net current assets</b>	<u>3,104</u>	<u>2,527</u>	<u>5,631</u>
Total assets less current liabilities	32,322	2,527	34,849
Creditors: amounts falling due after more than one year	(12,160)	–	(12,160)
Provisions for liabilities and charges	(261)	–	(261)
<b>Net assets</b>	<u>19,901</u>	<u>2,527</u>	<u>22,428</u>

**Notes to the *pro forma* statement:**

1. The unaudited net assets of the Company have been extracted without material adjustment from the unaudited interim balance sheet of the Company at 30 June 1999 as set in Part IIIA of this document.
2. The adjustment represents the proceeds of the Rights Issue of approximately £2.527 million net of estimated expenses of £250,000.
3. The *pro forma* statement takes no account of trading since 30 June 1999 and assumes the Rights Issue is taken up in full.

The Directors  
Caverdale Group plc  
Hill House  
5 Holywell Hill  
St Albans AL1 1EU  
and

The Directors  
Corporate Synergy PLC  
Piercy House  
7/9 Copthall Avenue  
London EC2R 7NJ

16 December 1999 ✓

Dear Sirs

We report on the *pro forma* statement of net assets set out in Part IV of the prospectus dated 16 December 1999 which has been prepared, for illustrative purposes only, to provide information about how the Rights Issue might have affected the financial information presented.

## RESPONSIBILITIES

It is the responsibility solely of the directors of Caverdale Group plc ("Caverdale") to prepare the *pro forma* financial information in accordance with paragraph 12.29 of the Listing Rules.

It is our responsibility to form an opinion, as required by the Listing Rules of the London Stock Exchange, on the *pro forma* financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the *pro forma* financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

## BASIS OF OPINION

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on *pro forma* financial information pursuant to the Listing Rules" issued by the Auditing Practices Board. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the *pro forma* financial information with the directors of Caverdale.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

## OPINION

In our opinion:

1. the *pro forma* statement of net assets has been properly compiled on the basis stated;
2. such basis is consistent with the accounting policies of Caverdale; and
3. the adjustments are appropriate for the purposes of the *pro forma* statement of net assets as disclosed pursuant to paragraph 12.29 of the Listing Rules of the London Stock Exchange.

Yours faithfully

Ernst & Young

## PART V

### Statutory and General Information

#### 1. RESPONSIBILITY

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

#### 2. DIRECTORS

- (a) The Directors, all of Hill House, 5 Holywell Hill, St Albans, Hertfordshire AL1 1EU, and their functions are as follows: -

Arild Nerdrum	<i>Executive Chairman</i>
Martin Edward Ellison	<i>Finance Director and Company Secretary</i>
Giles Edward Charles Andrews	<i>Group Development Director</i>
Guenter Bolte	<i>Non-Executive Director</i>
Christopher David Outram	<i>Non-Executive Director</i>
Abdullah Hassan Al-Rostamani	<i>Non-Executive Director</i>

- (b) In addition to their directorships of the Company and its subsidiaries, from time to time, the Directors have held the following U.K. directorships and/or been a partner in the following partnerships during the five year period immediately prior to the date of this document:

<i>Director</i>	<i>Current directorships/partnerships</i>	<i>Previous directorships/partnerships</i>
A Nerdrum	Harcourt UK Limited	—
M E Ellison	—	—
G E C Andrews	—	—
G Bolte	—	—
C D Outram	OC & C Strategy Consultants Limited OC & C Resources Limited PTRC Education and Research Services Limited	Refal 150 Limited Coopers & Lybrand Willis Corroon Limited
A H Al-Rostamani	Al-Rostamani Group Global Tea & Commodities Limited	—

- (c) Save as disclosed, no Director:

- (i) has any unspent convictions in relation to indictable offences;
- (ii) has been bankrupt or the subject of an individual voluntary arrangement, or has had a receiver appointed to any asset of such Director; or

- (iii) has been an executive director of any company which, while he was an executive director or within 12 months after he ceased to be an executive director, had a receiver appointed or went into compulsory liquidation, creditors' voluntary liquidation, administration or company voluntary arrangement or made any composition or arrangement with its creditors generally or with any class of its creditors; or
- (iv) has been a partner of any partnership which, while he was a partner or within 12 months after he ceased to be a partner, went into compulsory liquidation, administration or partnership voluntary arrangement or had a receiver appointed to any partnership asset; or
- (v) has had any public criticism by statutory or regulatory authorities (including recognised professional bodies); or
- (vi) has 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.

### 3 DIRECTORS SERVICE CONTRACTS

- (a) Mr M Ellison has a service contract with the Company dated 1 August 1994, terminable on not less than 364 days notice in writing served by either party. Mr Ellison is currently paid a salary of £105,000, including benefits. He is also entitled to a car allowance of £8,750, a pension contribution of £5,690, private healthcare insurance, to participate in the Executive Share Option Schemes and 22 days holiday in each calendar year. Mr Ellison is also subject to confidentiality restrictions and restrictive covenants.
- (b) Mr G Andrews has a service contract with the Company dated 4 May 1992, terminable on not less than 364 days notice in writing served by either party. Mr Andrews is currently paid a salary of £95,000, including benefits and a pension contribution of £4,750. He is also entitled to a company car, mobile phone, private healthcare insurance, to participate in the Executive Share Option Schemes and 22 days holiday in each calendar year. Mr Andrews is also subject to confidentiality restrictions and restrictive covenants.
- (c) Save as disclosed above no other Director has a service contract with a notice period of one year or more with provisions for predetermining compensation on termination of an amount which equals or exceeds one year's salary and benefits.
- (d) In the year ended 31 December 1998 the aggregate of the remuneration paid and benefits in kind (including pension contributions) granted to the Directors by the Group was £301,000.

### 4. DIRECTORS' AND OTHER PERSONS' INTERESTS

- (a) As at 14 December 1999 (being the last practicable date prior to the publication of this document), the interest of Directors, their immediate families and connected persons (within the meaning of section 346 of the Act) in the issued share capital of the Company as shown on the register of directors' interests maintained under section 325 of the Act or which have been notified to the Company pursuant to sections 324 or 328 of the Act, were as follows:

<i>Director</i>	<i>No. of Ordinary Shares</i>	<i>Executive Share Options</i>	<i>Percentage of the issued Share Capital following the Rights Issue<sup>(1)</sup></i>
Abdullah Hassan Al-Rostamani <sup>2</sup>	3,000,000	0	9.72
Giles E C Andrews <sup>3</sup>	195,029	150,000	0.63
Martin E Ellison	60,000	150,000	0.19
Arild Nerdrum <sup>4</sup>	2,593,890	250,000	8.41
Christopher D Outram <sup>5</sup>	51,089	0	0.17
Guenter Bolte <sup>6</sup>	140,000	0	0.45
<b>Total</b>	<b>6,040,008</b>	<b>550,000</b>	<b>19.57</b>

- 1 The interests of the Directors in the issued share capital of the Company after the Rights Issue (as illustrated above) is based on the assumption that the Directors and their immediate families and connected persons take up their entitlements in full.
- 2 Mr A Al-Rostamani's interest is by virtue of his interest in Murmoom Investments Limited (a company controlled by Mr A Al-Rostamani and his brother, Abdul Wahed Al-Rostamani).
- 3 Mr G Andrews' interests include interests held by Messers Hoare Trustees and Hoares Bank Nominees of 135,029 Ordinary Shares.
- 4 Mr A Nerdum's interests include his interest in Kerry International (BVI) Limited (an investment company owned by certain discretionary trusts, the principal beneficiaries of which are Mr A Nerdum's children) which is the registered holder of 2,585,881 Ordinary Shares.
- 5 Mr C Outram's interests include his interest of 21,911 Ordinary Shares held by Ward Nominees.
- 6 Mr G Bolte's interests include his interest of 140,000 Ordinary Shares held by HSBC Securities Services.

Save as disclosed above, none of the Directors nor any member of their immediate families, nor any person connected with a Director within the meaning of section 346 of the Act, has any interests, beneficial or non-beneficial, in the share capital of the Company.

- (b) No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Group and which was effected by the Group during the current or immediately preceding financial year or during an earlier financial year which remains in any respect outstanding or unperformed. There are no outstanding loans granted by any member of the Group to the Directors, nor any guarantees provided by any member of the Group for the benefit of the Directors.
- (c) As at 14 December 1999 (being the last practicable date prior to publication of this document) and in addition to the Directors' holdings as specified in paragraph 4(a) above in so far as it is known to the Company the following interests in its Ordinary Shares each represent 3 per cent or more of the Company's issued share capital:-

<i>Shareholder</i>	<i>No. of Ordinary issued Shares</i>	<i>Percentage of Ordinary Share Capital</i>
Jupiter Asset Management Limited	2,645,000	8.57
Schroder Investment Management	1,145,000	3.71
Framlington Investment Management	1,500,000	4.86
Edinburgh Fund Managers PLC	925,000	3.00

Save as disclosed above, the Company has not received notice and is not aware of any person who, directly or indirectly, was interested in 3 per cent. or more of the Company's issued share capital at the above date.

Save as disclosed above, and so far as the Directors are aware, no person, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

- (d) *Options.*

- (i) *Executive Share Option Schemes*

At 31 December 1998 there were options outstanding under the Executive Share Option Schemes over 979,202 Ordinary Shares exercisable on dates up to 31 December 2007 at subscription prices between 100p and 391.3p.

In addition to the options described above there are also the following options:

	<i>No of options</i>	<i>Exercise Price</i>	<i>Dates from which exercisable</i>	<i>Expiry date</i>
A Nerdrum	25,000	130p	November 1995	November 2003
	100,000	130.8p	December 2000	December 2007
	125,000	130.8p	December 2000*	December 2007
M E Ellison	50,000	173.3p	August 1997	August 2004
	45,000	120p	February 1999	February 2006
	5,000	130.8p	December 2000	December 2007
	50,000	130.8p	December 2000*	December 2007
G E C Andrews	75,000	130.8p	December 2000	December 2007
	25,000	120p	February 1999	February 2006
	50,000	130.8p	December 2000*	December 2007

The exercise of options is dependent upon the achievement of certain performance criteria, namely the achievement of an increase in the EPS of the Company of at least 2 per cent. per annum more than the Retail Price Index for the same period.

\*Denotes "Super Options" which require the achievement of more stringent performance criteria, namely an increase in the EPS of the Company such as would place it in the top quartile of the FTSE companies ranked by reference to growth in the EPS over a performance period of five consecutive financial years starting with the financial year in which the date of the grant falls and ending before the date on which the option is exercised.

#### *(ii) New Share Option Scheme*

The principal features of the proposed New Share Option Scheme are as follows:--

**Eligibility:** Directors or employees of the Company (including Non-Executive Directors) will be eligible to participate. Participants in the New Share Option Scheme will be selected at the discretion of the Remuneration Committee of the Board ("the Committee"). No one who holds an option under the Executive Share Option Schemes is eligible to participate in the New Share Option Scheme.

**Exercise Price:** It is intended that part of the New Share Option Scheme will be approved by the Inland Revenue. The exercise price for an option granted under the approved section will be determined by the Committee but may not be less than the higher of the nominal value of an Ordinary Share (if the option is an option to subscribe for Ordinary Shares) and its market value. Market value will be taken to be the middle market quotation of an Ordinary Share on the day before the date of grant as derived from the Daily Official List of the London Stock Exchange. The exercise price for an option granted under the unapproved section will be determined by the Committee. It will be calculated in the same way as for approved section options but market value will normally be determined on the date of grant not the day before.

**Grant of options:** Options may be granted by the Committee during a period commencing on, and ending 42 days after, the date of Inland Revenue approval of the approved section of the Scheme. Thereafter, options may be granted in the 42 day period commencing on the day of announcement of the Company's results for any period. In exceptional circumstances the Committee may grant options outside these periods. Where the Committee is prevented from granting options due to restrictions imposed by legislation or by some other authority, options may be granted within 21 days after the lifting of such restrictions. Options granted under the New Share Option Scheme may be subject to an objective performance condition imposed by the Committee so that they may not be exercised unless the condition has been satisfied. The Committee may decide not to impose any performance conditions on options granted under the New Share Option Scheme.

**Exercise of Options:** An option may normally only be exercised by an optionholder who is still an employee or director of a company in the Group after the third anniversary of their date of grant and before the tenth anniversary of their date of grant.

If an optionholder ceases employment or to hold office due to injury, disability, redundancy, retirement at age 65 or such other age at which he is bound to retire, because the company which employs him or with which he holds office leaves the Group or because the business to which his office or employment relates is transferred outside the Group, his options may be exercised until the expiry of the later of six months from cessation three years and six months for the date of grant or three years and six months from the date of the last income tax free exercise of an option before cessation. His options will then lapse.

If an optionholder dies, his options may be exercised within twelve months of his death by his legal personal representatives. His options will then lapse.

If an optionholder ceases employment for any other reason than those set out above, the Committee will have the discretion to allow his options to be exercised within six months of cessation. The Committee may extend this period but not so it exceeds the period applicable in the event of injury etc. His options will then lapse.

Options will also be exercisable during limited periods if the Company is taken over, wound up or if there is a scheme of reconstruction.

Options may not be exercised in any event more than ten years after the date of grant.

Options may be exercised in whole or in part,

*Limitations on the New Share Option Scheme:* The following limits apply to options granted under the New Share Option Scheme:-

- (a) An option may only be granted to an individual if the aggregate market value of the Ordinary Shares to be subject to the option to be granted to him together with the market value of all Ordinary Shares comprised in options granted to him during the preceding ten years under the New Share Option Scheme or under any other employee share scheme (excluding any options under the Executive Share Option Scheme) which have been exercised, surrendered or lapsed and excluding shares appropriated under profit sharing schemes or options granted under savings related share option schemes) would not exceed four times his annual remuneration.
- (b) An option may only be granted under the approved section of the New Share Option Scheme to an individual if the aggregate market value at the date of grant of the Ordinary Shares to be subject to the option and the market value of all Ordinary Shares comprised in subsisting options granted under the approved section of the New Share Option Scheme and any other Inland Revenue approved executive share option scheme would not exceed £30,000.
- (c) An option will not be granted under the New Share Option Scheme if the number of Ordinary Shares over which it is proposed to grant the option when aggregated with the number of Ordinary Shares which have been issued or may be issued pursuant to options granted on, or and in the ten years prior to, the proposed date of grant under the Scheme or any other employee share schemes approved by the Company in general meeting (but excluding any options under the Executive Share Option Schemes which have been exercised, surrendered or lapsed) exceeds 10 per cent. of the issued ordinary share capital of the Company at the proposed date of grant.

*Substitution of Shares:* Where there is a general offer to acquire the Company, options may by agreement between the offeror and the optionholder be rolled over into options over the shares of the offeror.

*Variation of share capital:* On a variation of the Company's share capital by way of capitalisation or rights issue, sub-division, consolidation or a reduction, the exercise price and the number of Ordinary Shares comprised in an option can be varied at the discretion of the Committee subject to certification from the Company's auditors that in their opinion the variation is fair and reasonable and, in the case of options granted under the approved section of the New Share Option Scheme, prior Inland Revenue approval.

*General:* Options may not be transferred or charged and if an optionholder attempts to do so his options will lapse immediately.



Options under the New Share Option Scheme will not be pensionable.

If an optionholder ceases employment he will not be entitled to compensation for the loss of his options.

*Amending the New Share Option Scheme:* The Committee will have power to administer, interpret and amend the Scheme. No amendment may be made to provisions relating to:—

eligibility conditions;

the limit rules;

the variation of share capital rules;

or the rules governing the terms of the options to be received by optionholders

to the advantage of optionholders without the prior approval of shareholders in general meeting (except for minor amendments to benefit the administration of the New Share Option Scheme or to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for optionholders, the Company or the Group) nor will any amendment to the approved section of the New Share Option Scheme be effective unless it has received the approval of the Inland Revenue.

A copy of the rules of the New Share Option Scheme may be inspected at the offices of Macfarlanes, 5 Norwich Street, London EC4A 1BD during usual business hours on any weekday (Saturdays and public holidays excepted) until 10 January 2000 and will be available for 15 minutes immediately prior to and during the EGM.

## 5. THE COMPANY AND ITS SHARE CAPITAL

- (a) The Company is incorporated in England and is the holding company for a group of companies. The registered and head office of the Company is Hill House, 5 Holywell Hill, St Albans, Hertfordshire AL1 1EU.
- (b) The following table shows the authorised, issued and fully paid share capital of the Company as at 14 December 1999 (being the last practicable date prior to the publication of this document) and what it is expected to be following the Rights Issue assuming the maximum amount of Rights Shares are issued.

	<i>Present</i>		<i>Following the Rights Issue</i>	
	<i>Number</i>	<i>£</i>	<i>Number</i>	<i>£</i>
Authorised Ordinary Shares	36,500,000	3,650,000	57,500,000	5,750,000.00
Issued and fully paid				
Ordinary Shares	30,860,906	3,086,090.60	46,291,359	4,629,135.90

## 6. RIGHTS ATTACHING TO THE RIGHTS SHARES

The Rights Shares shall rank *pari passu* in all respects with the Ordinary Shares.

The following is a summary of the provisions of the Articles of Association of the Company to be adopted pursuant to Resolutions to be proposed at the EGM (the “Articles”) concerning certain of the rights attaching to the Ordinary Shares:

### *Voting*

On a show of hands, every member present in person or by proxy has one vote and on a poll every member who is present in person or by proxy shall have one vote for every share of which he is a holder, subject to disenfranchisement in the event of non-payment of calls or other monies due and payable or non-compliance with a statutory notice requiring disclosure as to the ownership of shares. In the case of an equality of votes, either on a show of hands or on a poll, the chairman of the meeting shall be entitled to a further or casting vote.

A poll may be demanded by (i) the chairman of the meeting, (ii) at least five shareholders present in person or by proxy and entitled to vote, (iii) any shareholder or shareholders present in person or by proxy and representing in aggregate not less than one-tenth of the total voting rights of all of the shareholders entitled to vote on the resolutions before the meeting or (iv) any shareholder or shareholders present in person or by proxy and holding shares conferring a right to vote at the meeting on which there have been paid-up sums in aggregate equal to not less than one-tenth of the total sum paid on all shares conferring such right.

### ***Variation of Rights***

All or any of the rights attached to any class of shares may (whether or not the Company is being wound up) be varied or abrogated either with the consent in writing of holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class.

All the provisions of the Articles relating to general meetings of the Company shall apply, *mutatis mutandis*, to every separate general meeting of the holders of the shares of class, except that the necessary quorum at any such meeting will be two persons holding or representing by proxy at least one-third in nominal amount of the issued shares of the class and on a poll the holders of shares of the class shall have one vote in respect of every share of the class held by them respectively.

The rights attached to a class of shares are not (except as otherwise provided in the terms of such shares) deemed to be varied by the creation and issue of further shares ranking *pari passu* with them.

### ***Transfer of Shares***

Subject to the restrictions in the Articles, any member may transfer all or any of the shares by an instrument of transfer in the usual common form or in any form which the Directors may approve. Instruments of transfer must be signed by or on behalf of the transferor and (except in the case of a fully paid share) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of the shares until the name of the transferee is entered into the Register in respect of the shares.

Directors may, in their absolute discretion and without giving any reason for their decision, refuse to register any transfer of a share partly paid up if this would prevent dealing in the shares from taking place on an open and proper basis. The Directors may also refuse to register any transfer of any share on which the Company has a lien. Every transfer must be left at the Transfer Office (being the Registrars' address) or such other place as the Directors may determine, for registration and must be accompanied by the certificate and such other evidence, if any, as the Directors may reasonably require to prove the title of the intending transferee or his right to transfer the shares. Shares of different classes shall not be comprised in the same instrument of transfer.

The registration of transfers may be suspended at such times and for such periods (not exceeding 30 days in any year) as the Board may from time to time determine.

### ***Dividends***

The Company may, by ordinary resolution of the shareholders, declare a dividend to be paid to the shareholders according to their respective rights and interests in the profits available for distribution. The declared dividend may be no larger than is recommended by the Directors, but the Company may by ordinary resolution of the shareholders declare a smaller dividend.

If and to the extent that the Directors think fit and the position of the Company in their opinion justifies such a payment, the Directors may declare and pay dividends on shares carrying an entitlement to fixed dividends in accordance with their rights and may also declare and pay interim dividends. Provided that the Directors are bona fide, they shall not incur any responsibility to the holders of shares conferring a preference for any damage that they may suffer by the raising of the payment of a dividend on any share not ranking *pari passu* or in priority to those shares in respect of dividends.

The Company can stop sending a Shareholder dividends if, for any one dividend, the dividend payment is returned undelivered or the payment remains uncashed and reasonable enquiries have not established the Shareholder's new address or account.

All unclaimed dividends may be invested or otherwise made use of by the Directors as they shall think fit until they are claimed. The Company shall not be a trustee in respect of any unclaimed dividend and any dividend remaining unclaimed after a period of 12 years from the date for its payment shall be forfeited and shall revert to the Company.

The Company may by ordinary resolution of the shareholders and on the recommendation of the Directors pay any dividend, either wholly or in part, by the distribution of specified assets, including by the distribution of paid up shares or debentures of any other company, or partly in one way and partly in another or other. In particular, the Directors may at any time resolve that ordinary shareholders will be entitled, in lieu of all or any part of a cash dividend, to elect to receive an allotment of further Ordinary Shares credited as fully paid (a "scrip dividend") on the terms and conditions contained in the Articles. The basis of allotment is determined by the Directors so that, as nearly as may be considered convenient, the value of the further Ordinary Shares, including any fractional entitlement, is equal to the amount of the cash dividend which would otherwise have been paid. The value of the Ordinary Shares shall be calculated by reference to the middle-market quotation as shown in the Daily Official List published by The London Stock Exchange for the five business days immediately preceding or following the announcement of the cash dividend to which the scrip dividend relates, as the Directors may so determine.

The Directors may deduct from any dividend or other money payable in respect of any shares held by a shareholder, either alone or jointly with any other member, all such sums of money (if any) as may be presently due and payable by him either alone or jointly with any other person, to the Company in relation to shares of the Company.

In the event of disenfranchisement due to the non-payment of calls or other monies due and payable or non-compliance with statutory notices requiring disclosure as to the ownership of shares where the shareholder concerned appears to be interested in at least 0.25 per cent. of the issued shares of a class, shareholders lose their right to receive any dividends declared by the Company for so long as they are in default of the payment of any call or other monies due or fail to provide the reluctant disclosure of ownership of a shareholding.

### ***Winding Up***

If the Company is wound up, the surplus remaining after payment of all creditors is to be divided among the shareholders in proportion to the shares held by them respectively at the commencement of the winding up. If such surplus assets are insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses are borne by the shareholders in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The Company may, with the sanction of an extraordinary resolution, divide among the shareholders in specie any part of the assets of the Company, or vest any part of the assets of the Company in trustees upon such trust for the benefit of the members or any of them as the resolution shall provide.

### ***Pre-emption rights***

The Articles do not contain any pre-emptive rights with respect to the Ordinary Shares. The Act confers on shareholders, to the extent not waived, rights of pre-emption in respect of the issue of equity securities that are, or are to be, paid up wholly in cash. The term "equity securities" means: (a) shares of the Company other than shares which, with respect to dividends and capital carry a right to participate only up to a specified amount in a distribution and shares allotted pursuant to an employee share plan; and (b) rights to subscribe for, or to convert into, such shares. These provisions may be waived by a special resolution of the shareholders, either generally or specifically, for a maximum period not exceeding five years. In addition, pursuant to the London Stock Exchange Rules, issues of securities for cash other than to existing equity shareholders in proportion to their holdings must be approved by an ordinary resolution of the shareholders. However, a waiver of the statutory pre-emptive right will also satisfy the London Stock Exchange requirement.

By a special resolution of the shareholders at the annual general meeting held on 25 May 1999, it was resolved to unconditionally authorise the Directors to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Act) up to a maximum aggregate nominal amount of £999,000 provided that such authority shall (unless previously revoked or varied) expire on the earlier of the date of the Company's annual general meeting to be held in the year 2000 and 15 August 2000. If the Company before such expiry makes an offer or agreement which would or might require relevant securities to be allotted after such expiry the Directors are authorised to allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired. At the same annual general meeting the shareholders passed a special resolution pursuant to which it was resolved that the Directors be empowered, pursuant to Section 95 of the Act, to allot equity securities (within the meaning of Section 94(2) of the Act) of the Company for cash pursuant to the authority given in accordance with the authority to allot referred to above as if Section 89(1) of the Act did not apply to such allotment provided that this power be limited to:

- (i) the allotment of equity securities in connection with or pursuant to an offer by way of rights to the holders of Ordinary Shares and other persons entitled to participate therein in proportion (as nearly as may be) to the respective holdings of such shares (or, as appropriate, the numbers of such shares which such other persons are for those purposes deemed to hold), subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body in any territory; and
- (ii) the allotment (otherwise than pursuant to sub paragraph (i) above) of equity securities up to any aggregate nominal amount of £151,000

during the currency of the authority to allot referred to above, but so that this power shall enable the Company to make an offer or agreement prior to the expiry of this power which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred had not expired.

## 7. MARKET QUOTATIONS

The following table shows the middle market quotations for the Ordinary Shares as derived from the Official List for the first dealing day in each of the six months before the date of this document and 14 December 1999 (the last practicable date prior to the date of publication of this document):-

<i>Date</i>	<i>Price (pence)</i>
1 July	108.5
2 August	68.5
1 September	63.5
1 October	76
1 November	66
1 December	60
14 December	43.5

The Rights Price of 18 pence per Ordinary Share reflects a discount of 58.6 per cent. to the middle market quotation for Ordinary Shares on 14 December 1999 (the last practicable date prior to the publication of this document).

## 8. SUBSIDIARIES

The Company is the holding Company of the Group. The active subsidiaries of the Company, all of which are wholly owned and are included in the consolidated accounts of the Group, are set out below.

<i>Name</i>	<i>Main Activity</i>	<i>Country of incorporation</i>
Caverdale Securities Limited	Property holdings	UK
Crabtree Sports and Leisure Limited	Wholesale bicycles and accessories	UK
Goetz GmbH	Motorcycle accessories	German
M&P Motorcycle Accessories Limited	Motorcycles and accessories	UK
Navyclose Limited	Retailer of leisure marine products	UK
Rock Merchandising Limited	Fitness equipment and management services	UK
Shoreline (Yachtsmen) Limited	Retailer of leisure marine products	UK
Speed Marine Holdings Limited	Retailer of leisure marine products	UK
XM Group Limited	Marine division management company	UK
XM Yachting Limited	Wholesale marine	UK

The Company has a further 26 dormant subsidiaries.

## 9. LITIGATION

### (a) (i) Motor Retail Division

By an agreement dated 1 October 1997, the Company agreed to sell its motor retail division ("MRD") to Quicks Group plc ("Quicks"). The consideration payable by Quicks was the aggregate value of the net assets of the MRD as at the date of completion (18 November 1997), as demonstrated by completion accounts, plus £8,000,000 payable for the goodwill. The share sale agreement contains detailed provisions as to how the completion accounts were prepared. A dispute has arisen between the Company and Quicks in relation to a significant element of the completion accounts. This relates to commissions payable by Lombard Motor Finance ("Lombard") in respect of vehicle financing business introduced by MRD companies to Lombard. At the date of completion of the sale of the MRD to Quicks, the Company was holding approximately £1.5m representing advance commissions paid by Lombard. An element of these commissions was shown as an asset of the MRD companies in the completion accounts. In December 1997, Quicks terminated the arrangements between the MRD companies and Lombard. In January 1998, the Company repaid the advance commission to Lombard at Lombard's request. Quicks have claimed that the Company should not have repaid the advance commissions to Lombard and that an appropriate adjustment should be made to the completion accounts. The Company have refuted this claim arguing that it was obliged to pay the monies to Lombard on Quicks's termination of the financing arrangement.

There have been lengthy discussions between the Company, Quicks and Lombard in relation to this matter. It is anticipated that the Company will agree a full and final settlement of this dispute and also a number of other contingent liabilities on the Company arising from the sale of the MRD. This has been included in the forecast for the Group for the year ending 31 December 1999 as set out in Part IIIB of this document.

### (ii) Express Marine Services Limited

On 13 January 1999 the Company purchased Express Marine Services Limited ("Express") from Mr and Mrs Norman. There have been a number of disputes arising from that acquisition including in relation to a breach by Mr Norman of the non-competition covenant and the preparation of completion accounts. The consideration payable by the Company for Express is subject to adjustment by reference to the amount by which the aggregate liabilities of Express exceeds the aggregate book value of the assets of Express at completion. Completion accounts have not yet been submitted by Mr Norman. Discussions are continuing between the Company and Mr Norman. The Company anticipates that the completion accounts, when finalised will show a deficit in net assets value.

(iii) Bates & Partners

Godfrey Davis Motor Group Limited ("GDM"), a company within the MRD, is plaintiff in a negligence claim against Bates & Partners ("Bates"), a firm of solicitors. In October 1994, GDM agreed to purchase a motor dealership based in Lincoln. As part of the transaction, GDM entered into leases of four properties. The rent due under the leases was significantly in excess of the prevailing market rate but was compensated by the grant of an option to GDM to purchase the freehold interest in the properties. The option was expressed to be subject to the condition precedent that it be registered prior to 30 November 1994. Bates failed to register the option. Bates has admitted its negligence but the quantum of loss has not been agreed. Bates have made a payment into court of approximately £468,000. A preliminary date for the hearing on the quantum of damages is anticipated for summer 2000. Under the terms of the agreement for the sale of the MRD to Quicks, the Company retained the right to receive any damages payable by Bates.

- (b) Save as disclosed above, neither the Company nor any of its subsidiaries is, or has been involved in any legal or arbitration proceedings which may have or have had during the 12 months preceding the date of this document a significant effect on the financial position of the Group nor, so far as the Company is aware, are any such proceedings pending or threatened by or against the Company or any of its subsidiaries.

## 10. MATERIAL CONTRACTS

The following contracts (not being entered into in the ordinary course of business) entered into by the Company or its subsidiaries within the two years prior to the date of this document, are or may be material:

- (a) Pursuant to the terms of a transfer agreement between Eurocham S.A. ("Eurocham") (1) and the Company (2) dated 1 July 1997 the Company agreed to purchase from Eurocham the entire issued share capital of Spafax S.A. ("Spafax"). The agreement provided for the acquisition to take place in three tranches. The first tranche, 20 per cent of the issued share capital, was acquired by the Company on 1 July 1997 in consideration for the payment in cash of Ffr5,000,000. The second tranche, which took the Company's interest in Spafax to a holding of 49 per cent of Spafax's issued share capital, was acquired on 31 October 1997 for the payment in cash of Ffr7,250,000. The final tranche, which took the Company's interest in Spafax to a holding of 100 per cent, was acquired on 3 April 1998 for a payment in cash of Ffr15,350,000.
- (b) Pursuant to the terms of an agreement between the Company (1) and Andrew Charles Vivian Mills and Simon Alexander Charles Cash-Reed (2) dated 17 December 1997, the Company acquired the entire issued share capital of XM Group Limited. The aggregate consideration for the acquisition of XM Group Limited was the sum of £2,225,000 which was satisfied by the payment in cash of £975,000 and by the issue of 957,856 Ordinary Shares having an aggregate market value at that date equal to the balance of the consideration.
- (c) Pursuant to the terms of an agreement between M&P Motorcycle Accessories Limited (1) and David Huw Garland and Others (2) dated 11 February 1998, M&P Motorcycle Accessories Limited acquired a motorcycle retailers, repairers and dealers in accessories business, Garland and Griffiths, for the sum of £200,000 in cash.
- (d) Pursuant to the terms of an agreement between the Company (1) and GW520 Limited (2) dated 13 July 1998, the Company sold the entire issued share capital of the companies comprising its industrial products division. The companies comprising the industrial products divisions were Allied Components (UK) Limited, Alljay Supplies Limited, Arleigh Limited, Arleigh International Limited, Quality Engineering Supplies & Tools Limited, Quickline Supplies Limited, Rock Motor Parts Limited, SOS (Motor & Engineering) Limited, The Swindon Trade Protection Agency Limited, Teal Holdings Limited, Trust Parts Limited, Vanstock Limited and Spafax S.A. The consideration for sale of the industrial products division was the sum of £10,000,000, paid at completion in cash. The agreement contains warranties and indemnities in relation to the sale of the industrial products division (including

the assignment of warranties and indemnities given to the Company on its acquisition of Sparfax SA). The Company will have no liability for any breach of the warranty unless such breach is notified by GW520 Limited prior to 30 June 2000 or, in respect of any breach of warranty relating to taxation, prior to 31 July 2006. The maximum aggregate liability of Caverdale for breach of the warranties and under the tax indemnity is £10,000,000.

- (e) Pursuant to the terms of an agreement between the Company (1) and the joint administrator of Pulse Fitness PLC (2) dated 21 September 1998, the Company acquired the business and assets of Pulse Fitness. The consideration for the acquisition of the business and assets of Pulse Fitness was the sum of £1,700,000 paid in cash at completion.
- (f) Pursuant to the terms of an agreement between the Company (1) and Mr Klaus Goetz (2) dated 28 October 1998, the Company acquired the entire issued share capital of Goetz GmbH. The consideration for the acquisition of the entire issued share capital of Goetz GmbH was the sum of DM1 paid in cash, together with the sum of DM5 million to acquire certain indebtedness of Goetz and to provide it with working capital.
- (g) Pursuant to the terms of an agreement between the Company (1) and Donald Cumming Rutherford (2) dated 9 February 1999, the Company acquired Scotbike Limited. The consideration for the acquisition was the sum of £354,400, satisfied by the issue of 89,286 Ordinary Shares credited as fully paid up and the sum of £229,400 in cash.
- (h) Pursuant to the terms of an agreement between the Company (1) and Peter Steinberger (2) dated 13 January 1999, the Company acquired the entire issued share capital of Navyclose Limited. The consideration for the purchase of Navyclose Limited was the sum of £1,050,000 in cash, £500,000 in loan notes and 500,000 Ordinary Shares.
- (i) Pursuant to the terms of an agreement between the Company (1) and Robert and Nicola Norman (2) dated 13 January 1999, the Company acquired Express Marine Limited. The consideration for the acquisition of Express Marine Limited was the sum of £300,000. Of this amount, the sum of £233,574 was paid in cash on completion, with the balance being held in escrow until the determination of a completion statement. The consideration payable by the Company for Express Marine Limited is subject to adjustment by reference to the amount by which the aggregate liabilities of Express Marine Limited exceed the aggregate book value of the assets of Express Marine Limited at completion, which amount remains to be determined.
- (j) Pursuant to the terms of an agreement between the Company (1) and Peter McLuskie and John Caskey (2) dated 26 July 1999, the Company acquired Speed Marine Holdings Limited. The consideration for the acquisition was the sum of £150,000 (in cash), loan notes for the sum of £250,000 and 560,829 Ordinary Shares credited as fully paid up.
- (k) Pursuant to the terms of a standby loan facility between Weighbridge Trust Limited ("Weighbridge") (1) and the Company (2) dated 16 December 1999, Weighbridge has agreed to provide the Company with a loan facility of up to £2,000,000 less an amount equal to the total amount subscribed for Rights Shares in the Rights Issue (other than amounts subscribed by directors and their connected parties). Draw down of this facility is conditional, among other things, upon completion of the Rights Issue and the provision of security. The Company will pay to Weighbridge a commitment fee of £10,000 plus 3 per cent of the amount of the loan available for draw down. The loan will carry interest at a rate of 3 per cent per annum over LIBOR and is to be repaid, subject to early repayment in certain specified circumstances, by 30 June 2000.

## 11. WORKING CAPITAL

The Company is of the opinion that, taking into account bank and other facilities available to it and £500,000 of the net proceeds of the Rights Issue (being part of the proceeds of the irrevocable undertaking described in the paragraph "Director's intentions" of Part I of this document), the Company has sufficient working capital for its present requirements, that is for at least the next twelve months from the date of this document.

## 12. INDEBTEDNESS

At the close of business on 30 November 1999 the Group had outstanding borrowings or indebtedness in the nature of borrowings as follows:

	£000
Secured bank overdrafts	13,170
Secured bank loans	9,672
Obligations under finance leases	3,269
Loan stock	750
Guarantees	355
	<hr/>
	27,216

Save as disclosed above, and apart from intra-group liabilities and guarantees and the contingent liability set out in paragraph 9(a) of Part V of this document, no member of the Group had outstanding at the close of business on 30 November 1999 any secured or unsecured loan capital (including loan capital created but unissued), term loans, borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, obligations under finance leases, guarantees or other contingent liabilities.

## 13. MISCELLANEOUS

- (a) Save as disclosed in the paragraph "Current trading and prospects" in the Chairman's letter set out in Part I, there has been no significant change in the financial or trading position of the Group since 30 June 1999, the date to which the Group's interim financial statements have been prepared.
- (b) It is estimated that the total expenses payable by the Company in connection with the Rights Issue will amount to approximately £250,000 (excluding value added tax).
- (c) The Company's Registrar is Connaught St Michaels Limited, Cresta House, Alma Street, Luton, Bedfordshire LU1 2PU.
- (d) The consolidated financial statements of the Group in respect of the three financial periods ended 31 December 1998 (each of which have been audited and received an unqualified audit opinion) have been filed with the Registrar of Companies. Ernst & Young, registered auditor, of 400 Capability Green, Luton, Bedfordshire LU1 3LU were the auditors of the Group for those periods and are currently the auditors of the Group.
- (e) No other information has been audited in this document.
- (f) Corporate Synergy, which is regulated by the Securities and Futures Authority Limited and whose registered office is 8/9 Lambton Place, London W11 2SH, has given and not withdrawn its written consent to the issue of this document with the inclusion of their letter in Part IIIB of this document, and the references to its name in the form and context in which they appear.



- (g) Ernst & Young have given and have not withdrawn their written consent to the inclusion of their letters in Part IIIB and Part IV of this document and to the references made to their name in the form and context in which they appear in this document.
- (h) The issue price of the Rights Shares to be issued pursuant to the Rights Issue is at a premium of 8p over the 10p nominal value of each Rights Share.

#### **14. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents may be inspected at the offices of Macfarlanes, 5 Norwich Street, London EC4A 1BD during usual business hours on any weekday (Saturdays and public holidays excepted) until 11 January 2000:-

- (a) the memorandum and articles of association of the Company;
- (b) the consolidated audited accounts of the Group for the three financial years ended 31 December 1998 and the unaudited interim report for the six months ended 30 June 1999;
- (c) the material contracts referred to in paragraph 10 above;
- (d) the letters of Ernst & Young and Corporate Synergy set out in Part IIIB of this document;
- (e) the letter from Ernst & Young set out in Part IV of this document;
- (f) the Directors' service contracts referred to in paragraph 3 above;
- (g) the consent letters referred to in paragraph 13 above;
- (h) the new Articles of Association of the Company;
- (i) the rules of the New Share Option Schemes; and
- (j) the irrevocable undertakings given by the Directors and certain persons connected with them.

## **PART VI**

### **Summary of proposed changes to the Articles of Association**

The purpose of this summary is to draw attention to the principal changes that would be made by the adoption of new Articles of Association. The references set out below are references to the proposed new Articles.

#### **Article 19 – Conversion of shares into stock**

This Article has been amended to reflect the fact that, if a share warrant is lost, the Company may only issue a replacement if it is satisfied beyond reasonable doubt that the original has been destroyed.

#### **Article 21 – Replacement of certificates**

This Article has been amended to reflect the fact that the Company may reclaim any exceptional out of pocket expenses incurred in replacing a damaged, defaced or lost share certificate.

#### **Article 26 – Payment of calls in advance**

This Article has been amended to reflect the fact that any amount paid up in advance of calls on any share may entitle the holder of the share to interest but must not entitle the holder to participate in respect of that amount in any dividend.

#### **Article 39 – Directors’ power to refuse to register transfers**

This Article has been expanded to provide that the Directors cannot refuse to register a transfer of partly paid shares listed on the London Stock Exchange if this would prevent dealings in the shares from taking place on an open and proper basis.

#### **Article 45 – Disclosure of interests in shares**

This Article has been amended to reflect the fact that the Company may apply different restrictions on members who have not responded to a notice requiring disclosure of interests in shares depending on whether the shares in respect of which the member is in default represent more or less than 0.25 per cent of the relevant class.

#### **Article 76 – Retirement of Directors**

The Article has been amended in accordance with best practice so as to ensure no Director remains in office for more than three years before he stands for re-election.

#### **Article 85 – Power of Directors to hold offices of profit and to contract with Company**

This Article has been amended to clarify the fact that a Director is restricted from voting on any matter in which he has an interest which (together with any interest of any person connected with him) is to his knowledge a material interest.

#### **Article 113 – Unclaimed dividends**

This Article has been expanded to enable the Company to stop sending dividends if, for any one dividend, the dividend payment is returned undelivered or the payment remains uncashed and reasonable enquiries have not established the shareholder’s new address or account.

#### **Article 118 – Monies payable by cheque**

This Article has been expanded to allow for the payment of dividend by direct debit, bank transfer or other electronic media.

#### **Other Changes**

In addition to the changes summarised above, there have been others of a more minor nature which have been made to reflect advances in corporate governance practice and changes to companies legislation and the Listing Rules of the London Stock Exchange. The Articles of Association have also been amended to take into account the existence of certificated and uncertificated shares.

# CAVERDALE GROUP PLC

(Registered in England No. 331803)

## NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Caverdale Group plc will be held on 10 January 2000 at the offices of Macfarlanes, 5 Norwich Street, London EC4A 1BD at 10.00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed in the case of Resolutions 1, 2, 6 and 7 as Ordinary Resolutions and in the case of the Resolutions 3, 4 and 5 as Special Resolutions:-

THAT:-

- 1 the authorised share capital of the Company be and is hereby increased from £3,650,000 to £5,750,000 by the creation of an additional 21,000,000 Ordinary Shares of 10p each ranking *pari passu* in all respects with the existing Ordinary Shares of 10p each in the capital of the Company;
- 2 the Directors be and are hereby generally and unconditionally authorised (in addition to and without prejudice to the authority granted pursuant to the ordinary resolution of the Company passed on 25 May 1999) in accordance with Section 80 of the Companies Act 1985 ("the Act") to exercise the powers of the Company to allot relevant securities (within the meaning of Section 80 of the Act) up to an aggregate nominal amount of £2,100,000 PROVIDED THAT this authority (unless previously revoked or varied by the Company in general meeting) shall expire on the earlier of the date falling 15 months from the date of this Extraordinary General Meeting or the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Directors may allot relevant securities pursuant to this authority after that date pursuant to an offer or agreement made by the Company on or before that date as if such authority had not expired;
- 3 the Directors be and are hereby empowered, pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) of the Act) of the Company for cash pursuant to the authority given in accordance with the resolution 2 above as if Section 89(1) of the Act did not apply to such allotment provided that this power be limited to the allotment of equity securities in connection with or pursuant to the Rights Issue (as defined in the Company's prospectus dated 16 December 1999) during the currency of the authority conferred by resolution 2 above, but so that this power shall enable the Company to make an offer or agreement prior to the expiry of this power which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired;
- 4 the Company's name be and is hereby changed to ActionLeisure plc;
- 5 the Regulations contained in the printed document marked "A" submitted to this Meeting and signed by the Chairman for the purpose of identification be and are hereby adopted as the new Articles of Association of the Company in substitution for and to the exclusion of all existing Articles of Association of the Company;
- 6 the New Share Option Scheme ("the Scheme") the principal terms of which are summarised in the Company's prospectus dated 16 December 1999 and the rules of which are produced in draft form to this Meeting and, for the purposes of identification marked "B" by the Chairman, be and is hereby approved in such draft form and the Directors be and are hereby authorised to make such amendments to it as they may decide necessary and desirable, and otherwise to do all acts and things which they may consider necessary or expedient to obtain the approval of the Inland Revenue for the Scheme or for implementing and giving effect to the Scheme;
- 7 The Directors be and are hereby authorised to vote and to be counted in a quorum at any meeting of the Directors at which any matter connected with the Scheme is under consideration notwithstanding that they may be interested in the same in any present or proposed capacity whatsoever and that this resolution shall operate so far it is necessary by way of suspension and relaxation of the prohibition on interested Directors voting contained in the Articles of Association of the Company, provided that no Director may vote or be counted in a quorum when the Directors are considering any matter concerning his individual rights or participation in the Scheme.

*Registered Office:*

Hill House  
5 Holywell Hill  
St Albans  
Hertfordshire  
AL1 1EU

By Order of the Board

Martin E Ellison  
*Company Secretary*  
16 December 1999

**Notes:**

A member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.

A form of proxy is enclosed which you are invited to complete and to return. Completion and return of the form of proxy in accordance with the instructions thereon will not preclude you from attending in person and voting at the Meeting, instead of your proxy, if you so wish.

Please complete, sign and return the enclosed form of proxy in accordance with the instructions printed therein so as to be received by Connaught St Michaels Limited, Cresta House, Alma Street, Luton, Bedfordshire LU1 2PU as soon as possible but in any event not later than 48 hours before the Extraordinary General Meeting.

The form of proxy and the power of attorney or other authority (if any) under which it is signed should be deposited at the Company's Registrars, Connaught St. Michaels Limited, PO Box 30, Cresta House, Victoria Street, Luton, Bedfordshire LU1 2PZ, not later than 10.00 a.m. on 8 January 2000.